ACE AVIATION

Quarter 3 2007
Management's Discussion and Analysis of Results of Operations and Financial Condition

November 8, 2007

TABLE OF CONTENTS

1. PREFACE

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment holding company of various aviation interests. ACE has four reportable segments: Air Canada (previously "Air Canada Services"), Aeroplan Limited Partnership ("Aeroplan") up to March 14, 2007, Jazz Air LP ("Jazz") up to May 24, 2007 and ACTS LP ("ACTS") up to October 16, 2007. Refer to section 5 of this MD&A for additional information on Aeroplan and Jazz and to section 4 of this MD&A for additional information on ACTS.

ACE is listed on the Toronto Stock Exchange ("TSX") where its Class A variable voting shares and Class B voting shares are traded under the symbols ACE.A and ACE.B, respectively.

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") for Quarter 3 2007 should be read in conjunction with ACE's interim unaudited consolidated financial statements and notes for Quarter 3 2007 and ACE's annual audited consolidated financial statements and notes and its annual MD&A for 2006. Reference to "Corporation" in this MD&A refers to, as the context may require, ACE and its aviation interests collectively, ACE and one or more of its aviation interests, one or more of ACE's aviation interests, or ACE itself. Except where the context otherwise requires, all monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 16 "Glossary of Terms". Except as otherwise noted, this MD&A is current as of November 8, 2007.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period. In particular, Air Canada has reclassified the presentation of certain aircraft sublease revenues from Jazz. The revised presentation relates to aircraft that are accounted for as owned aircraft by Air Canada but are operating leases in Jazz. This revised presentation does not impact the consolidated results for any period presented however, it results in an increase in Air Canada's inter-segment revenue and aircraft rent of $7 million for the three months ended September 30, 2007 ($17 million for the nine months ended September 30, 2007) and $7 million for the three months ended September 30, 2006 ($19 million for the nine months ended September 30, 2006).

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a detailed description of the risks relating to ACE and its subsidiaries, see "Risk Factors" in ACE's 2006 annual MD&A dated February 14, 2007 and section 13 of this MD&A.

The ACE Audit, Finance & Risk Committee reviewed this MD&A and the Quarter 3 2007 unaudited consolidated financial statements and notes and ACE's Board of Directors approved these documents prior to their release. For further information on ACE's public disclosure file, including ACE's Annual Information Form, please consult SEDAR at www.sedar.com, EDGAR at www.sec.gov/edgar.shtml or ACE's website at www.aceaviation.com.

2. CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A includes forward-looking statements within the meaning of applicable securities laws. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions.

These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results due to a number of factors, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in the "Risk Factors" section of ACE's 2006 annual MD&A dated February 14, 2007 and section 13 of this MD&A. The forward-looking statements contained in this MD&A represent the Corporation's expectations as of the date of this MD&A and are subject to change after such date. However, the Corporation disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

3. INDUSTRY INTERESTS

The following is a descriptive listing of ACE's aviation interests as at November 8, 2007.

Segment	Operating Companies	Ownership
Air Canada	Air Canada (TSX: AC.A, AC.B) is Canada's largest domestic and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada - US transborder market and in the international market to and from Canada. AC Cargo Limited Partnership ("Air Canada Cargo") and Air Canada, together, are Canada's largest provider of air cargo services. ACGHS Limited Partnership ("Air Canada Ground Handling") is a passenger and ground handling service provider. Touram Limited Partnership ("Air Canada Vacations") is a major Canadian tour operator offering leisure vacation packages.	75.0 %
Aeroplan	Aeroplan (TSX: AER.UN) is Canada's premier loyalty marketing program. Aeroplan provides its commercial partners with loyalty marketing services designed to stimulate demand for such partners' products and services. ACE's ownership interest in Aeroplan is held indirectly through its holdings of Aeroplan Income Fund units. See "Recent Significant Events".	20.1%
Jazz	Jazz (TSX: JAZ.UN) is the largest regional airline and second largest airline in Canada, after Air Canada, based on fleet size and number of routes operated. Jazz operates both domestic and US transborder services for Air Canada under a capacity purchase agreement. ACE's ownership interest in Jazz is held indirectly through its holdings of Jazz Air Income Fund units. See "Recent Significant Events".	20.1%
ACTS	ACTS is a full-service aircraft maintenance, repair and overhaul organization that competes on a global basis. On February 13, 2007, ACTS acquired 80% of Aeromantenimiento, S.A. ("Aeroman"). On October 16, 2007, ACE completed the sale of a 70% interest in ACTS. See "Recent Significant Events".	23.0%

4. RECENT SIGNIFICANT EVENTS

A number of significant events occurred during the period January 1, 2007 to November 8, 2007. These events are summarized below.

Aeroplan

On January 10, 2007, ACE shareholders received 50,000,000 units of Aeroplan Income Fund representing 0.442 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. For the purpose of the special distribution, ACE exchanged 50 million Aeroplan LP units into 50 million Aeroplan Income Fund units which were distributed to ACE's shareholders on the record date. Based on a closing price of $17.97 per unit of Aeroplan Income Fund on the TSX on January 10, 2007, the distribution was valued at approximately $899 million or $7.95 per ACE share.

On January 10, 2007, ACE exchanged 60,000,000 Aeroplan LP units for 60,000,000 Aeroplan Income Fund units. The exchange was made for internal reorganization purposes.

On March 14, 2007, ACE shareholders received 20,272,917 units of Aeroplan Income Fund representing 0.177 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. For internal reorganization purposes, on March 14, 2007, ACE exchanged its remaining 40,545,835 units of Aeroplan LP into 40,545,835 units of Aeroplan Income Fund. Based on a closing price of $19.40 per unit of Aeroplan Income Fund on the TSX on March 14, 2007, the distribution was valued at approximately $393 million or $3.45 per ACE share.

On May 24, 2007, ACE shareholders received 18,000,000 units of Aeroplan Income Fund representing 0.157 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. Based on a closing price of $21.50 per unit of Aeroplan Income Fund on the TSX on May 24, 2007, the distribution was valued at approximately $387 million or approximately $3.39 per ACE share.

On October 22, 2007, ACE completed the secondary offering of 22,000,000 units of Aeroplan Income Fund at a price of $21.90 per unit for gross proceeds of $482 million ($463 million, net of fees). ACE retained 40,292,088 units of Aeroplan Income Fund. As at November 8, 2007, ACE holds a 20.1% ownership interest in Aeroplan, indirectly through its holding of Aeroplan Income Fund units. Refer to section 5 of this MD&A for information relating to a change in ACE's accounting for its investment in Aeroplan.

Jazz

On March 14, 2007, ACE shareholders received 25,000,000 units of Jazz Air Income Fund representing 0.219 units per variable voting share, voting share and preferred share of ACE (on an as-converted basis). Based on a closing price of $8.60 per unit of Jazz Air Income Fund on the TSX on March 14, 2007, the distribution was valued at approximately $215 million or $1.88 per ACE share. On March 14, 2007, ACE exchanged 25,000,000 units of Jazz into 25,000,000 units of Jazz Air Income Fund.

On March 30, 2007, ACE exchanged its remaining 47,226,920 units of Jazz into 47,226,920 units of Jazz Air Income Fund. The exchange was made for internal reorganization purposes.

On May 24, 2007, ACE shareholders received 12,000,000 units of Jazz Air Income Fund representing 0.105 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. Based on a closing price of $8.26 per unit of Jazz Air Income Fund on the TSX on May 24, 2007, the distribution was valued at approximately $99 million or approximately $0.87 per ACE share.

On October 22, 2007, ACE completed the secondary offering of 35,500,000 units of Jazz Air Income Fund at a price of $7.75 per unit for gross proceeds of $275 million ($263 million, net of fees). ACE retained 24,726,920 units of Jazz Air Income Fund. As at November 8, 2007, ACE holds a 20.1% interest in Jazz, indirectly through its holding of Jazz Air Income Fund units. Refer to section 5 of this MD&A for information relating to a change in ACE's accounting for its investment in Jazz.

ACTS

On February 13, 2007, ACTS LP, through a wholly-owned subsidiary, acquired 80% of Aeromantenimiento, S.A. ("Aeroman"), the aircraft maintenance division of Grupo TACA Holdings Limited ("Grupo TACA") of El Salvador. Total consideration for this acquisition included cash as well as a right to acquire an equity stake in ACTS LP.

The cash component of US$45 million consisted of cash of $50 million (US$43 million) on closing and milestone payments of up to $2 million (US$2 million) in the aggregate, funded by ACTS LP through ACE's available cash resources. A Class A non-voting redeemable share in a wholly-owned subsidiary of ACTS LP ("exchangeable share") was issued to Grupo TACA. Subsequent to the issue of the exchangeable share, ACE agreed to a transfer of Grupo TACA's rights to a Grupo TACA related party. Subsequent to September 30, 2007, the exchangeable share was exchanged by a Grupo TACA related party. The redemption obligation was satisfied with an equity stake of 5% in the New ACTS and a cash payment of $31 million. The "New ACTS" refers to ACTS post the monetization. The Grupo TACA related party can put its equity in the New ACTS to ACE at US$18.4 million over 12 months commencing from the date of monetization. In connection with this acquisition, ACTS LP and its wholly-owned subsidiary entered into a shareholders agreement with Grupo TACA. The agreement provides Grupo TACA a put option to sell the remaining 20% non-controlling interest in Aeroman to ACTS LP, exercisable at any time after February 13, 2009 for up to 50% of its interest and after February 13, 2012 for all or part of its then remaining interest. These dates are subject to a one year extension under certain circumstances. On monetization, the New ACTS assumed responsibility for this put option. Refer to Note 12 to ACE's Quarter 3 2007 interim unaudited consolidated financial statements for additional information.

On October 16, 2007, ACE completed the sale of a 70% interest in ACTS. On closing, ACE received net cash proceeds of $723 million, which included the settlement of a $200 million intercompany note payable by ACTS to ACE. Within six months of closing, ACE may receive up to an additional $40 million in cash proceeds from funds held in escrow, conditional upon the completion of certain supplier contracts within specified terms. Following the redemption of the exchangeable share issued to a party related to Grupo TACA as discussed above and the establishment of an initial ACTS Long Term Incentive Plan ("LTIP"), ACE holds a 23% equity interest in the New ACTS with a fair value of $83 million.

Transaction Summary ($ millions)	
Total enterprise value	$ 975
Closing costs and other adjustments	(18)
Net transaction proceeds	**$ 957**
Net cash proceeds to ACE (a)	$ 723
Equity in the New ACTS held by ACE (23%)	83
Funds held in escrow pending completion of supplier contracts	40
	$ 846
Payment of amounts due to Air Canada (b)	$ 55
Redemption of exchangeable share in ACTS (c)	49
Initial ACTS long term incentive plan (LTIP) (2%)	7
	$ 957

a) This amount includes the settlement of the $200 million intercompany note payable by ACTS to ACE.
b) Consists of $28 million for the purchase of a building, $17 million to pay an intercompany note payable by ACTS to Air Canada and a payment for other obligations in the amount of $10 million. Air Canada received an additional $10 million from the purchaser.
c) $49 million (US$50.5 million) redemption obligation satisfied with an equity stake of $18 million (5%) in the New ACTS and a cash payment of $31 million.

The assets and liabilities of ACTS, as reported within the consolidated accounts and net of inter-company balances, have been classified as held for sale and are shown separately on the consolidated statement of financial position as at September 30, 2007. All assets and liabilities have been classified as current due to the completion of the sale prior to the release of ACE's Quarter 3 2007 interim unaudited consolidated financial statements. This includes current assets of $489 million and current liabilities of $164 million. The Corporation will maintain significant involvement in the New ACTS following the sale transaction.

ACTS segment income (loss), prior to certain consolidation adjustments related to revenue recognition differences amongst ACE's operating segments, for the three months ended September 30, 2007 and September 30, 2006 was ($1 million) and $1 million respectively. Segment income (loss) for the nine months ended September 30, 2007 and September 30, 2006 was nil and ($26 million), respectively. Effective October 16, 2007, the results and financial position of ACTS will not be consolidated within ACE and the New ACTS equity investment income will be recorded after October 16, 2007.

US Airways Investment

In 2005, ACE made an investment of US$75 million in US Airways Group, Inc. ("US Airways") for 5 million shares. In 2006, ACE disposed of 4.5 million shares of its holdings in US Airways for net proceeds of $232 million and recorded pre-tax gains totalling $152 million. In Quarter 2 2007, ACE disposed of 0.249 million shares of its holding in US Airways for total net proceeds of $8 million and recorded pre-tax gains totaling $4 million. In Quarter 3 2007, ACE disposed of the remaining 0.251 million shares of its holding in US Airways for total net proceeds of $8 million and recorded pre-tax gains totaling $4 million as a result of this transaction.

Air Canada Vacations

In Quarter 3 2007, ACE sold its 49% interest in Air Canada Vacations to Air Canada, for proceeds of $10 million, effectively reducing the Corporation's indirect ownership in Air Canada Vacations from 87.25% to 75%. The proceeds reflect the consideration paid by ACE upon the transfer of the investment from Air Canada to ACE in 2005. As at November 8, 2007, Air Canada Vacations is 100% owned by Air Canada.

5. ACCOUNTING POLICIES AND ESTIMATES

ACE's interim unaudited consolidated financial statements and notes for Quarter 3 2007 have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"). The interim unaudited consolidated financial statements contain all adjustments that management believes are necessary for the fair presentation of the Corporation's financial position, results of operations and changes in cash flows. The accounting policies used in preparing the interim unaudited consolidated financial statements are consistent with those disclosed in Note 2 to ACE's 2006 annual audited consolidated financial statements. Significant exceptions are a change in accounting for ACE's investment in Aeroplan effective March 14, 2007; a change in accounting for ACE's investment in Jazz effective May 24, 2007; and the adoption, on January 1, 2007, of certain accounting policies relating to financial instruments, hedges, comprehensive income and equity. These changes are summarized below and are further described in Note 1 to ACE's Quarter 3 2007 interim unaudited consolidated financial statements.

Information on ACE's critical accounting estimates, including assumptions made for pension and other benefits plans is provided in ACE's 2006 annual MD&A dated February 14, 2007. There were no significant changes in critical accounting estimates from those disclosed at that time. Refer to section 8.7 of this MD&A for an update on Air Canada's pension plan cash funding obligations.

Accounting for Aeroplan

As a result of ACE's special distribution of Aeroplan Income Fund units and the conversion of its remaining units of Aeroplan into units of Aeroplan Income Fund on March 14, 2007, the Corporation's results and financial position reflect the consolidation of Aeroplan's operations only up to March 14, 2007. After that date, ACE's remaining investment in Aeroplan is accounted for using the equity method. ACE's consolidated statement of operations for the nine months ended September 30, 2007 includes $35 million of equity income from the Aeroplan investment which represents ACE's proportionate interest in Aeroplan's results of operations from March 14, 2007 ($15 million for Quarter 3 2007).

ACE's consolidated statement of financial position as at September 30, 2007 does not reflect the financial position of Aeroplan. The comparative December 31, 2006 consolidated statement of financial position included the following items:

- Cash and cash equivalents of $167 million, short-term investments of $453 million and other current assets of $72 million;
- Long-lived assets of $373 million;
- Current liabilities of $670 million;
- Long-term debt of $300 million; and
- Aeroplan long-term deferred revenues of $801 million.

ACE's investment in Aeroplan of $(710) million was negative due to accumulated distributions to ACE in excess of income and capital invested, and net of fair value adjustments recorded upon the application of fresh start reporting. Subsequent to the distribution on March 14, 2007, ACE's 40.1% proportionate interest in the accumulated deficit of Aeroplan was $284 million. ACE has retained this negative investment of $284 million and reflected the amount in other long term liabilities. As a result, the difference between the net investment prior to and after the distribution has been recorded as a credit to contributed surplus in the amount of $426 million. The May 24, 2007 distribution of Aeroplan units resulted in a further reduction to the negative investment in Aeroplan of $63 million with a credit to contributed surplus in the amount of $57 million for Quarter 2 2007 and a reduction to interest expense of $6 million for a total credit to contributed surplus of $483 million for the six months ended June 30, 2007.

The cash flow impact of ACE's deconsolidation of Aeroplan was $231 million. This reflects the Aeroplan cash that was removed from ACE's consolidated statement of financial position as a result of the deconsolidation of Aeroplan in Quarter 1 2007 and was classified as a cash outflow from investing activities on ACE's consolidated statement of cash flows.

The related party balances between Aeroplan and the Corporation were as follows:

($ millions)	September 30, 2007
Accounts receivable (Air Canada)	$ 35
Distribution receivable (ACE)	4
Total Receivable	**$ 39**

The related party revenues and expenses to Air Canada with Aeroplan for the three months ended September 30, 2007 and the period between March 14, 2007 and September 30, 2007 are summarized below:

($ millions)	Three months ended September 30, 2007	Period ended September 30, 2007
Revenues		
Revenues from Aeroplan related to Aeroplan rewards	$ 117	$ 246
Cost of Aeroplan Miles purchased from Aeroplan	(56)	(140)
Property rental revenues from related parties	4	9
	$ 65	**$ 115**
Expenses		
Call centre management and marketing fees for services from Aeroplan	$ 2	$ 4
Recovery of wages, salary and benefit expense for employees assigned to Aeroplan	(13)	(30)
	$ (11)	**$ (26)**

Aeroplan Miles Obligation

In 2001, Air Canada established Aeroplan as a limited partnership wholly owned by Air Canada. The Aeroplan loyalty program was previously a division of Air Canada.

Under the Commercial Participation and Services Agreement (CPSA) between Air Canada and Aeroplan, Air Canada retained responsibility for the 103 billion Miles to be redeemed from accumulations up to December 31, 2001. Aeroplan assumed responsibility for all Miles issued beginning January 1, 2002. On December 31, 2001, there were 171 billion Miles outstanding of which, after considering breakage, management estimated that 103 billion Miles would be redeemed.

In 2006, with the assistance of independent actuaries, management of Air Canada and Aeroplan re-estimated the number of Miles expected to be redeemed from accumulations up to December 31, 2001. As a result, management of Air Canada and Aeroplan expected that 112 billion Miles would be redeemed compared to the original estimate of 103 billion. Pursuant to the terms of the CPSA, dated June 9, 2004, as amended, management of Air Canada and Aeroplan agreed to further amend the terms of the CPSA. Effective October 13, 2006, by amendment, Air Canada assumed responsibility for the redemption of up to 112 billion Miles and, as a result, recorded a special charge of $102 million for the incremental 9 billion Miles against Operating revenues in Quarter 3 2006 and increased Aeroplan deferred revenues. This amendment to the CPSA represented full and final settlement with Aeroplan of Air Canada's obligations for the redemption of pre-2002 Miles. Aeroplan is responsible for any redemption of Miles in excess of the re-estimated 112 billion Miles. The amount of the additional liability was determined by valuing the incremental Miles at fair value.

Accounting for Jazz

As a result of the special distribution of Jazz Air Income Fund units on May 24, 2007, the Corporation's results and financial position reflect the consolidation of Jazz's operations only up to May 24, 2007. After that date, ACE's remaining investment in Jazz is accounted for using the equity method. ACE's consolidated statement of operations for the nine months ended September 30, 2007 includes $19 million of equity income from the Jazz investment which represents ACE's proportionate interest in Jazz's results of operations from May 24, 2007 ($12 million for Quarter 3 2007).

ACE's consolidated statement of financial position as at September 30, 2007 does not reflect the financial position of Jazz. The comparative December 31, 2006 consolidated statement of financial position included the following items:

- Cash and cash equivalents of $135 million and other current assets of $109 million;
- Long-lived assets of $239 million;
- Current liabilities of $213 million;
- Long-term debt of $115 million; and
- Other long-term liabilities of $71 million.

As at May 24, 2007, ACE's net investment in Jazz was $42 million.

The cash flow impact of ACE's deconsolidation of Jazz was $138 million. This reflects the Jazz cash that was removed from ACE's consolidated statement of financial position as a result of the deconsolidation of Jazz in Quarter 2 2007 and is classified as a cash outflow from investing activities on the consolidated statement of cash flows.

The related party balances between Jazz and the Corporation were as follows:

($ millions)	September 30, 2007
Accounts receivable (Air Canada/ACTS)	$ 110
Distributions receivable (ACE)	5
Accounts payable (Air Canada)	(70)
Net Receivable	**$ 45**

The related party revenues and expenses to Air Canada with Jazz for the three months ended September 30, 2007 and the period between May 24, 2007 and September 30, 2007 are summarized below:

($ millions)	Three months ended September 30, 2007	Period ended September 30, 2007
Revenues		
Revenues from Corporate services and other (Air Canada)	$ 4	$ 5
Ground Handling revenues from Jazz (Air Canada)	13	17
Maintenance revenues from Jazz (ACTS)	18	21
Aircraft sublease revenues from Jazz (Air Canada)	7	8
Property rental revenues with Jazz (Air Canada)	2	3
	$ 44	**$ 54**
Expenses (Air Canada)		
Expense from Capacity Purchase Agreement with Jazz	$ 234	$ 310
Pass-through fuel expense from Jazz	84	113
Pass-through airport user fees from Jazz	54	71
Pass-through other expense from Jazz	5	7
Other expenses from Jazz	2	2
	$ 379	**$ 503**

In addition to the above revenues and expenses with Jazz, Air Canada transfers fuel inventory and subleases certain aircraft to Jazz on a flow through basis, which are reported net on Air Canada's consolidated statement of operations.

Financial Instruments

On January 1, 2007, Air Canada adopted CICA accounting handbook section 3855, *Financial Instruments – Recognition and Measurement*, section 3861, *Financial Instruments and Presentation*, section 3865, *Hedges*, section 1530, *Comprehensive Income* and section 3251*, Equity,* and Emerging Issues Committee Abstract 164, *Convertible and Other Debt Instruments with Embedded derivatives ("EIC-164")*. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The purpose of the section is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

The adopted sections establish standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under these standards, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

With the exception of investment securities classified as available-for-sale and derivatives designated as cash flow hedges, changes in the fair values over the reporting period are reported in net income. The changes in fair values of investment securities classified as available-for-sale and derivatives designated as cash flow hedges are reported in other comprehensive income.

For the derivatives designed under hedge accounting as cash flow hedges, the standards require the effectiveness of the hedging relationships for the reporting period to be quantified. The effective portion of the change in fair value is recognized in other comprehensive income while the ineffective portion is reported in non-operating income. Upon maturity of the fuel derivatives, the effective gains and losses previously recognized in accumulated other comprehensive income ("AOCI") are recorded in fuel expense.

<u>Impact of Changes in Accounting Policies</u>

In accordance with the transitional provisions of the standards, prior periods have not been restated for the adoption of these new accounting standards.

Upon adoption, the Corporation recorded the following transition adjustments to its consolidated statement of financial position.

Increase (decrease)	($ millions)
Deposits and other assets	$ 23
Future income taxes ($6 million, net of a valuation allowance of $6 million)	-
Deferred charges	(29)
Intangible assets	(3)
Accounts payable and accrued liabilities	19
Long-term debt and capital leases	(30)
Non-controlling interest	4
Retained earnings, net of tax	5
Accumulated other comprehensive income (loss) , net of tax of $4 million	(7)

Refer to Note 1 to ACE's Quarter 3 2007 interim unaudited consolidated financial statements for additional information.

Accounting for Uncertainty in Income Taxes (FIN 48)

For US GAAP reporting, new standards from the Financial Accounting Standards Board (FASB) became effective on January 1, 2007 for the Corporation. FIN 48, *Accounting for Uncertainty in Income Taxes*, is an interpretation of FASB statement 109, *Accounting for Income Taxes*, that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Implementation of this standard is reflected in the Corporation's reconciliation of Canadian GAAP to US GAAP commencing in Quarter 2 2007. Refer to Note 15 to ACE's Quarter 3 2007 interim unaudited consolidated financial statements for a reconciliation of Canadian to US GAAP.

Convertible and Other Debt Instruments with Embedded Derivatives

EIC-164 provides guidance on whether an issuer of certain types of convertible debt instruments should classify the instruments as liabilities or equity, whether the instruments contain any embedded derivatives, and how the instruments should be accounted for and presented. The guidance also addresses earnings per share implications. The Corporation adopted this guidance in Quarter 1 2007 to financial instruments accounted for in accordance with section 3855. There is no financial statement impact as a result of the adoption.

Future Accounting Changes

The CICA issued four new accounting standards: section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, section 3863, *Financial Instruments – Presentation* and section *3031, Inventories*. These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Corporation will adopt them on January 1, 2008. The Corporation is in the process of evaluating the disclosure and presentation requirements of the new standards, however, it is not anticipated that the results of the Corporation will be affected.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3031 will replace section 3030, *Inventories*, providing more extensive guidance on measurement and expanding disclosure requirements to increase transparency.

6. RESULTS OF OPERATIONS – QUARTER 3 2007

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the three months ended September 30, 2007.

Unaudited		Quarter 3 2007		
($ millions)	**Air Canada**	**ACTS**	**CIE**	**ACE Total**
Operating revenue				
Passenger revenue	$ 2,660	$ -	$ -	$ 2,660
Cargo revenue	132	-	-	132
Other revenue	111	71	48	230
External revenue	2,903	71	48	3,022
Inter-segment revenue	51	173	(224)	-
	2,954	**244**	**(176)**	**3,022**
Operating expenses				
Wages, salary and benefits	478	83	(3)	558
Aircraft fuel	716	-	-	716
Aircraft rent	66	-	-	66
Airport user fees	284	-	-	284
Aircraft maintenance, materials, and supplies	155	66	(136)	85
Communications and information technology	70	4	(3)	71
Food, beverages and supplies	88	-	-	88
Depreciation, amortization, and obsolescence	144	10	(7)	147
Commissions	54	-	-	54
Capacity purchase with Jazz	234	-	-	234
Other operating expenses	314	76	(11)	379
	2,603	**239**	**(160)**	**2,682**
Operating income (loss)	**351**	**5**	**(16)**	**340**
Non-operating income (expense)				
Interest income	21	-	4	25
Interest expense	(82)	(4)	(10)	(96)
Interest capitalized	24	-	-	24
Aeroplan equity investment income[(1)]	-	-	15	15
Jazz equity investment income[(2)]	-	-	12	12
Gain on sale of US Airways shares	-	-	4	4
Loss on disposal of assets	(2)	-	-	(2)
Loss on financial instruments	(4)	-	-	(4)
Other non-operating expense	(2)	(2)	(1)	(5)
	(45)	(6)	24	(27)
Income (loss) before the following items:	306	(1)	8	313
Non-controlling interest	-	-	(69)	(69)
Foreign exchange gain	104	-	-	104
Recovery of (provision for) income taxes	(137)	-	13	(124)
Income (loss) for the period	**$ 273**	**$ (1)**	**$ (48)**	**$ 224**
EBITDAR/EBITDA[(3)]	**561**	**15**	**(23)**	**553**

1. *ACE is accounting for its investment in Aeroplan under the equity method and, for Quarter 3 2007, has recorded equity income from the Aeroplan investment in non-operating income under "Aeroplan equity investment income" within the CIE segment.*
2. *ACE is accounting for its investment in Jazz under the equity method and, for Quarter 3 2007, has recorded equity income from the Jazz investment in non-operating income under "Jazz equity investment income" within the CIE segment.*
3. *Refer to section 15 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR/EBITDA to operating income (loss) and EBITDAR/EBITDA excluding special charges to operating income (loss).*

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the three months ended September 30, 2006.

Unaudited			**Quarter 3 2006**			
($ millions)	**Air Canada**	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**ACE Total**
Operating revenue						
Passenger revenue	$ 2,552	$ -	$ -	$ -	$ 12	$ 2,564
Cargo revenue	157	-	-	-	-	157
Other revenue	104	176	1	63	(118)	226
External revenue	2,813	176	1	63	(106)	2,947
Inter-segment revenue	48	2	368	138	(556)	-
	2,861	178	369	201	(662)	2,947
Special charge for Aeroplan miles	(102)	-	-	-	-	(102)
	2,759	**178**	**369**	**201**	**(662)**	**2,845**
Operating expenses						
Wages, salary and benefits	461	20	78	82	-	641
Aircraft fuel	761	-	86	1	(86)	762
Aircraft rent	80	-	35	-	(7)	108
Airport user fees	275	-	49	-	(49)	275
Aircraft maintenance, materials, and supplies	167	-	26	47	(140)	100
Communications and information technology	67	5	2	3	(7)	70
Food, beverages and supplies	91	-	4	-	(2)	93
Depreciation, amortization, and obsolescence	125	3	5	8	4	145
Commissions	61	-	-	-	-	61
Capacity purchase with Jazz	226	-	-	-	(226)	-
Other operating expenses	315	117	45	56	(146)	387
	2,629	**145**	**330**	**197**	**(659)**	**2,642**
Operating income (loss)	**130**	**33**	**39**	**4**	**(3)**	**203**
Non-operating income (expense)						
Interest income	21	6	2	-	4	33
Interest expense	(78)	(4)	(2)	(4)	(6)	(94)
Interest capitalized	17	-	-	-	1	18
Gain on sale of US Airways shares	-	-	-	-	52	52
Gain (loss) on disposal of assets	1	-	-	-	(5)	(4)
Loss on financial instruments	(16)	-	-	-	-	(16)
Other non-operating income (expense)	2	(1)	-	2	(4)	(1)
	(53)	1	-	(2)	42	(12)
Income before the following items:	77	34	39	2	39	191
Non-controlling interest	(1)	-	-	-	(18)	(19)
Foreign exchange gain (loss)	(3)	-	-	(1)	1	(3)
Provision for income taxes	(29)	-	-	-	(37)	(66)
Income (loss) for the period	**$ 44**	**$ 34**	**$ 39**	**$ 1**	**$ (15)**	**$ 103**
EBITDAR/EBITDA(1)	**335**	**36**	**79**	**12**	**(6)**	**456**
EBITDAR/EBITDA(1) excluding special charge	**437**	**36**	**79**	**12**	**(6)**	**558**

1. *Refer to section 15 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR/EBITDA to operating income (loss).*

As previously discussed, ACE's investments in Aeroplan and Jazz are accounted for using the equity method effective March 14, 2007 and May 24, 2007, respectively. Consequently, ACE's results of operations for Quarter 3 2007 are not directly comparable to its operating results for Quarter 3 2006. ACE's 2006 results reflect the consolidation of Aeroplan's and Jazz's operations.

ACE recorded operating income of $340 million in Quarter 3 2007 compared to operating income of $203 million in Quarter 3 2006. Included in Quarter 3 3006 was a special charge of $102 million recorded in operating revenues in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles. ACE's consolidated results for Quarter 3 2006 included operating income from Aeroplan and Jazz of $33 million and $39 million, respectively. In Quarter 3 2006, Aeroplan recorded EBITDA of $36 million and Jazz recorded EBITDAR of $79 million.

EBITDAR of $553 million was recorded in Quarter 3 2007 compared to EBITDAR of $456 million in the same period in 2006. Excluding the special charge for Aeroplan miles of $102 million recorded in Quarter 3 2006, EBITDAR for Quarter 3 2007 decreased $5 million from the same period in 2006.

ACE recorded operating revenues of $3,022 million and operating expenses of $2,682 million in Quarter 3 2007. In the same period in 2006, ACE recorded operating revenues of $2,845 million, including the special charge for Aeroplan miles, and operating expenses of $2,642 million. As a result of the deconsolidation of Aeroplan and Jazz, ACE's Quarter 3 2007 operating revenues and expenses are not directly comparable to its Quarter 3 2006 operating revenues and expenses.

Non-operating expense amounted to $27 million in Quarter 3 2007 compared to non-operating expense of $12 million in Quarter 3 2006. In Quarter 3 2007, net interest expense of $47 million increased $4 million from the same period in 2006. A decrease in interest income in addition to an increase in interest expense, largely driven by the financing of additional aircraft, were partly offset by interest capitalized relating to the acquisition of new aircraft. Net interest expense was also favourably impacted by a stronger Canadian dollar versus the US dollar in 2007. Included in non-operating income was a loss of $4 million in Quarter 3 2007 and a loss of $16 million in Quarter 3 2006 relating to fair value adjustments on certain derivative financial instruments entered into by Air Canada. ACE's consolidated statement of operations for Quarter 3 2007 included $15 million of equity income from the Aeroplan investment and $12 million of equity income from the Jazz investment. In Quarter 3 2007, ACE recorded a pre-tax gain of $4 million ($3 million after tax) relating to the sale of 0.251 million shares in US Airways Group, Inc. ("US Airways"). In Quarter 3 2006, ACE recorded a pre-tax gain of $52 million ($43 million after tax) relating to the sale of 1.25 million shares in US Airways.

Net gains on foreign currency monetary items amounted to $104 million in Quarter 3 2007, attributable to a stronger Canadian dollar at September 30, 2007 compared to June 30, 2007. This compared to losses of $3 million in Quarter 3 2006.

Non-controlling interest amounted to $69 million in Quarter 3 2007 compared to $19 million in Quarter 3, 2006, an increase of $50 million. This change is attributed to the initial public offering of Air Canada in November 2006 partially offset by the reduction in ACE's holdings of Aeroplan and Jazz and the resulting change to the equity method of accounting for these investments on March 14, 2007 and May 24, 2007, respectively.

As a result of the changes in ACE's ownership interest in Air Canada, Jazz and Aeroplan, foreign exchange and other non-recurring gains, net income results for Quarter 3 2007 are not directly comparable to net income results for Quarter 3 2006.

Net income in Quarter 3 2007 amounted to $224 million or $1.84 per diluted share. Net income in Quarter 3 2006 amounted to $103 million or $0.95 per diluted share.

6.1. Air Canada

Air Canada reported operating income of $351 million in Quarter 3 2007 compared to operating income of $130 million in Quarter 3 2006, an increase of $221 million. EBITDAR of $561 million in Quarter 3 2007 reflected an improvement of $226 million over Quarter 3 2006. Included in Quarter 3 2006 was a special charge of $102 million recorded in operating revenues in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles. Excluding the special charge for Aeroplan miles, Quarter 3 2007 operating income and EBITDAR increased $119 million and $124 million, respectively, over the same period in 2006.

Passenger revenues increased $108 million or 4.2% to $2,660 million in Quarter 3 2007, mainly reflecting traffic growth. In addition, ancillary passenger fees amounted to $24 million in Quarter 3 2007. These ancillary passenger fees, which are included in passenger revenues in 2007, were included in other revenues in 2006. A partly offsetting factor to these increases was the adverse impact of a stronger Canadian dollar on foreign currency denominated revenues versus Quarter 3 2006. This impact accounted for a decrease of approximately $20 million to passenger revenues. System yield improved 1.1% over Quarter 3 2006. In Quarter 3 2007, traffic grew 3.1% on a capacity increase of 3.5% over Quarter 3 2006, resulting in a passenger load factor decrease of 0.3 percentage points. RASM rose 0.7% over the Quarter 3 2006 due to the growth in yield. The domestic and US transborder markets reflected strong yield growth.

In Quarter 3 2007, cargo revenues declined $25 million or 16% from Quarter 3 2006. In Quarter 3 2007, Air Canada operated one chartered freighter versus three freighter aircraft in Quarter 3 2006. System cargo traffic was down 11% on a 4% reduction of available cargo capacity. Cargo yield per revenue ton mile declined 7% from the 2006 quarter.

Other revenues of $162 million in Quarter 3 2007 grew $10 million or 7% from the same period in 2006 and included third party aircraft sublease revenues of $8 million in 2007 and growth in third party revenues from Air Canada Vacations and Air Canada Ground Handling Services. A partly offsetting factor was the impact of the reclassification of certain ancillary passenger fees to passenger revenues effective January 1, 2007.

Operating expenses were $2,603 million in Quarter 3 2007, a decrease of $26 million or 1% over Quarter 3 2006. The stronger Canadian dollar was a factor in the quarter's overall unit cost decrease, particularly in aircraft fuel. Unit cost, as measured by operating expense per ASM, decreased 4.4% over Quarter 3 2006. Excluding fuel expense, unit cost decreased 2.4% over the same period in 2006.

Wages, salaries and benefits amounted to $478 million in Quarter 3 2007, an increase of $17 million or 4% from Quarter 3 2006.

Wages and salaries expense totaled $386 million in Quarter 3 2007, an increase of $19 million or 5% from Quarter 3 2006, mainly due to an addition of 662 full-time equivalent ("FTE") employees or 3% over Quarter 3 2006 and, to a much lesser extent, to higher average wage rates established during the wage review process with Air Canada's unionized employees. The increase in FTE employees was mainly related to pilots, flight attendants and ground handling personnel required to support the 3.5% growth in ASM capacity.

Employee benefits expense amounted to $92 million in Quarter 3 2007, a decrease of $2 million or 2% from Quarter 3 2006, largely attributable to a decline in pension and post-employment benefit expenses as a result of revised actuarial valuations offset by increased expense relating to health benefits for active employees.

Despite an ASM capacity increase of 3.5%, fuel expense of $716 million in Quarter 3 2007 decreased $45 million or 6% from Quarter 3 2006. The volume-related increase of $22 million and the unfavourable impact of a higher average base fuel price of $6 million were more than offset by the favourable impact of a stronger Canadian dollar versus the US dollar which accounted for a decrease of $46 million in fuel expense, hedging gains of $8 million in 2007 compared to hedging losses of $9 million in 2006 and a $10 million decrease due to a reduction in MD-11 freighter operations.

Ownership costs, comprised of aircraft rent, depreciation, amortization and obsolescence expenses, of $210 million in Quarter 3 2007 increased $5 million from Quarter 3 2006.

Airport and navigation fees of $284 million in Quarter 3 2007 increased $9 million or 3% over the same period in 2006, mainly due to a 5% increase in aircraft frequencies and higher rates for landing and general terminal fees, primarily at Toronto's Pearson International Airport ("Pearson Airport"). These increases were partly offset by 4% and 1.7% rate reductions for navigation fees in Canada which became effective in August 2007 and in September 2006, respectively.

Aircraft maintenance, materials and supplies of $155 million in Quarter 3 2007 decreased $12 million or 7% from Quarter 3 2006 mainly as a result of reduced engine maintenance for Airbus A340 and Boeing 767-300 aircraft largely due to a reduction of four aircraft and a planned delay in previously scheduled Boeing 767-200 engine events which, combined, accounted for a decrease of $25 million. This decrease was largely offset by higher airframe maintenance expenses of $11 million for the Airbus A320 and Boeing 767 aircraft as these aircraft are in a work cycle which requires additional maintenance. In addition, Quarter 3 2007 reflected an increase in expense of $5 million related to the preparation of aircraft for return to lessors.

Commission expense of $54 million in Quarter 3 2007 decreased $7 million or 11% from Quarter 3 2006, on combined passenger and cargo revenue growth of 3% over Quarter 3 2006. The decrease in commission expense was largely driven by the impact of a new commission structure at Air Canada Vacations in 2007 and by commercial initiatives implemented by Air Canada to lower commission costs. These decreases more than offset the volume-related increase. Commissions, as a percent of passenger and cargo revenues, declined to 1.9% in Quarter 3 2007 from 2.3% in Quarter 3 2006.

Capacity purchase fees paid to Jazz, pursuant to the capacity purchase agreement between Jazz and Air Canada ("Jazz CPA"), increased by $8 million or 4% to $234 million in Quarter 3 2007 compared to Quarter 3 2006 mainly driven by a 5% increase in block hours over Quarter 3 2006.

Non-operating expense amounted to $45 million in Quarter 3 2007, a decrease of $8 million compared to Quarter 3 2006. In Quarter 3 2007, net interest expense of $37 million decreased $3 million from Quarter 3 2006. A $4 million increase in interest expense, largely driven by the financing of additional aircraft, was more than offset by a higher amount of capitalized interest relating to new aircraft. Net interest expense was also favourably impacted by a stronger Canadian dollar versus the US dollar in 2007.

Net gains on foreign currency monetary items amounted to $104 million in Quarter 3 2007, attributable to a stronger Canadian dollar at September 30, 2007 compared to June 30, 2007. This compared to losses of $3 million in Quarter 3 2006.

The income tax provision was $137 million in Quarter 3 2007 and represented an effective tax rate of 33% as compared to $29 million at an effective tax rate of 40% in Quarter 3 2006. The decrease in the effective tax rate this quarter was largely attributable to the capital portion of certain foreign exchange gains reported during the period, which are tax affected at 50% of the income tax rate. Air Canada also recorded a current tax expense of $10 million in Quarter 3 2007 related to the harmonization of Ontario and federal tax balances.

Segment income of $273 million was recorded in Quarter 3 2007 compared to segment income of $44 million in Quarter 3 2006, which included the special charge for Aeroplan miles of $102 million.

6.2. ACTS

ACTS recorded operating income of $5 million in Quarter 3 2007, an improvement of $1 million from Quarter 3 2006. Operating revenues of $244 million were up $43 million over Quarter 3 2006, reflecting growth across all customer segments primarily in the engine maintenance business as the shift from heavy maintenance to engine maintenance continues. In addition, revenues from Aeroman amounted to $15 million in the third quarter of 2007.

In Quarter 3 2007, operating expenses of $239 million increased $42 million over 2006, mainly driven by increased expenses required to support the additional revenue and included expenses relating to Aeroman of $12 million in Quarter 3 2007. A provision of $4 million for bad debts was recorded in Quarter 3 2007 relating to one customer contract.

A segment loss of $1 million was recorded in Quarter 3 2007, a deterioration of $2 million from the same period in 2006.

6.3. Corporate Items and Eliminations ("CIE")

CIE includes the corporate, financing and investing activities of ACE. CIE also includes certain consolidation adjustments related to revenue recognition differences for maintenance services provided by ACTS (completed contract for engine and component maintenance services) versus the expense recognition in Air Canada and Jazz, which is as the work is completed.

As discussed in section 5 of this MD&A, ACE's investments in Aeroplan and Jazz are accounted for using the equity method. The consolidated statement of operations for Quarter 3 2007 reflects $15 million of equity income from ACE's investment in Aeroplan and $12 million from ACE's investment in Jazz. CIE recorded an operating loss of $48 million in Quarter 3 2007 compared to an operating loss of $15 million in Quarter 3 2006. Negative EBITDAR of $23 million was recorded in Quarter 3 2007 compared to negative EBIDTAR of $6 million in Quarter 3 2006.

In Quarter 3 2007, ACE recorded a gain of $4 million ($3 million after tax) relating to the sale of its remaining 0.251 million shares in US Airways. In Quarter 3 2006, ACE recorded a gain of $52 million ($43 million after tax) relating to the sale of 1.25 million shares in US Airways.

7. RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30, 2007

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the nine months ended September 30, 2007.

Unaudited	**Nine Months ended September 30, 2007**					
($ millions)	**Air Canada**	**Aeroplan[(1)]**	**Jazz[(2)]**	**ACTS**	**CIE**	**ACE Total**
Operating revenue						
Passenger revenue	$ 7,133	$ -	$ -	$ -	$ 15	$ 7,148
Cargo revenue	407	-	-	-	-	407
Other revenue	438	198	3	184	(72)	751
External revenue	7,978	198	3	184	(57)	8,306
Inter-segment revenue	155	3	610	571	(1,339)	-
	8,133	**201**	**613**	**755**	**(1,396)**	**8,306**
Operating expenses						
Wages, salary and benefits	1,452	17	139	259	15	1,882
Aircraft fuel	1,937	-	125	-	(124)	1,938
Aircraft rent	220	-	57	-	(16)	261
Airport user fees	784	-	80	-	(81)	783
Aircraft maintenance, materials, and supplies	584	-	50	224	(510)	348
Communications and information technology	208	7	2	12	(13)	216
Food, beverages and supplies	246	-	6	-	-	252
Depreciation, amortization, and obsolescence	408	3	9	30	(8)	442
Commissions	164	-	-	-	-	164
Capacity purchase with Jazz	696	-	-	-	(386)	310
Special charge for labour restructuring	-	-	-	15	-	15
Other operating expenses	1,073	134	83	198	(200)	1,288
	7,772	**161**	**551**	**738**	**(1,323)**	**7,899**
Operating income (loss)	**361**	**40**	**62**	**17**	**(73)**	**407**
Non-operating income (expense)						
Interest income	70	3	2	-	11	86
Interest expense	(259)	(3)	(3)	(14)	(36)	(315)
Interest capitalized	88	-	-	-	-	88
Aeroplan equity investment income[(1)]	-	-	-	-	35	35
Jazz equity investment income[(2)]	-	-	-	-	19	19
Gain on sale of US Airways shares	-	-	-	-	8	8
Gain on disposal of assets	19	-	-	-	-	19
Gain on financial instruments	24	-	-	-	-	24
Other non-operating income (expense)	(12)	(1)	1	(2)	8	(6)
	(70)	(1)	-	(16)	45	(42)
Income (loss) before non-controlling	291	39	62	1	(28)	365
Non-controlling interest	(6)	-	-	-	(142)	(148)
Foreign exchange gain	297	-	-	(1)	(1)	295
Provision for income taxes	(188)	-	-	-	(54)	(242)
Income (loss) for the period	**$ 394**	**$ 39**	**$ 62**	**$ -**	**$ (225)**	**$ 270**
EBITDAR/EBITDA[(3)]	**989**	**43**	**128**	**47**	**(97)**	**1,110**
EBITDAR/EBITDA[(3)] excluding special charges	**989**	**43**	**128**	**62**	**(97)**	**1,125**

1. *Reflects Aeroplan results from January 1 to March 13, 2007. Since March 14, 2007, ACE is accounting for its investment in Aeroplan under the equity method and, for the period March 14 to September 30, 2007, has recorded equity income from the Aeroplan investment in non-operating income under "Aeroplan equity investment income" within the CIE segment.*
2. *Reflects Jazz results from April 1 to May 23, 2007. Since May 24, 2007, ACE is accounting for its investment in Jazz under the equity method and, for the period May 24 to September 30, 2007, has recorded equity income from the Jazz investment in non-operating income under "Jazz equity investment income" within the CIE segment.*
3. *Refer to section 15 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR/EBITDA to operating income (loss) and EBITDAR/EBITDA excluding special charges to operating income (loss).*

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the nine months ended September 30, 2006.

Unaudited	**Nine Months ended September 30, 2006**					
($ millions)	**Air Canada**	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**ACE Total**
Operating revenue						
Passenger revenue	$ 6,816	$ -	$ -	$ -	$ 57	$ 6,873
Cargo revenue	460	-	-	-	-	460
Other revenue	420	554	5	164	(363)	780
External revenue	7,696	554	5	164	(306)	8,113
Inter-segment revenue	147	7	1,024	463	(1,641)	-
	7,843	561	1,029	627	(1,947)	8,113
Special charge for Aeroplan miles	(102)	-	-	-	-	(102)
	7,741	**561**	**1,029**	**627**	**(1,947)**	**8,011**
Operating expenses						
Wages, salary and benefits	1,373	58	229	246	13	1,919
Aircraft fuel	1,961	-	216	1	(216)	1,962
Aircraft rent	258	-	100	-	(24)	334
Airport user fees	750	-	132	-	(132)	750
Aircraft maintenance, materials, and supplies	563	-	71	178	(465)	347
Communications and information technology	205	17	6	10	(21)	217
Food, beverages and supplies	246	-	11	-	(2)	255
Depreciation, amortization, and obsolescence	358	11	16	23	11	419
Commissions	188	-	-	-	-	188
Capacity purchase with Jazz	647	-	-	-	(647)	-
Special charge for labour restructuring	28	-	-	5	-	33
Other operating expenses	1,045	372	137	178	(467)	1,265
	7,622	**458**	**918**	**641**	**(1,950)**	**7,689**
Operating income (loss)	**119**	**103**	**111**	**(14)**	**3**	**322**
Non-operating income (expense)						
Interest income	58	14	4	-	8	84
Interest expense	(225)	(11)	(6)	(12)	(19)	(273)
Interest capitalized	40	-	(1)	-	1	40
Dilution gain - Jazz	-	-	-	-	220	220
Gain on sale of US Airways shares	-	-	-	-	152	152
Gain (loss) on disposal of assets	4	-	-	-	(4)	-
Loss on financial instruments	(19)	-	-	-	-	(19)
Other non-operating income (expense)	3	(1)	-	1	2	5
	(139)	2	(3)	(11)	360	209
Income (loss) before non-controlling	(20)	105	108	(25)	363	531
Non-controlling interest	(9)	-	-	-	(44)	(53)
Foreign exchange gain (loss)	119	-	-	(1)	(1)	117
Provision for income taxes	(20)	-	-	-	(118)	(138)
Income (loss) for the period	**$ 70**	**$ 105**	**$ 108**	**$ (26)**	**$ 200**	**$ 457**
EBITDAR/EBITDA[1]	**735**	**114**	**227**	**9**	**(10)**	**1,075**
EBITDAR/EBITDA[1] excluding special charges	**865**	**114**	**227**	**14**	**(10)**	**1,210**

1. *Refer to section 15 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR/EBITDA to operating income (loss) and EBITDAR/EBITDA excluding special charges to operating income (loss).*

As previously discussed, ACE's 2007 results reflect the consolidation of Aeroplan's operations only up to March 14, 2007 and the consolidation of Jazz's operations only up to May 24, 2007. After those dates, ACE's investments in Aeroplan and Jazz are accounted for using the equity method. Consequently, ACE's results of operations for the first nine months of 2007 are not directly comparable to its operating results for the same period in 2006. ACE's 2006 results reflect the consolidation of Aeroplan's and Jazz's operations.

ACE recorded operating income of $407 million for the nine months ended September 30, 2007 compared to operating income of $322 million for the nine months ended September 30, 2006. EBITDAR of $1,110 million was recorded in the first nine months of 2007 compared to EBITDAR of $1,075 million in the same period in 2006.

In the first nine months of 2007, a special charge for labour restructuring of $15 million was recorded in the ACTS segment related to a workforce reduction resulting from the termination of a third party heavy maintenance contract. In the first nine months of 2006, a special charge of $102 million was recorded in the Air Canada segment in connection with its obligations for the redemption of pre-2002 Aeroplan miles. Also included in the first nine months of 2006 was a special charge of $33 million ($28 million in the Air Canada segment and $5 million in the ACTS segment) relating to a non-unionized workforce reduction plan. In Quarter 4 2006, the estimated cost of this program was revised and, as a result, Air Canada recorded a favourable adjustment of $8 million relating to this special charge for labour restructuring.

Excluding these special charges in both 2006 and 2007, operating income and EBITDAR for the first nine months of 2007 decreased by $35 million and $85 million, respectively, over the same period in 2006. ACE's consolidated results for the first nine months of 2006 included operating income from Aeroplan and Jazz of $103 million and $111 million, respectively. In the first nine months of 2006, Aeroplan recorded EBITDA of $114 million and Jazz recorded EBITDAR of $227 million.

In the first nine months of 2007, ACE recorded operating revenues of $8,306 million and operating expenses of $7,899 million. In the same period in 2006, ACE recorded operating revenues of $8,011 million, including the special charge for Aeroplan miles, and operating expenses of $7,689 million. As a result of the deconsolidation of Aeroplan and Jazz, ACE's operating revenues and expenses for the first nine months of 2007 are not directly comparable to ACE's operating revenues and expenses for the first nine months of 2006.

Non-operating expense amounted to $42 million for the nine months ended September 30, 2007 compared to non-operating income of $209 million for the same period in 2006. In the first nine months of 2006, ACE recorded a dilution gain of $220 million ($210 million after tax) related to the Jazz IPO and a pre-tax gain of $152 million ($126 million after tax) relating to the sale of 4.5 million shares of its holdings in US Airways. In the first nine months of 2007, net interest expense decreased $8 million from the first nine months of 2006. The interest expense increase of $42 million, largely driven by the financing of additional aircraft, was offset by interest capitalized relating to the acquisition of new aircraft. Net interest expense was also favourably impacted by a stronger Canadian dollar versus the US dollar in 2007. Included in non-operating income was a gain of $24 million in the first nine months of 2007 and a loss of $19 million in the first nine months of 2006 relating to fair value adjustments on certain derivative financial instruments entered into by Air Canada. ACE recorded Aeroplan equity income of $35 million and Jazz equity income of $19 million in the first nine months of 2007. In the first nine months of 2007, ACE recorded a pre-tax gain of $8 million ($6 million after tax) related to the sale of 0.5 million shares in US Airways. In addition, Air Canada recorded a gain on disposal of $14 million relating to a damaged aircraft and gains amounting to $7 million pertaining to the sale of one real estate property and the sale of parked aircraft.

Net gains from foreign currency monetary items amounted to $295 million in the first nine months of 2007, attributable to a stronger Canadian dollar at September 30, 2007 compared to December 31, 2006. This compared to gains of $117 million in the first nine months of 2006.

Non-controlling interest amounted to $148 million in the first nine months of 2007 compared to $53 million in the same period in 2006, an increase of $95 million. This change is attributed to the initial public offering of Air Canada in November 2006 partially offset by the reduction in ACE's holdings of Aeroplan and Jazz and the resulting change to the equity method of accounting for these investments on March 14, 2007 and May 24, 2007, respectively.

Provisions for income taxes of $242 million were recorded in the nine months ended September 30, 2007 and included $44 million related to the special distributions of Aeroplan and Jazz units and $17 million as a result of changes in tax elections previously estimated.

As a result of the changes in ACE's ownership interest in Air Canada, Jazz and Aeroplan, foreign exchange and other non-recurring gains, net income results for the first nine months of 2007 are not directly comparable to net income results for the first nine months of 2006.

Net income for the nine months ended September 30, 2007 amounted to $270 million or $2.48 per diluted share. Net income for the nine months ended September 30, 2006 amounted to $457 million or $4.11 per diluted share.

7.1. Air Canada

Air Canada reported operating income of $361 million in the nine months ended September 30, 2007 compared to operating income of $119 million in the nine months ended September 30, 2006, an improvement of $242 million. EBITDAR of $989 million increased $254 million over first nine months of 2006. Included in the first nine months of 2006 was a special charge of $102 million recorded in operating revenues in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles and a special charge for labour restructuring of $28 million relating to a non-unionized workforce reduction program. Excluding these special charges in 2006, operating income and EBITDAR for the first nine months of 2007 increased $112 million and $124 million, respectively, over the first nine months of 2006.

Passenger revenues of $7,133 million in the first nine months of 2007 increased $317 million or 4.7% over the same period in 2006, reflecting a growth in traffic. In addition, ancillary passenger fees amounted to $54 million in the first nine months of 2007. These ancillary passenger fees, which are included in passenger revenues in 2007, were included in other revenues in 2006. The system yield improvement of 1.0% in the first nine months of 2007 over the same period in 2006 was principally due to the inclusion of the ancillary passenger fees in 2007. In the nine months ended September 30, 2007, traffic grew 3.6% on a capacity increase of 2.9% over the same period in 2006, resulting in a passenger load factor increase of 0.6 percentage points. RASM rose 1.7% due to both the growth in yield and the improvement in system passenger load factor.

Cargo revenues of $407 million in the nine months ended September 30, 2007 decreased $53 million or 12% from the same period in 2006. This was mainly due to a $35 million reduction in freighter revenues as a result of the termination of freighter services to Asia at the end of June 2007 and reduced freighter flying to Asia in the first half of 2007. System cargo traffic was down 12% on a 6% reduction in available cargo capacity. Cargo yield per revenue ton mile was unchanged from the first nine months of 2006.

Other revenues of $593 million in the first nine months of 2007 increased $26 million or 5% over the same period in 2006. Increases included third party revenue growth at Air Canada Vacations of $16 million, third party aircraft sublease revenues of $15 million in 2007, higher third party revenues at Air Canada Ground Handling Services of $6 million as well as various other increases. A partially offsetting factor was the impact of the reclassification of certain ancillary passenger fees to passenger revenues effective January 1, 2007.

Operating expenses of $7,772 million in the first nine months of 2007 increased $150 million or 2% over the same period in 2006. Unit cost, as measured by operating expense per ASM, decreased 0.9% over the first nine months of 2006. Excluding fuel expense and the special charge for labour restructuring, unit cost increased 0.7%.

Wages, salaries and benefits amounted to $1,452 million in the first nine months of 2007, an increase of $79 million or 6% from the same period in 2006. Wages and salaries expense totaled $1,148 million in the first nine months of 2007, an increase of $84 million or 8% over the corresponding period in 2006 due to higher average wages, a growth of 1% in the average number of FTEs, net favorable adjustments of $18 million in the 2006 period, increased provisions for voluntary separation packages and increased overtime expenses. The higher average wages were largely attributable to arbitrated and negotiated average wage increases of approximately 1.5% and salary progression based on additional seniority. The total average number of FTEs in the period increased by 203 FTEs or 1%, which included an increase of 210 pilots, comparatively at a higher average wage than other groups, driving the overall average salary up. Employee benefits expense amounted to $304 million in the first nine months of 2007, a decrease of $5 million or 2% from the same period in 2006, largely attributable to a decline in pension and post-employment benefit expenses as a result of revised actuarial valuations. A partially offsetting factor was increased expense related to health benefits for active employees.

Despite an ASM capacity increase of 2.9%, fuel expense of $1,937 million in the first nine months of 2007 decreased $24 million or 1% over the same period in 2006. The volume-related increase of $61 million was more than offset by the favourable impact of a stronger Canadian dollar in 2007 versus the US dollar which accounted for a decrease of $50 million in fuel expense, hedging losses of $1 million in 2007 compared to hedging losses of $11 million 2006, a $22 million decrease due to a reduction in MD-11 freighter operations and a decrease in the average base fuel price which accounted for $3 million.

Ownership costs, comprised of aircraft rent, depreciation, amortization and obsolescence expenses, of $628 million in the first nine months of 2007 increased by $12 million over the first nine months of 2006.

Airport and navigation fees of $784 million in the first nine months of 2007 increased $34 million or 5% over the same period in 2006, mainly due to a 6% increase in aircraft departures and higher rates for landing and general terminal fees, primarily at Toronto's Pearson. These increases were partly offset by 4% and 1.7% rate reductions for navigation fees in Canada which became effective in August 2007 and in September 2006, respectively.

Aircraft maintenance, materials and supplies of $584 million in the first nine months of 2007 increased $21 million or 4% over the same period in 2006. Higher maintenance expenses related to satisfying minimum return conditions on aircraft leases returns and maintenance expense related to preparing aircraft to be subleased to third party operators accounted for an increase of $34 million. However, this expense was largely offset by a reduction in component and engine maintenance expenses.

Commission expense of $164 million in the first nine months of 2007 decreased $24 million or 13% over the same period in 2006, on combined passenger and cargo revenue growth of 4% over the first nine months of 2006. The decrease in commission expense was mainly driven by the impact of a new commission structure at Air Canada Vacations in 2007 and by commercial initiatives implemented by Air Canada to lower commission costs. These decreases more than offset the volume-related increase.

Capacity purchase fees paid to Jazz of $696 million in the first nine months of 2007 increased $49 million or 8% over the same period in 2006, largely driven by a 10% growth in block hours.

Other operating expense of 1,073 million in the first nine months of 2007 grew $28 million or 3% over the same period in 2006 largely due to a growth in expenses, mainly in Quarter 1 2007, related to ground packages as a result of higher passenger volumes at Air Canada Vacations. Increases were also recorded in credit card fees, crew cycle expense, engine rental costs and training. Offsetting these increases were reductions recorded in miscellaneous fees and services, advertising and promotion expense, terminal handling, insurance and other expense areas.

Non-operating expense amounted to $70 million in the nine months ended September 30, 2007 compared to non-operating expense of $139 million in the nine months ended September 30, 2006. In the first nine months of 2007, net interest expense of $101 million decreased $26 million from 2006. A $34 million increase in interest expense, largely driven by the financing of additional aircraft, was more than offset by a higher amount of capitalized interest relating to the acquisition of new aircraft and growth in interest income due to higher cash balances and higher average interest rates during Quarter 1 2007. For the nine months ended September 30, 2007, Air Canada recorded gains of $7 million pertaining to the sale of one real estate property and the sale of parked aircraft. In addition, in the second quarter of 2007, Air Canada recorded a gain on disposal of $14 million relating to a damaged aircraft. Included in non-operating income was a gain of $24 million in the first nine months of 2007 and a loss of $19 million in the same period in 2006 relating to fair value adjustments on certain derivative instruments entered into by Air Canada. In Quarter 3 2006, Air Canada recorded an expense of $12 million relating to interest rate swaps pertaining to the financing of Embraer 190 aircraft.

Net gains from foreign currency monetary items amounted to $297 million in the first nine months of 2007, attributable to a stronger Canadian dollar at September 30, 2007 compared to December 31, 2006. This compared to gains of $119 million in the first nine months of 2006.

The income tax provision was $188 million for the nine months ended September 30, 2007 and represented an effective tax rate of 32% as compared to $20 million at an effective rate of 22% in the nine months ended September 30, 2006. The effective tax rate in the nine months ended September 30, 2007 was favourably impacted by the capital portion of certain foreign exchange gains reported during the period, which are tax affected at 50% of the income tax rate. The tax provision for the nine months ended September 30, 2006 was favourably impacted by a credit of $17 million related to changes in federal tax rates during the period.

Segment income of $394 million was recorded in the nine months ended September 30, 2007 compared to segment income of $70 million in the nine months ended September 30, 2006.

7.2. Aeroplan

ACE's results from operations include the consolidation of Aeroplan's operations up to March 14, 2007. After that date, Aeroplan is accounted for using the equity method. The following discussion is based on Aeroplan's Quarter 1 2007 published results. Refer to section 5 "Accounting Policies and Estimates" of this MD&A for information on the equity income that ACE has recorded from the Aeroplan investment since the date of deconsolidation.

Aeroplan recorded operating income of $48 million in Quarter 1 2007, an increase of $9 million over Quarter 1 2006. EBITDA improved $8 million over Quarter 1 2006. The improvement in operating income and EBITDA was mainly driven by a 19% growth in miles redeemed as a result of higher redemption activity.

Operating revenues in Quarter 1 2007 were up $45 million or 23%, primarily attributable to higher redemption activity and to higher cumulative average revenue recognized per Aeroplan mile, and an increase of $3 million in breakage revenues.

Total operating expenses rose by $36 million or 22% in Quarter 1 2007, largely due to an increase of $30 million in the cost of rewards, resulting from increased redemptions. Other operating expenses excluding the cost of rewards, increased $6 million over Quarter 1 2006 due to higher technology costs related to the maintenance and support of systems deployed into service in late 2006, increased compensation costs and professional, advisory and public company costs and higher advertising and promotion costs as a result of promotional activities related to launch campaigns.

Net income of $50 million was recorded by Aeroplan in Quarter 1 2007, an improvement of $39 million over Quarter 1 2006.

7.3. Jazz

ACE's results from operations include the consolidation of Jazz's operations up to May 24, 2007. After that date, Jazz is accounted for using the equity method. The following discussion is based on Jazz's Quarter 2 2007 published results. Refer to section 5 "Accounting Policies and Estimates" of this MD&A for information on the equity income that ACE has recorded from the Jazz investment since the date of deconsolidation.

In the first half of 2007, Jazz reported operating income of $76 million, an improvement of $4 million from the operating income of $72 million recorded in the same period in 2006. EBITDAR of $155 million was recorded in the six months ended June 30, 2007 compared to EBITDAR of $148 million for the same period in 2006. The improvements in operating income and EBITDAR were mainly due to a 14% increase in ASM capacity.

In the first six months of 2007, operating revenues increased $79 million or 12% over the corresponding period in 2006, reflecting a 13% increase in the block hours flown, as well as a 16% increase in pass-through costs charged to Air Canada under the Jazz CPA.

In the first six months of 2007, operating expenses rose $75 million or 13% over the corresponding period in 2006. Increased pass-through costs under the Jazz CPA represented $38 million of the total increase in operating expenses. Controllable costs reflected the remainder of the increase.

Net income of $76 million was recorded in the first six months of 2007, an improvement of $7 million over the corresponding period in 2006.

7.4. ACTS

In the first nine months of 2007, ACTS recorded operating income of $32 million, excluding special charges, an improvement of $41 million from the same period in 2006. Refer to section 15 "Non-GAAP financial measures" in this MD&A. The special charges related to workforce restructuring programs and amounted to $15 million in 2007 and $5 million in 2006.

In the first nine months of 2007, operating revenues of $755 million increased $128 million over the same period in 2006, the result of growth in the engine maintenance business and Aeroman revenues of $37 million since its acquisition in February 2007.

Operating expenses of $738 million in the first nine months of 2007, including the special charges discussed above, were up $97 million from the corresponding period in 2006, largely attributable to the increase in revenue and included expenses related to Aeroman of $29 million in the first nine months of 2007.

A segment result of break-even in the first nine months of 2007 reflected a $26 million improvement from the same period in 2006.

7.5. Corporate Items and Eliminations ("CIE")

CIE includes the corporate, financing and investing activities of ACE. CIE also includes certain consolidation adjustments related to revenue recognition differences amongst the operating segments. These consolidation adjustments are related to the timing of recognition and the presentation of revenue related to Aeroplan redemptions and the timing of revenue recognition related to maintenance services provided by ACTS (completed contract for engine and component maintenance services) versus the expense recognition in Air Canada and Jazz, which is as the work is completed. As a result of the change in the accounting for ACE's investment in Aeroplan, certain consolidation adjustments relating to Aeroplan were no longer recorded in CIE effective March 14, 2007.

As previously discussed, ACE's investment in Aeroplan and Jazz is accounted for using the equity method. The consolidated statement of operations for the first nine months of 2007 reflects $35 million of equity income from ACE's investment in Aeroplan and $19 million from ACE's investment in Jazz.

The first nine months of 2007 included pre-tax gains totaling $8 million ($6 million after tax) relating to the sale of the remaining 0.5 million shares of ACE's holdings in US Airways.

The first nine months of 2006 included a dilution gain of $220 million ($210 million after tax) related to ACE's IPO of Jazz and pre-tax gains totaling $152 million ($126 million after tax) relating to the sale of 4.5 million shares of ACE's holdings in US Airways.

8. FINANCIAL AND CAPITAL MANAGEMENT

The following table summarizes the consolidated statement of financial position of ACE as at September 30, 2007 and December 31, 2006.

Condensed Consolidated Statement of Financial Position ($ millions)	**September 30, 2007**	**December 31, 2006**
Assets		
Cash, cash equivalents and short-term investments	$ 1,915	$ 3,178
ACTS assets held for sale	489	-
Other current assets	1,671	1,856
Current assets	4,075	5,034
Property and equipment	7,150	5,989
Intangible assets	596	1,643
Other assets	419	775
	$ 12,240	**$ 13,441**
Liabilities		
ACTS current liabilities held for sale	$ 164	$ -
Other current liabilities	3,006	3,948
Current liabilities	3,170	3,948
Long-term debt and capital leases obligations	3,696	3,759
Pension and other benefits liabilities	1,855	1,876
Other long-term liabilities	837	1,586
	9,558	**11,169**
Non-controlling interest	**744**	**695**
Shareholders' equity	**1,938**	**1,577**
	$ 12,240	**$ 13,441**

8.1. Analysis of Financial Position

Cash, cash equivalents and short-term investments

At September 30, 2007, cash, cash equivalents and short-term investments amounted to $1,915 million, a decrease of $1,263 million from December 31, 2006, primarily reflecting the exclusion of Aeroplan's and Jazz's cash, cash equivalents and short-term investments, as a result of deconsolidation, and a decrease in Air Canada's cash, cash equivalents and short-term investments of $608 million, mainly due to investing activities relating to aircraft acquisitions. At September 30, 2007, ACE's and Air Canada's unconsolidated cash, cash equivalents and short-term investments totaled $402 million and $1,502 million, respectively.

At November 8, 2007, following the completion of the secondary offerings of Aeroplan Income Fund and Jazz Air Income Fund on October 22, 2007, for net proceeds of $463 million and $263 million, respectively, and the completion of the monetization of ACTS on October 16, 2007, for net cash proceeds of $723 million, ACE's unconsolidated cash, cash equivalents and short-term investments increased from $402 million to approximately $1.85 billion.

ACTS Assets and Current Liabilities Held for Sale

As previously discussed, ACE completed the sale of a 70% interest in ACTS on October 16, 2007. The assets and liabilities of ACTS have been classified as current as the completion of this sale occurred prior to the release of ACE's Quarter 3 2007 interim unaudited consolidated financial statements.

Long-term Debt

Aircraft and facility related borrowings in the first nine months of 2007 amounted to $1,093 million which mainly related to the financing by Air Canada of six Boeing 777 and 16 Embraer aircraft.

<u>Other assets and liabilities</u>

At September 30, 2007, other assets and liabilities were largely impacted by the change in accounting for ACE's investments in Aeroplan and Jazz. Refer to section 5 of this MD&A for additional information.

8.2. Share Information

At September 30, 2007 and at December 31, 2006, the issued and outstanding common shares of ACE, along with common shares potentially issuable, pursuant to convertible preferred shares, convertible notes and stock options were as follows:

Number of shares (000)	At September 30, 2007	At December 31, 2006
Issued and outstanding common shares		
Class A variable voting shares	81,077	79,499
Class B voting shares	22,388	22,772
Total issued and outstanding common shares	**103,465**	**102,271**
Common shares potentially issuable		
Convertible preferred shares	11,151	10,747
Convertible notes	12,437	7,354
Stock options	4,250	3,598
Total common shares potentially issuable	**27,838**	**21,699**
Total outstanding and potentially issuable common shares	**131,303**	**123,970**

In connection with the distribution of units of Aeroplan Income Fund and Jazz Air Income Fund to the shareholders of ACE, as discussed in section 4 of this MD&A, the conversion rate of the 4.25% Convertible Senior Notes due 2035 ("Convertible Notes") to Class A variable voting shares (if the holder is not a Canadian) or Class B voting shares (if the holder is Canadian) per $1,000 principal amount of Convertible Notes was adjusted. This change in the conversion rate did not have any accounting consequences. As a result of the January 10, 2007 distribution the conversion rate was adjusted from 22.2838 to 27.6987, effective January 27, 2007. As a result of the March 14, 2007 distributions, the conversion rate was adjusted from 27.6987 to 32.5210, effective March 31, 2007. As a result of the May 24, 2007 distributions, the conversion rate was adjusted from 32.5210 to 37.6879, effective June 12, 2007. These adjustments were determined in accordance with the terms of indenture governing the Convertible Notes.

In accordance with the terms of the ACE stock option plan, each distribution triggered an adjustment to the weighted average exercise price and the number of options outstanding. Effective on the applicable dates of the distributions, the adjustments were applied to all unexercised ACE stock options, whether vested or not, in a consistent manner with the adjustment to the conversion rate for the convertible senior notes. In relation to the January 10, 2007 distribution, the weighted average option exercise price and number of options outstanding was amended from $26.04 and 3,570,390 options to $20.95 and 4,436,644 options. In relation to the March 14, 2007 distributions, the weighted average option exercise price and number of options outstanding was amended from $22.02 and 3,397,496 options to $18.76 and 3,989,011 options. In relation to the May 24, 2007 distributions, the weighted average option exercise price and number of options outstanding was amended from $18.53 and 3,854,370 options to $15.98 and 4,466,744 options.

8.3. Liquidity and Working Capital

The Corporation maintains considerable liquidity in cash and short-term investments along with access to additional funds under a credit facility. Air Canada has a secured syndicated revolving credit facility of $400 million. As of the date hereof, no amounts have been drawn on this credit facility.

8.4. Consolidated Cash flows

As previously discussed, ACE's 2007 results reflect the consolidation of Aeroplan's operations only up to March 14, 2007 and the consolidation of Jazz's operations only up to May 24, 2007.

Cash flows from operations decreased $51 million in Quarter 3 2007 primarily as a result of the change in accounting for ACE's investment in Aeroplan and Jazz which was partly offset by a decrease in pension funding in Quarter 3 2007. On a year-to-date basis, cash from operations decreased $229 million mainly due the change in accounting for ACE's investment in Aeroplan and Jazz and increased pension funding in the first half of 2007.

Aircraft and facility related borrowings for Air Canada amounted to $449 million in Quarter 3 2007 and mainly related to two Boeing 777 aircraft and eight Embraer aircraft. In the first nine months of 2007, aircraft and facility related borrowings amounted to $1,093 million and mainly related to six Boeing 777 aircraft and to 16 Embraer aircraft. Scheduled and other debt and capital lease payments in Quarter 3 2007 and in the first nine months of 2007 amounted to $138 million and $305 million, respectively. Reduction of non-controlling interest of $36 million in Quarter 1 2007 was related to the refinancing of five CRJ aircraft leases previously classified as variable interest entities.

The Aeroplan cash of $231 million and the Jazz cash of $138 million which were removed from ACE's consolidated statement of financial position have been classified as cash outflows from investing activities.

Cash flows used for investing in the first nine months of 2007 included cash payments of $53 million in connection with the acquisition of Aeroman. Cash flows from investing activities in the first nine months of 2007 included proceeds of $42 million from the sale of an Air Canada real estate property.

Additions to capital assets, which mainly related to Air Canada, totaled $588 million in Quarter 3 2007 and $1,699 million on a year-to-date basis. Included in the Quarter 3 2007 were $267 million related to two Boeing 777 aircraft, $238 million related to eight Embraer aircraft, $36 million related to the aircraft interior refurbishment program and other aircraft betterments and $21 million related to rotable inventory and spare engines. Included in the first nine months of 2007 were $873 million related to Boeing 777 aircraft, $496 million related to 16 Embraer aircraft, $125 million related to the aircraft interior refurbishment program and other aircraft betterments and $96 million related to rotable inventory and spare engines.

8.5. Capital Expenditures

Details on ACE's planned and committed capital expenditures are provided in section 9.6 of ACE's 2006 annual MD&A dated February 14, 2007.

On April 23, 2007, Air Canada amended agreements with The Boeing Company ("Boeing") to increase its firm orders for Boeing 787 aircraft from 14 to 37. In addition, the parties agreed to reduce the firm orders of Boeing 777 aircraft by two scheduled for delivery in 2009. The deliveries of the 37 firm aircraft are scheduled to commence in 2010 and be completed by 2014. In addition, these amendments also provide for an additional 23 Boeing 787 option aircraft, for a total of up to 60 Boeing 787 aircraft.

In conjunction with the amended agreements with Boeing, Air Canada received additional financing commitments from Boeing for an additional seven Boeing 787 aircraft (21 Boeing 787 aircraft in total) on the same terms and conditions as previously disclosed. Should Air Canada not utilize any of the previously disclosed financing commitments on the Boeing 777 aircraft, the financing commitments for the Boeing 787 aircraft will be increased to 31 of which the terms of 28 would be revised such that 80% of the aircraft delivery price would be covered and the term to maturity would be reduced to 12 years from 15 years, with straight-line principal repayments over the term to maturity.

On April 19, 2007, Air Canada received a final commitment for loan guarantee support, subject to the fulfillment of certain terms and conditions, from the Export-Import Bank of the United States ("EXIM") covering the first seven Boeing 777 aircraft under Air Canada's purchase agreement with Boeing (the "Boeing Purchase Agreement") to be delivered in 2007. In the nine months ended September 30, 2007, Air Canada took delivery of seven Boeing 777 aircraft, six of which were purchased under the Boeing Purchase Agreement and financed under the loan guarantee support provided by EXIM, the other one being subject to an operating lease agreement with International Lease Finance Corporation ("ILFC"). An eighth Boeing 777 aircraft is expected for delivery in Quarter 4 2007; it will be the final of the seven Boeing 777 aircraft purchased under the Boeing Purchase Agreement and financed under the loan guarantee support provided by EXIM.

The EXIM commitment for loan guarantee support covers a 12-year loan term for approximately 80% of the aircraft delivery price at an interest rate of approximately 5.23% based on interest rates as at September 30, 2007. Air Canada has also received a preliminary commitment from EXIM for the remaining Boeing 777 aircraft which are scheduled to be delivered in 2008 and 14 Boeing 787 aircraft which are scheduled to be delivered in 2010 and 2011. Air Canada is currently in discussions with EXIM to convert the preliminary commitment on the 2008 deliveries into a final commitment.

The total committed capital expenditures relating to the amendments to the Boeing agreements beyond 2011 amount to $2.5 billion. As at September 30, 2007, total committed capital expenditures, including the expenditures related to the amended Boeing agreements, amounted to $6.3 billion.

In addition to the changes discussed above, the timing of certain planned and committed capital expenditures has changed from that which was disclosed in ACE's 2006 annual MD&A dated February 14, 2007. Air Canada continues to evaluate whether certain aircraft acquisitions will be financed by debt or operating lease arrangements. However, based on an assumption that all aircraft acquisitions will be financed under debt, the current planned and committed capital expenditures are as follows:

Air Canada Projected planned and committed Capital expenditures ($ millions) [1][2]	**Remainder of 2007**	**2007**[3]	**2008**	**2009**	**2010**	**2011**
Projected committed expenditures	$ 430	$ 2,115	$ 1,359	$ 123	$ 853	$ 947
Projected planned but uncommitted expenditures	83	83	412	148	136	141
Total projected expenditures	513	2,198	1,771	271	989	1,088
Projected financing on committed expenditures	(288)	(1,381)	(1,028)	-	(690)	(810)
Total projected expenditures, net of financing	$ 225	$ 817	$ 743	$ 271	$ 299	$ 278

1. *US dollar amounts are converted using the September 30, 2007 noon day rate of $0.9963. Final aircraft delivery prices include estimated escalation and interest on deferred delivery payments, which is calculated based on the 90-day USD LIBOR rate at September 30, 2007.*
2. *The dollar amounts reflected above do not include obligations pertaining to day-to-day operations.*
3. *Total year projections for 2007 include year-to-date actuals through to September 30, 2007.*

There were no other material changes to capital expenditures that were outside the ordinary course of business.

8.6. Air Canada Fleet Strategy

The following table provides the actual and planned fleet changes to Air Canada's fleet (excluding aircraft operated by Jazz):

		Actual					Planned						
Fleet Plan	**Year End 2006**	**New Deliveries**	**Sublease to Third Party**	**Lease returns**	**Parked**	**YTD September 2007**	**New Deliveries**	**Sublease / lease to Third Party / Sale by Air Canada**	**Lease returns**	**Parked**	**Year End 2007**	**Planned 2008 fleet changes**	**Year End 2008**
B777-300	-	5	-	-	-	5	-	-	-	-	**5**	**6**	**11**
B777-200	-	2	-	-	-	2	1	-	-	-	**3**	**3**	**6**
B767-300	33	-	-	(2)	-	31	-	-	-	-	**31**	**(2)**	**29**
B767-200	11	-	-	-	(1)	10	-	-	-	(1)	**9**	**(1)**	**8**
A340-500	2	-	-	-	-	2	-	(2)	-	-	**-**	**-**	**-**
A340-300	10	-	(2)	-	-	8	-	(1)	(2)	-	**5**	**(5)**	**-**
A330-300	8	-	-	-	-	8	-	-	-	-	**8**	**-**	**8**
A321	10	-	-	-	-	10	-	-	-	-	**10**	**-**	**10**
A320	47	-	-	(5)	-	42	-	-	(1)	-	**41**	**-**	**41**
A319	45	-	(4)	-	-	41	-	(4)	-	-	**37**	**(2)**	**35**
EMB 190	18	16	-	-	-	34	8	-	-	-	**42**	**3**	**45**
EMB 175	15	-	-	-	-	15	-	-	-	-	**15**	**-**	**15**
Total	199	23	(6)	(7)	(1)	208	9	(7)	(3)	(1)	**206**	**2**	**208**
Average age (years)	**9.6**					**9.2**					**8.9**	**0.3**	**9.2**

In Quarter 3 2007, Air Canada took delivery of one Boeing 777-200 aircraft, one Boeing 777-300 aircraft and eight Embraer 190 aircraft. Since the start of 2007, Air Canada has taken delivery or received five Boeing 777-300 aircraft, two Boeing 777-200 aircraft and 16 Embraer 190 Aircraft. Since September 30, 2007, an additional four Embraer 190 aircraft have been added to Air Canada's fleet for a total of 38 aircraft. Air Canada continued the planned refurbishment of the interior of its aircraft fleet initiated in 2006 and has now completed the refurbishment of 24 Airbus A319 aircraft, 30 Airbus A320 aircraft, one Airbus A321 aircraft and eight Boeing 767-300 aircraft. Initial customer responses based on internal customer satisfaction surveys are favourable.

In the first nine months of 2007, Air Canada removed 14 aircraft from its fleet comprised of two Boeing 767-300 aircraft and five Airbus A320 aircraft which were returned to lessors, one Boeing 767-200 aircraft which was retired from service, two Airbus A340-300 aircraft and four Airbus A319 aircraft which were subleased to other airlines. Letters of intent were executed for the disposition of four Airbus A319 aircraft to another airline, which are scheduled for delivery in the remainder of 2007. Letters of intent were also executed for the lease of two Airbus A340-500 and the sublease of one Airbus A340-300 aircraft planned for delivery in the remainder of 2007 to other airlines. Since October 1, 2007, final agreements have been signed with respect to the disposition of such four Airbus A319 aircraft, with one such aircraft having been delivered to the sublessee under the sublease, the lease of two of the Airbus A340-500 aircraft, both of which have been delivered to the lessee under the lease, and the sublease of one Airbus A340-300. In addition, two Airbus A340-300 will be returned to lessors and one Airbus A320 aircraft has been returned to the lessor. One Boeing 767-200 aircraft is expected to be retired from regular service in 2007. In addition, five Airbus A340-300 aircraft are expected to be subleased in 2008.

8.7. Air Canada Pension Plan Cash Funding Obligations

Air Canada's pension plan cash funding obligations have been updated from those disclosed in ACE's 2006 annual MD&A dated February 14, 2007.

As at January 1, 2007, the solvency deficit in the domestic registered plans was $542 million compared to $1,655 million at January 1, 2006. This reduction in the solvency deficit of the plans represents a significant improvement in the financial position of the plans with the solvency ratio for all plans on a combined basis increasing from 86% to 95%. This improvement resulted from the combination of the following factors in 2006:

- A 13.6% return on plan assets, net of expenses;
- Significant company contributions to the plans including $261 million for past service;
- A stable interest rate environment.

This improvement causes the financial position of the plans as at January 1, 2007 to be ahead of schedule compared to the projected financial position assuming no experience gains or losses and using the initial repayment schedule agreed to with the Office of the Superintendent of Financial Institutions ("OSFI") in 2004.

The schedule of required past service contributions required to be made by Air Canada to domestic registered plans, based on the January 1, 2007 actuarial valuations, is reduced compared to the schedule of past service contributions that would have been required based on the January 1, 2006 valuations. The reductions are approximately $115 million in 2007 and $150 million per annum for the years 2008 to 2013, assuming no change in economic conditions.

The table below provides revised projections for Air Canada's pension funding obligations for the remainder of 2007 and for the full years 2007 through to 2011, assuming no change in economic conditions. Changes in the economic conditions, mainly the return on fund assets and changes in interest rates will impact projected required contributions. The required contributions and solvency deficit disclosed below assume no future gains and losses on plan assets and liabilities over the projection period and do not reflect the economic experience of 2007 to date.

Air Canada ($ millions)	**Remainder of 2007**	**Full year 2007**	**2008**	**2009**	**2010**	**2011**
Past service domestic registered plans	$ 24	$ 134	$ 91	$ 92	$ 93	$ 93
Current service domestic registered plans	44	164	166	171	176	181
Other pension arrangements	13	86	86	65	69	74
Projected pension funding obligations	**$ 81**	**$ 384**	**$ 343**	**$ 328**	**$ 338**	**$ 348**

The above pension funding requirements are in respect of the Corporation's pension arrangements. For domestic registered pension plans, the funding requirements are based on the minimum past service contributions disclosed in the January 1, 2007 actuarial valuation plus a projection of the current service contributions.

8.8. Air Canada Fuel Risk Management

In order to manage the airline's exposure to the volatility of jet fuel prices, Air Canada has hedged a portion of its remainder of 2007 anticipated jet fuel requirements using mostly swap and collar option structures.

As at September 30, 2007, Air Canada had hedged 44% of the remainder of its projected fuel requirement for 2007 and 3% of its projected fuel requirement for 2008.

Since September 30, 2007, Air Canada has entered into new hedging positions, using collar option structures, which have added 5% coverage to Quarter 4 2007, 10% coverage to 2008 and 2% coverage to 2009, increasing the total hedged volume for the remainder of 2007 to 50% and the total hedged volume for 2008 to 13%. Quarter 4 2007 is hedged at prices that can fluctuate between an average of US$85 to US$90 per barrel for jet-fuel based contracts, an average of US$72 to US$78 per barrel for heating oil-based contracts and an average of US$60 to US$69 per barrel for WTI crude-oil based contracts. 2008 is hedged at prices that can fluctuate between an average of US$90 to US$97 per barrel for jet-fuel based contracts, an average of US$86 to US$93 per barrel for heating oil-based contracts and an average of US$61 to US$68 per barrel for WTI crude-oil based contracts.

Refer to section 10 of this MD&A for information on the Corporation's reporting of fuel hedging derivative instruments.

9. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results for ACE for the eight most recent quarters. ACE's results reflect the consolidation of Aeroplan's operations only up to March 14, 2007 and the consolidation of Jazz's operations only up to May 24, 2007. After those dates, ACE's investments in Aeroplan and Jazz are accounted for using the equity method. The equity income from ACE's investment in Aeroplan and Jazz is recorded in non-operating income (expense) on ACE's consolidated statement of operations.

($ millions, except per share amounts)	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007[(2)]	Q2 2007[(3)]	Q3 2007
Operating revenues	$ 2,362	$ 2,484	$ 2,682	$ 2,947	$ 2,544	$ 2,625	$ 2,410	$ 3,022
Special charge for Aeroplan miles[(1)]	-	-	-	(102)	-	-	-	-
Operating revenues	**2,362**	**2,484**	**2,682**	**2,845**	**2,544**	**2,625**	**2,410**	**3,022**
Operating expenses	(2,396)	(2,546)	(2,501)	(2,642)	(2,471)	(2,654)	(2,340)	(2,682)
Operating income (loss)[(4)]	**(34)**	**(62)**	**181**	**203**	**73**	**(29)**	**70**	**340**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax[(5)]	(68)	180	55	(100)	(122)	(43)	21	(116)
Net income (loss)	**$ (102)**	**$ 118**	**$ 236**	**$ 103**	**$ (49)**	**$ (72)**	**$ 91**	**$ 224**
Earnings (loss)								
Per share – basic	**$ (1.01)**	**$ 1.15**	**$ 2.32**	**$ 1.01**	**$ (0.48)**	**$ (0.70)**	**$ 1.14**	**$ 2.17**
Per share – diluted	**$ (1.01)**	**$ 1.12**	**$ 2.05**	**$ 0.95**	**$ (0.48)**	**$ (0.70)**	**$ 0.98**	**$ 1.84**

1. *Quarter 3 2006 includes a special charge of $102 million in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles.*
2. *ACE ceased consolidating Aeroplan's results effective March 14, 2007.*
3. *ACE ceased consolidating Jazz's results effective May 24, 2007.*
4. *Quarter 1 2006 includes a special charge for labour restructuring of $33 million. Quarter 4 2006 includes a $8 million reduction to the special charge for labour due to the favourable impact of attrition and other factors which reduced the cost of achieving the target to $25 million. Quarter 1 2007 and Quarter 2 2007 include special charges for labour restructuring of $9 million and $6 million, respectively.*
5. *Quarter 1 2006 includes a dilution gain of $220 million and a tax provision of $10 million as a result of ACE's IPO of Jazz Air Income Fund. Quarter 2 2006 includes a gain of $100 million and a tax provision of $17 million relating to the sale of 3.25 million shares of its holdings in US Airways. Quarter 3 2006 includes a gain of $52 million and a tax provision of $9 million relating to the sale of 1.25 million shares of its holdings in US Airways. Quarter 4 2006 includes a dilution gain of $25 million and a tax expense of $4 million related to the Air Canada initial public offering. Quarter 2 2007 includes a gain of $4 million and a tax provision of $1 million relating to the sale of 0.249 million shares of its holdings in US Airways. Quarter 3 2007 includes a gain of $4 million and a tax provision of $1 million relating to the sale of 0.251 million shares of its holdings in US Airways.*

Seasonality

Air Canada and Jazz have historically experienced greater demand for their services in the second and third quarters of the calendar year as a result of the high number of leisure travelers and their preference for travel during the spring and summer months. Both airlines have substantially fixed costs that do not fluctuate proportionately with passenger demand and load factors. The ACTS segment has experienced lower activity in the third quarter of the calendar year, as the high demand for travel during the summer months results in airlines scheduling their maintenance services outside of that peak travel period.

10. DERIVATIVES AND FINANCIAL INSTRUMENTS

The Corporation manages its exposure to changes in interest rates, foreign exchange rates and jet fuel prices through the use of various derivative financial instruments.

Fuel Price Risk Management

To manage its exposure to jet fuel prices and minimize volatility in operating cash flows, Air Canada enters into derivative contracts with financial intermediaries. As at September 30, 2007, Air Canada had mainly collar options and swap structures in place to hedge a portion of its anticipated jet fuel requirement over the 2007 and 2008 periods. Since jet fuel is not traded on an organized futures exchange, liquidity for hedging this commodity is relatively limited in the long-term. Air Canada uses crude oil and heating oil for hedging its exposure to jet fuel price volatility. Air Canada does not purchase or hold any derivative financial instruments for trading purposes.

In Quarter 3 2007, maturing fuel derivative contracts were cash settled for $20 million in favour of Air Canada, of which $10 million related to contracts designated under hedge accounting and $10 million related to contracts classified as economic hedges.

As at September 30, 2007, Air Canada had hedged 44% of the remainder of its projected fuel requirement for 2007 and 3% of its projected fuel requirement for 2008. The total fair market value of the derivative contracts recognized under deposits and other assets amounted to $37 million in favour of Air Canada, of which $24 million was classified as hedges under hedge accounting and $13 million was classified under economic hedges. Refer to section 8.8 of this MD&A for additional information on Air Canada's hedging positions as at November 8, 2007.

Air Canada designates its fuel derivatives as cash flow hedges and applies hedge accounting as prescribed under CICA section 3865, Hedges. Air Canada also holds certain fuel derivatives instruments that do not qualify for hedge accounting; management believes these derivatives constitute good economic hedges in managing its exposure to jet fuel prices. These contracts, classified as economic hedges, are recorded at fair value at each balance sheet date and the change in fair value is recognized in non-operating income (expense).

Fuel derivative instruments designated under hedge accounting result in all period changes in the fair value of the hedging items that are considered effective being recorded in Accumulated Other Comprehensive Income ("AOCI") until the underlying jet fuel is consumed. Upon maturity of the hedging item, the effective gains and losses are recorded in fuel expense. The ineffective component of the change in fair value is recorded in non-operating income (expense). Air Canada is exposed to the risk that periodic changes in fair value will not be perfectly effective. As defined by Air Canada's fuel hedging policy, ineffectiveness results when the change in the derivative's fair value does not perfectly offset the change in the intrinsic value of the anticipated jet fuel purchase. The ineffective portion relating to the change in a derivative's intrinsic value is calculated by comparing it to the change in intrinsic value of a proxy perfect hedge based on Air Canada's jet fuel weighted average price. As Air Canada's current policy does not take into account variables affecting fair value such as volatility and time value of money, a significant component of the change in fair value of outstanding fuel derivatives may be recorded as ineffective under the current policy.

Ineffectiveness is inherent in hedging diversified jet fuel purchases with derivative positions in crude oil and related commodities and in the differences between intrinsic values and fair values of the derivative instruments, especially given the magnitude of volatility observed in oil market prices. Air Canada is unable to predict the amount of ineffectiveness that could be recorded for each period. This may result, and has resulted, in increased volatility in the accounting results of Air Canada but has no impact on the underlying cash flows.

Refer to Note 7 to ACE's interim unaudited consolidated financial statements for additional information.

Foreign Exchange Risk Management

In Quarter 1 2007, currency swaps for five CRJ aircraft leases with third parties were settled at their fair value of $10 million (which was equal to the carrying value) upon the expiry of the lease term.

Air Canada enters into certain foreign exchange forward contracts or currency swaps to manage the risks associated with foreign currency exchange rates. As at September 30, 2007, Air Canada had entered into foreign currency forward contracts and option agreements on US$2.3 billion of future purchases in 2007, 2008 and 2009. The fair value of these foreign currency contracts as at September 30, 2007 was $159 million in favour of the counterparties (December 31, 2006 - $25 million in favour of Air Canada on $503 million of future purchases in 2007). These derivative instruments have not been designated as hedges for accounting purposes. The unrealized loss has been recorded in foreign exchange.

Asset-Backed Commercial Paper (ABCP)

Air Canada has $37 million ($32 million net of a fair value adjustment) in a non-bank sponsored ABCP which has been recorded in deposits and other assets on Air Canada's consolidated statement of financial position. These investments, which were scheduled to mature during the third quarter of 2007, were previously recorded in cash and cash equivalents and the transfer to deposits and other assets was reflected as an investing activity on Air Canada's third quarter 2007 consolidated statement of cash flows. The restructuring deadline for the ABCP has been extended to December 2007. There is uncertainty as to when these investments will settle and the amount of the settlement.

In Quarter 3 2007, Air Canada recorded a charge of $5 million ($3 million after tax) in non-operating income (expense). The charge was based on a number of assumptions as to the fair value of the investments including factors such as estimated cash flow scenarios and risk-adjusted discounted rates. The assumptions used in estimating the fair value of the investments are subject to change, which may result in further adjustments to non-operating results in the future.

11. OFF-BALANCE SHEET ARRANGEMENTS

Information on ACE's off-balance sheet arrangements is provided in ACE's 2006 annual MD&A dated February 14, 2007.

12. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures within ACE are designed to provide reasonable assurance that all relevant information is identified to its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

ACE's 2006 Annual Report contains a statement that the Chairman, President and Chief Executive Officer ("CEO") and the Executive Vice President and Chief Financial Officer ("CFO") have concluded that ACE's disclosure controls and procedures are effective based upon an evaluation of these controls and procedures conducted at December 31, 2006.

Changes in Internal Controls over Financial Reporting

There were no changes to ACE's internal controls over financial reporting during the nine months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

13. RISK FACTORS

For a detailed description of the risk factors associated with the Corporation, refer to the section entitled "Risk Factors" in ACE's 2006 annual MD&A dated February 14, 2007 (the "2006 MD&A"). The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time. However, the risk factors under Current Legal Proceedings in the 2006 MD&A are revised to provide for the following updates relating to investigations of alleged anti-competitive cargo pricing activities and to include the following proceedings between Air Canada and Porter Airlines Inc.

Current Legal Proceedings

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including Air Canada. Competition authorities have sought or requested information from Air Canada as part of their investigations. Air Canada is cooperating with these investigations, which are likely to lead to proceedings against Air Canada and a number of airlines and other cargo operators in certain jurisdictions. Air Canada is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations. It is not possible at this time to predict with any degree of certainty the outcome of these proceedings, but these proceedings may result in liability to Air Canada, which may be material. It is Air Canada's policy to conduct its business in full compliance with all applicable competition laws.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against certain defendants including Porter Airlines Inc. after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport. On October 26, 2007, the defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850 million in damages. Air Canada views the defendants' counterclaim as frivolous and without merit.

14. SUBSEQUENT EVENTS

DISPOSAL OF INTEREST IN ACTS

On October 16, 2007, ACE completed the sale of a 70% interest in ACTS. On closing, ACE received net cash proceeds of $723 million, which included the settlement of a $200 million intercompany note payable from ACTS to ACE. Within six months of closing, ACE may receive up to an additional $40 million in cash proceeds from funds held in escrow, conditional upon the completion of certain supplier contracts within specified terms. Following the redemption of the exchangeable share issued to a party related to Grupo TACA and the establishment of an initial ACTS Long Term Incentive Plan, ACE holds a 23% equity interest in the New ACTS with a fair value of $83 million. Refer to section 4 of this MD&A for additional information.

DISPOSAL OF AEROPLAN INCOME FUND UNITS

On October 22, 2007, ACE completed the sale of 22.0 million trust units of Aeroplan Income Fund at a price of $21.90 per unit, for net proceeds of $463 million. Immediately following the closing of the offering, ACE's interest in Aeroplan Income Fund represented 20.1% of units issued and outstanding. Refer to section 4 of this MD&A for additional information.

DISPOSAL OF JAZZ INCOME FUND UNITS

On October 22, 2007, the Corporation completed the sale of 35.5 million trust units of Jazz Air Income Fund at a price of $7.75 per unit, for net proceeds of $263 million. Immediately following the closing of the offering, ACE's interest in Jazz Air Income Fund represented 20.1% of units issued and outstanding. Refer to section 4 of this MD&A for additional information.

15. NON-GAAP FINANCIAL MEASURES

EBITDAR/EBITDA

EBITDAR (earnings before interest, taxes, depreciation, amortization, obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent, depreciation, obsolescence and amortization, as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. For businesses without aircraft rent, such as Aeroplan and ACTS, EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is used to view operating results before depreciation, amortization and obsolescence, as these costs can vary significantly among companies due to differences in the way companies finance their assets. EBITDAR and EBITDA are not recognized measures for financial statement presentation under GAAP and do not have a standardized meaning and are therefore not likely to be comparable to similar measures presented by other public companies. EBITDAR and EBITDA are reconciled to operating income (loss) as follows:

	Quarter 3			Nine months ended September 30		
($ millions)	**2007**	**2006**	**$ Change**	**2007**	**2006**	**$ Change**
Air Canada						
GAAP operating income	$ 351	$ 130	$ 221	$ 361	$ 119	$ 242
Add back:						
Aircraft rent	66	80	(14)	220	258	(38)
Depreciation, amortization and obsolescence	144	125	19	408	358	50
EBITDAR	**$ 561**	**$ 335**	**$ 226**	**$ 989**	**$ 735**	**$ 254**
Add back:						
Special charge for Aeroplan miles	-	102	(102)	-	102	(102)
Special charge for labour restructuring	-	-	-	-	28	(28)
EBITDAR excluding special charges	**$ 561**	**$ 437**	**$ 124**	**$ 989**	**$ 865**	**$ 124**
Aeroplan(1)						
GAAP operating income	$ -	$ 33	$ (33)	$ 40	$ 103	$ (63)
Add back:						
Depreciation, amortization and obsolescence	-	3	(3)	3	11	(8)
EBITDA	**$ -**	**$ 36**	**$ (36)**	**$ 43**	**$ 114**	**$ (71)**
Jazz(1)						
GAAP operating income	$ -	$ 39	$ (39)	$ 62	$ 111	$ (49)
Add back:						
Aircraft rent	-	35	(35)	57	100	(43)
Depreciation, amortization and obsolescence	-	5	(5)	9	16	(7)
EBITDAR	**$ -**	**$ 79**	**$ (79)**	**$ 128**	**$ 227**	**$ (99)**

1. *The information above reflects Aeroplan results from January 1 to March 13, 2007 and Jazz results from January 1 to May 23, 2007. ACE ceased consolidating Aeroplan's and Jazz's results effective March 14, 2007 and May 24, 2007, respectively.*

($ millions)	Quarter 3 2007	2006	$ Change	Nine months ended September 30 2007	2006	$ Change
ACTS						
GAAP operating income (loss)	$ 5	$ 4	$ 1	$ 17	$ (14)	$ 31
Add back:						
Depreciation, amortization and obsolescence	10	8	2	30	23	7
EBITDA	**$ 15**	**$ 12**	**$ 3**	**$ 47**	**$ 9**	**$ 38**
Add back:						
Special charge for labour restructuring	-	-	-	15	5	10
EBITDA excluding special charges	**$ 15**	**$ 12**	**$ 3**	**$ 62**	**$ 14**	**$ 48**
ACE Consolidated[(1)]						
GAAP operating income	$ 340	$ 203	$ 137	$ 407	$ 322	$ 85
Add back:						
Aircraft rent	66	108	(42)	261	334	(73)
Depreciation, amortization and obsolescence	147	145	2	442	419	23
EBITDAR	**$ 553**	**$ 456**	**$ 97**	**$ 1,110**	**$ 1,075**	**$ 35**
Add back:						
Special charge for Aeroplan miles	-	102	(102)	-	102	(102)
Special charge for labour restructuring	-	-	-	15	33	(18)
EBITDAR excluding special charges	**$ 553**	**$ 558**	**$ (5)**	**$ 1,125**	**$ 1,210**	**$ (85)**

1. *The information above reflects Aeroplan results from January 1 to March 13, 2007 and Jazz results from January 1 to May 23, 2007. ACE ceased consolidating Aeroplan's and Jazz's results effective March 14, 2007 and May 24, 2007, respectively.*

Operating Income (Loss) excluding Special Charges

ACE uses operating income (loss) excluding the special charges for Aeroplan miles and labour restructuring to assess the operating performance of its ongoing business without the effects of these special charges. These items are excluded from ACE financial results and from Air Canada and ACTS results as they could potentially distort the analysis of trends in business performance. The special charge for Aeroplan miles was for the full and final settlement between the parties in connection with Air Canada's obligation for the redemption of pre-2002 Aeroplan miles. The special charge for labour restructuring in 2006 was for the total cost of the 20% non-unionized workforce reduction plan announced in February 2006. The special charge for labour restructuring in 2007 was for the cost of the workforce reduction resulting from the termination of a third party heavy maintenance contract.

The following measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

Operating income (loss) excluding special charges for labour restructuring is reconciled to operating income as follows:

	Quarter 3			Nine months ended September 30		
($ millions)	**2007**	**2006**	**$ Change**	**2007**	**2006**	**$ Change**
Air Canada						
GAAP operating income	$ 351	$ 130	$ 221	$ 361	$ 119	$ 242
Add back:						
Special charge for Aeroplan miles	-	102	(102)	-	102	(102)
Special charge for labour restructuring	-	-	-	-	28	(28)
Operating income, excluding special charges	**$ 351**	**$ 232**	**$ 119**	**$ 361**	**$ 249**	**$ 112**
ACTS						
GAAP operating income (loss)	$ 5	$ 4	$ 1	$ 17	$ (14)	$ 31
Add back:						
Special charge for labour restructuring	-	-	-	15	5	10
Operating income (loss), excluding special charges	**$ 5**	**$ 4**	**$ 1**	**$ 32**	**$ (9)**	**$ 41**
ACE[(1)]						
GAAP operating income	$ 340	$ 203	$ 137	$ 407	$ 322	$ 85
Add back:						
Special charge for Aeroplan miles	-	102	(102)	-	102	(102)
Special charge for labour restructuring	-	-	-	15	33	(18)
Operating income, excluding special charges	**$ 340**	**$ 305**	**$ 35**	**$ 422**	**$ 457**	**$ (35)**

1. *The information above reflects Aeroplan results from January 1 to March 13, 2007 and Jazz results from January 1 to May 23, 2007. ACE ceased consolidating Aeroplan's and Jazz's results effective March 14, 2007 and May 24, 2007, respectively.*

16. GLOSSARY OF TERMS

EBITDAR — EBITDAR is earnings before interest, taxes, depreciation, amortization, obsolescence and aircraft rent and is a non-GAAP financial measure;

EBITDA — EBITDA is earnings before interest, taxes, depreciation, amortization and obsolescence and is a non-GAAP financial measure;

Available Seat Miles or ASMs — A measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown;

Jazz CPA — An amended and restated capacity purchase agreement, effective January 1, 2006, between Air Canada and Jazz;

Passenger Load Factor — A measure of passenger capacity utilization derived by expressing Revenue Passenger miles as a percentage of Available Seat Miles;

Passenger Revenue per Available Seat Mile or RASM — Average passenger revenue per ASM;

Revenue Passenger Miles or RPMs — A measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried;

Yield — Average passenger revenue per RPM.