ACE AVIATION

ACE Aviation Holdings Inc.

ANNUAL

INFORMATION

FORM

March 27, 2007

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GLOSSARY

Aeroplan **—** Means Aeroplan Limited Partnership together with its general partner, Aeroplan Holding GP Inc., and their respective subsidiaries and predecessors;

Aeroplan Miles **—** Means the currency accumulated by Aeroplan members under the Aeroplan Program;

Aeroplan Program — Means the loyalty marketing program operated by Aeroplan;

Air Canada Vacations **—** Means Touram Limited Partnership, a limited partnership established under the laws of the Province of Québec;

Available Seat Miles or ASMs **—** Means the total number of seats available for passengers multiplied by the miles flown;

Average Cost of Rewards per Mile - Means, for any reporting period, the cost of rewards for the period divided by the number of Aeroplan Miles redeemed for rewards during the period;

Cargo Services — Means the business and operations of Air Canada's air cargo services, including cargo related products, services and ground operations, carried on for domestic, transborder and international cargo services, by AC Cargo LP and Air Canada;

GAAP — Means generally accepted accounting principles in Canada including those set out in the Handbook of the Canadian Institute of Chartered Accountants;

Ground Handling Services — Means the business and operations of the Corporation carried on by ACGHS LP (and its United States subsidiary, ACGHS US Inc.) and Air Canada that provide passenger and aircraft related ground handling services, including check-in, gate management, baggage and cargo handling and ramp services;

Jazz – Means Jazz Air LP, together with its general partner, Jazz Air Holding GP Inc., and their respective subsidiaries and predecessors; and, in particular, reference to Jazz in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by Jazz Air Inc., which was liquidated on September 30, 2004 and references to Jazz in respect of the time period from October 1, 2004 until closing of the initial public offering are references to the business of Jazz as carried on by Jazz Air Limited Partnership, unless the context requires otherwise;

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;

Technical Services — Means the heavy maintenance, engine maintenance, component maintenance, engineering and training business and operations carried on by ACTS Limited Partnership; and

Yield **—** Means average passenger revenue per Revenue Passenger Mile.

EXPLANATORY NOTES

The information in this Annual Information Form is stated as at December 31, 2006, unless otherwise indicated.

ACE Aviation Holdings Inc. and the Corporation — References in this Annual Information Form to "ACE" are references to ACE Aviation Holdings Inc. itself and references to the "Corporation" include references, as the context may require, to ACE and its subsidiaries collectively, ACE and one or more of its subsidiaries, one or more of ACE's subsidiaries, or ACE itself.

Currency — All currency amounts used in this document are stated in Canadian dollars, unless otherwise indicated.

Statistical Information — Market data and certain industry forecasts used throughout this Annual Information Form were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and the Corporation does not make any representation as to the accuracy of such information.

Subsidiaries – References to the term "subsidiary" or "subsidiaries" refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

Forward-looking statements — ACE's communications often contain written or oral forward-looking statements which are included in this Annual Information Form and may be included in filings with securities regulators in Canada and the United States. 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. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

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 for 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 operation costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending litigation and actions by third parties as well as the factors identified throughout this Annual Information Form and, in particular, those discussed in the section "Risk Factors". The forward-looking statements contained in this Annual Information Form represent ACE's expectations as of the date of this Annual Information Form, and are subject to change after such date. However, ACE 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.

THE CORPORATION

ACE is an investment holding company of various aviation interests including Air Canada, Aeroplan Limited Partnership, Jazz Air LP, ACTS LP and other investments.

ACE was incorporated on June 29, 2004 under the *Canada Business Corporations Act* ("CBCA") and became the parent holding company of the reorganized Air Canada and its subsidiaries upon the implementation of the consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries under the CBCA, the *Companies' Creditors Arrangement Act* ("CCAA") and the *Business Corporations Act* (Alberta) which was implemented on September 30, 2004 (referred to herein as the "Plan").

On April 6, 2005, ACE completed a public offering of an aggregate of 11.35 million Voting Shares and Variable Voting Shares at a price of $37 per share for gross proceeds of approximately $420 million and approximately $300 million of 4.25% convertible senior notes due 2035 (the "Notes"). ACE used approximately $553 million of the aggregate net cash proceeds of the offerings to repay all of its outstanding debt under the exit credit facility with General Electric Capital Corporation ("GECC"). On April 13, 2005, following the exercise of the over-allotment option by the underwriters, ACE issued an additional 1,135,000 Variable Voting Shares at a price of $37 per share and $30 million of Notes for additional aggregate gross proceeds of approximately $72 million. ACE used the additional proceeds for general corporate purposes.

On October 5, 2006, the shareholders of ACE approved a statutory plan of arrangement pursuant to the CBCA. On October 6, 2006, the Quebec Superior Court issued a final order approving the statutory plan of arrangement, which became effective October 10, 2006. The arrangement grants authority to the board of directors of ACE to make from time to time one or more distributions to ACE shareholders in an aggregate amount of up to $2 billion by way of reduction of the stated capital of the Variable Voting Shares, Voting Shares and Preferred Shares.

The Variable Voting Shares and the Voting Shares of ACE are listed on the Toronto Stock Exchange ("TSX"), under the symbols "ACE.A" and "ACE.B", respectively.

The head office of ACE is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2. Its website is www.aceaviation.com (for greater certainty, this website is not in any way incorporated by reference herein).

Air Canada

On November 24, 2006, ACE and Air Canada completed an initial public offering and secondary offering of an aggregate 25 million Class A variable voting shares and Class B voting shares of Air Canada at $21 per share for gross proceeds of $525 million. Through the initial public offering, Air Canada sold an aggregate of 9,523,810 Class A variable voting shares and Class B voting shares for gross proceeds of approximately $200 million. In the secondary offering, ACE sold an aggregate of 15,476,190 Class A variable voting shares and Class B voting shares for gross proceeds of approximately $325 million. ACE held as of March 27, 2007, a direct and indirect 75% ownership interest in Air Canada.

With the completion of the initial public offering, Air Canada put in place a $400 million senior secured revolving credit facility pursuant to an amended and restated credit agreement entered into with a syndicate of lenders, to be used by Air Canada for working capital and general corporate purposes. Air Canada has not, as of March 27, 2007, drawn on this credit facility.

The shares of Air Canada are listed on the TSX under the symbol AC.A for its Class A variable voting shares and the AC.B for its Class B voting shares.

The head office of Air Canada is located at 7373 Côte Vertu Boulevard West, Saint-Laurent, Québec, H4Y 1H4. Its website is www.aircanada.com (for greater certainty, this website is not in any way incorporated herein by reference).

Aeroplan

On June 29, 2005, Aeroplan Income Fund completed its initial public offering of 25 million units at a price of $10 per unit for aggregate gross proceeds of $250 million. On June 30, 2005, following the exercise of the over-allotment option by the underwriters, Aeroplan Income Fund issued an additional 3.75 million units at a price of $10 per unit for additional gross proceeds of $37.5 million. In connection with the June 29, 2005 offering, Aeroplan Limited Partnership completed a $475 million senior secured syndicated credit facility, $300 million of which was used to fund a portion of the reserve for Aeroplan Mile redemption.

On March 3, 2006, ACE effected a distribution by way of reduction of capital to its shareholders of record as at such date of 0.18 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. For the purposes of the distribution, ACE converted 20,204,165 units of Aeroplan Limited Partnership into 20,204,165 units of Aeroplan Income Fund which were distributed to ACE's shareholders on the record date.

On March 31, 2006, ACE exchanged an additional 500,000 units of Aeroplan Limited Partnership into 500,000 units of Aeroplan Income Fund and transferred the 500,000 units of Aeroplan Income Fund to a trustee for purposes of funding grants to employees under Aeroplan's initial long-term incentive plan.

On December 28, 2006, ACE announced the terms of a distribution pursuant to the statutory arrangement by way of reduction of capital, pursuant to which ACE shareholders of record on January 10, 2007, the record date for the distribution, would receive a distribution of approximately 0.442 units of Aeroplan Income Fund per

Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. In anticipation of the distribution, on December 28, 2006, ACE exchanged 50 million units of Aeroplan Limited Partnership into 50 million units of Aeroplan Income Fund and caused such units of Aeroplan Income Fund to be distributed to ACE's eligible shareholders of record on January 10, 2007. ACE also exchanged on January 10, 2007, 60 million units of Aeroplan Limited Partnership into 60 million units of Aeroplan Income Fund for internal reorganization purposes.

On March 2, 2007, ACE announced a second distribution by way of reduction of capital to its shareholders under the statutory arrangement approved on October 5, 2006 pursuant to which ACE's shareholders of record on March 14, 2007 were entitled to receive approximately 0.177 units of Aeroplan Income Fund 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 also exchanged its remaining 40,545,835 units of Aeroplan Limited Partnership into 40,545,835 units of Aeroplan Income Fund. Following this distribution, ACE held as of March 27, 2007, a 40.1% ownership interest in Aeroplan Limited Partnership, indirectly through its holding of Aeroplan Income Fund.

The units of Aeroplan Income Fund are listed on the TSX under the symbol AER.UN.

The principal and head office of Aeroplan is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, Canada, H4A 3T2. Its website is www.aeroplan.com (for greater certainty, this website is not in any way incorporated herein by reference).

Jazz

On February 2, 2006, ACE completed an initial public offering of the Jazz Air Income Fund, issuing 23.5 million units at a price of $10 per unit for gross proceeds of $235 million. In addition, on February 27, 2006, Jazz Air Income Fund issued an additional 1.5 million units at a price of $10 per unit for additional gross proceeds of $15 million as a result of the exercise of an over-allotment option by the underwriters. In addition, a $150 million secured syndicated credit facility was established with a syndicate of lenders by Jazz Air Limited Partnership of which approximately $115 million was drawn on closing of the initial public offering.

On March 2, 2007, ACE announced a second distribution by way of reduction of capital under the statutory arrangement approved on October 5, 2006, pursuant to which ACE shareholders of record on March 14, 2007 were entitled to receive approximately 0.219 units of Jazz Air Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. For the purpose of the distribution, on March 14, 2007, ACE exchanged 25 million units of Jazz Air Limited Partnership into 25 million units of Jazz Air Income Fund. As of March 27, 2007, ACE held a 58.8% interest in Jazz Air Limited Partnership, directly and indirectly.

The units of Jazz Air Income Fund are listed on the TSX under the symbol JAZ.UN.

The principal and head office of Jazz LP is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, Canada, H4A 3T2. Its website is www.flyjazz.com (for greater certainty, this website is not in any way incorporated herein by reference).

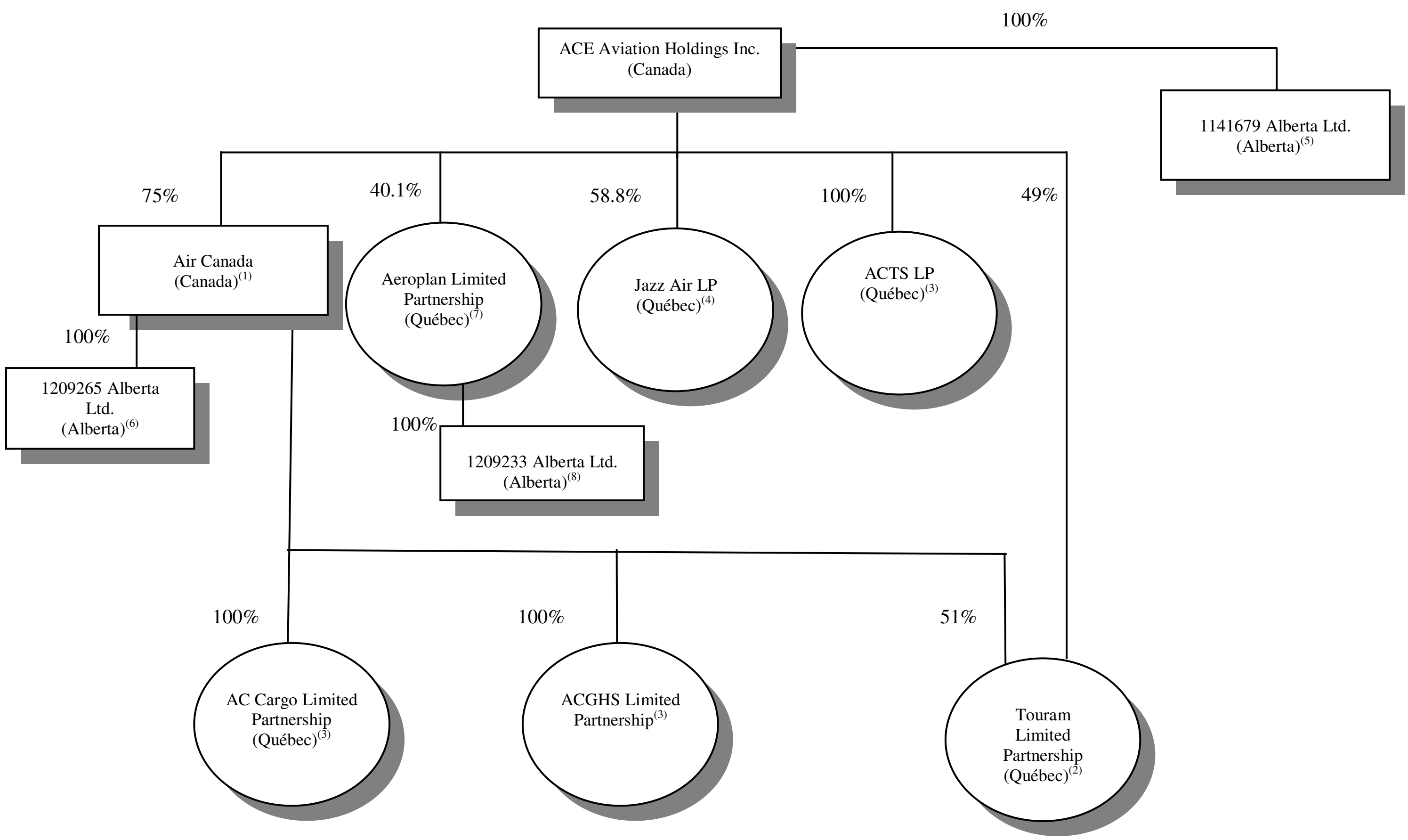
ACTS LP

ACTS LP is a full service aircraft maintenance repair and overhaul organization that competes on a global basis. ACTS LP is a wholly-owned subsidiary of ACE.

On February 13, 2007, ACTS LP 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$44.7 million consisted of cash of US$42.7 million on closing and milestone payments of up to US$2 million in the aggregate, funded by ACTS LP through ACE's available cash resources. The size of the equity stake to be acquired by Grupo TACA in ACTS LP will be confirmed at the time of the monetization of ACTS LP and is expected to represent less than 7% of the total equity of ACTS LP at the time of the monetization. Prior to ACTS LP's monetization, Grupo TACA can put its right to acquire equity in ACTS LP back to ACE at a discounted value from US$40.4 million and accreting up to a cap of US$50.5 million over 12 months or the date of monetization, if earlier.

Corporate Structure

The following table lists the ACE principal investments as of March 27, 2007, including their jurisdictions of constitution and the percentage of equity held or controlled directly or indirectly by ACE:



(1) Air Canada holds all of the issued and outstanding shares of certain subsidiaries, including Air Canada Capital Ltd. and Simco Leasing Ltd, which are incorporated under the laws of the Province of Alberta.
(2) Touram General Partner Inc., a corporation incorporated under the laws of Canada, is the general partner of, and holds 0.00001% of the units in, Touram LP. ACE holds a 49% interest and Air Canada holds a 51% interest in Touram General Partner Inc.
(3) AC Cargo General Partner Inc. and ACGHS General Partner Inc., corporations incorporated under the laws of Canada, are the general partners of AC Cargo Limited Partnership and ACGHS Limited Partnership and hold a 0.00001% interest in AC Cargo Limited Partnership and ACGHS Limited Partnership, respectively. Air Canada holds a 100% interest in each of AC Cargo General Partner Inc. and ACGHS General Partner Inc.
(4) Following the initial public offering of Jazz Air Income Fund, ACE holds an interest in the general partner of Jazz which is proportional to its interest in Jazz Air LP. ACE holds a 58.8% ownership interest in Jazz Air LP, directly and indirectly.
(5) 1141679 Alberta Ltd. holds and manages excess cash and investments of ACE on its behalf.
(6) 1209265 Alberta Ltd. holds and manages excess cash and investments of Air Canada on its behalf.
(7) ACE holds a 40.1% ownership interest in Aeroplan, indirectly through its holding of Aeroplan Income Fund units.
(8) 1209233 Alberta Ltd. holds and manages the investment of a majority of the Aeroplan Miles redemption reserve on behalf of Aeroplan.

Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of the Corporation, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of the Corporation at December 31, 2006, have been omitted.

REGULATORY ENVIRONMENT

ACE is an investment holding company of various aviation interests. Its investments are subject to various industry regulations, as summarized below.

Air Canada

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, safety and ground and navigation facilities, falls wholly within the jurisdiction of the federal government and is the responsibility of the Minister of Transport. The Canadian Transportation Agency is responsible for issuing air carrier licenses for both domestic and international services and regulates international air fares as well as terms and conditions of carriage. Since 1996, NAV Canada, a private company, is responsible for providing air navigation services in Canada. In addition, all major Canadian airports are operated by local Canadian airport authorities that are also not-for-profit corporations.

Domestic Services

The 1987 deregulation of the domestic airline industry allowed carriers to establish fares as well as terms and conditions of carriage without government regulation. The *Canada Transportation Act* ("CTA") provides for free market entry to the extent that a carrier can demonstrate that (i) it is "Canadian", defined in the CTA as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the Air Transportation Regulations (Canada) adopted pursuant to the CTA.

In July 2000, the Government of Canada amended the CTA, the *Competition Act* (Canada) (the "Competition Act") and the *Air Canada Public Participation Act* (Canada) (the "Air Canada Public Participation Act") to address the competitive airline environment in Canada and ensure protection for consumers. This legislation included airline-specific provisions concerning "abuse of dominance" under the Competition Act, later supplemented by creating "administrative monetary penalties" for a breach of the abuse of dominance provisions by a dominant domestic air carrier.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Canada and Air Canada which had considered the approach to be taken in determining whether Air Canada was operating below "avoidable costs" in violation of one of the new airline-specific abuse of dominance provisions. The Competition Tribunal applied a very broadly crafted cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal's approach to avoidable costs remains relevant.

In addition, on November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. Air Canada's management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons.

On April 27, 2004, the Government of Canada amended the *Canadian Computer Reservation Systems (CRS) Regulations* adopted under the *Aeronautics Act* (Canada) to lessen the regulatory requirements and place greater reliance on market forces in the distribution system that will result in market efficiencies and reduced costs for airlines. With the amendments, no airline is required to participate in all CRSs operating in Canada and every airline has the freedom to select the levels of participation that best serve its operations. Also, all airlines and CRS vendors are now permitted to freely negotiate fees on strictly commercial terms.

On May 4, 2006, Bill C-11, An Act to amend the *Canada Transportation Act* and the *Railway Safety Act* and to make consequential amendments to other Acts (Canada), was tabled for first reading in the House of

Commons. It passed third reading on February 28, 2007 and was tabled for first reading in the Senate on March 1, 2007. Bill C-11 seeks, among other things, to amend the CTA with respect to the air transportation sector, in relation to complaints processes, the advertising of prices for air services and the disclosure of terms and conditions of carriage, and specific recognition that in the event of an inconsistency or conflict between an international agreement or convention respecting air services to which Canada is a party and the Competition Act, the provisions of the agreement or convention prevail to the extent of the inconsistency or conflict. Air Canada's management cannot predict if or when such proposed legislation will enter into force.

On June 15, 2006, Bill C-20, *An Act respecting airports, airport authorities and other airport operators and amending the Transportation Appeal Tribunal of Canada Act*, was tabled for first reading in the House of Commons. Bill C-20 provides for, among other things, a declaration of Canadian airport policy, a number of basic obligations of airport operators and the powers and capacity of airport authorities and the scope of their activities. Bill C-20 also introduces principles affecting airport users such as slot allocation and a framework for the fees imposed by large airport authorities. Air Canada's management cannot predict if or when such proposed legislation will enter into force.

Transborder Services

In February 1995, a new air services agreement (the "1995 Canada-U.S. Air Services Agreement") was implemented between Canada and the United States, replacing the previous bilateral agreement, which had imposed greater restrictions on market access and fares. This agreement gave Canadian air carriers unlimited route rights to provide "own aircraft" services between points in Canada and points in the United States. The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, continued to be prohibited.

Under the 1995 Canada-U.S. Air Services Agreement, rules governing fare levels and the requirement to file tariffs (excluding rules tariffs) with government authorities were eliminated. Carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In November 1997, Canada and the United States concluded an agreement that allows Canadian and U.S. carriers to code-share to, from and via each other's territory, with carriers from other countries provided the other country allows code-sharing and the carriers hold the underlying rights to serve that country. As a result, Air Canada increased its code-sharing with certain Star Alliance® partners via Canada and the United States and some of these Star Alliance® partners' codes appear on some Jazz operated transborder flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the United States had negotiated an open skies agreement (the "Open Skies Agreement") which further liberalizes air transportation services. The Open Skies Agreement was initially expected to come into force on September 1, 2006, but was delayed due to the then pending immunity application filed with the U.S. Department of Transportation by some Star Alliance® carriers, including Air Canada. The final order from the U.S. Department of Transportation concerning the immunity application was issued on February 13, 2007. The Open Skies Agreement came into force on March 12, 2007. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. Cabotage remains prohibited.

International Services

Scheduled international air services are regulated by the Canadian and foreign governments involved. The Minister of Transport has the authority to designate which Canadian air carriers may serve scheduled international routes. International route rights are obtained through bilateral negotiations between Canada and foreign countries. Bilateral agreements provide for the rights which may be exercised over agreed routings and the conditions under which the carriers may operate, including, among others, the number of carriers which may operate, the capacity and/or flight frequencies that may be provided and the controls over tariffs to be charged. Most bilateral agreements to which Canada is a party provide for the designation of more than one Canadian carrier, while some provide for the designation of only one Canadian carrier. In general, bilateral agreements between Canada and European countries are more liberal in terms of controls on capacity and flight frequencies than those between Canada and Asian countries.

In February 2001, the Minister of Transport launched an international air services policy review to address competition in the international markets with the objective of liberalizing Canada's policy for scheduled international air services, including how Canada approaches the negotiation and management of air traffic rights with other countries.

In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Any Canadian carrier may apply to be designated to serve any foreign country regardless of the size of the air travel market. If the number of Canadian carriers permitted is restricted under existing bilateral agreements, the Canadian government has indicated that it will pursue negotiations with the appropriate countries to seek the necessary rights for Canadian carriers. In addition, an incumbent carrier's designation in a particular market will be subject to reallocation only in circumstances where the bilateral agreement limits designation and the carrier is not operating its own aircraft or code-share services.

On November 27, 2006, the Minister of Transport released a new international air transportation policy called Blue Sky that includes a more liberalized approach to Canada's bilateral air transportation negotiations. Under the new policy, Canada will proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation that will provide maximum opportunity for passenger and all-cargo services to be added according to market conditions. Air Canada provided its views on the new policy expressing, among other things, that it fully supports a liberalization based on the principle of balanced economic opportunities which yield mutually beneficial commercial opportunities for carriers of both contracting states.

Transport Canada has also engaged stakeholders on key longer-term issues that are not part of the new policy such as the exploration of a comprehensive Canada-European Union air transport agreement, a review of ownership and control regimes of foreign air carriers, the movement towards the creation of a North American aviation market and the adoption of a multilateral approach to some negotiations. Air Canada provided its views on such longer-term issues during the consultation period following the release of the consultation document introducing the Blue Sky international air transportation policy.

Charter Services

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the 1995 Canada-U.S. Air Services Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities. Charter services are operated by Air Canada to provide service to foreign points where it is not the designated airline or to generate additional revenues from aircraft that would otherwise be idle.

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one way travel. To preserve a distinction between charter and scheduled international services, this policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter carriers be prohibited from selling seats directly to the public.

Official Languages Act

Air Canada is subject to the *Official Languages Act* (Canada) (the "OLA"). The OLA compels Air Canada to, among other things, ensure that any member of the traveling public can communicate with and obtain services in either official language, French and English, where there is significant demand for those services in that language (Part IV of the OLA) and to allow employees to work in either official language (Part V of the OLA). In 2000, Parliament passed amendments to the Air Canada Public Participation Act to impose on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services.

In September 2004, as a result of the emergence of Air Canada from protection under the CCAA, several internal divisions and former subsidiaries of Air Canada were spun off into limited partnerships under the direct or indirect control of ACE. While the linguistic obligations stated above continue to apply to Air Canada itself, ACE and the successor entities it owns are not currently subject to official language obligations, except that pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

On May 2, 2005, Bill C-47, An Act to amend the *Air Canada Public Participation Act* (Canada) (the "Bill C-47"), was tabled in the House of Commons. On November 3, 2005, Bill C-47 passed second reading and was referred to the Standing Committee on Transport. Bill C-47 sought to amend existing legislation to ensure that Air Canada's successor entities are subject to official language requirements. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-47 was terminated. On October 18, 2006, Bill C-29, *An Act to amend the Air Canada Public Participation Act* (Canada) (the "Bill C-29") was tabled in the House of Commons. Bill C-29 proposes provisions on official languages similar to those contained in Bill C-47. Air Canada's management cannot predict if or when such proposed legislation will enter into force.

Security Initiatives

Following the September 11, 2001 terrorist attacks, the Minister of Transport issued new air security measures, including increased passenger and baggage screening and enhanced security procedures at check-in gates and on board the aircraft. Other countries such as the United States and the United Kingdom have similarly imposed additional security requirements. Air Canada's priority has been to ensure the safety and security of all passengers and crew members on all flights. In response to these new measures, Air Canada reinforced the cockpit doors on all of its mainline operating aircraft and requires passengers to produce valid identification prior to boarding all flights. In December 2001, the Minister of Transport announced several security initiatives including a new Canadian Air Transport Security Authority responsible for the provision of key air security services, an expanded program of armed police on aircraft to cover selected domestic and international flights, and an air traveler's security charge. The air traveler's security charge was introduced on April 1, 2002. The charges have been revised in subsequent federal budgets. Since April 1, 2005, the maximum charge is $10 for domestic travel and $17 for transborder and international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by regulation to provide the Canada Border Services Agency with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide access to passenger name records in the carriers' internal reservation systems. Foreign countries such as the United States, the United Kingdom, Australia, Mexico, South Korea, China and countries that are members of the Caribbean Community and Common Market (CARICOM) have enacted similar information requirements with respect to flights operating into and/or from their territory.

On May 6, 2004, Bill C-7, *An Act to amend certain Acts of Canada in order to enhance public safety* (known as the *Public Safety Act*, 2002) received royal assent. The legislation amends certain provisions of the Aeronautics Act (Canada) so as to further develop the scope and objectives of the existing national aviation security regime. The amendments include requirements for Canadian carriers and foreign carriers operating into Canada to provide, upon request, information concerning specified flights or persons to the Minister of Transport, the Royal Canadian Mounted Police and the Canadian Security Intelligence Service for transportation security or national security purposes. These amendments came into force on May 11, 2004.

Safety Initiatives

On June 15, 2005, the Minister of Transport announced regulatory amendments to further improve the safety performance of Canadian air operators and increase accountability in the aviation sector through the implementation of safety management systems. The goals of safety management systems are to increase industry accountability, to instill a consistent and positive safety culture, and to help improve the safety performance of air operators. Amendments to the Canadian Aviation Regulations require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31, 2005. On April 27, 2006, Bill C-6, *An Act to amend the Aeronautics Act and to make consequential amendments to other Acts* (Canada) ("Bill C-6"), was tabled for first reading in the House of Commons. On November 7, 2006, Bill C-6 passed second reading and was referred to the Standing Committee on Transport, Infrastructure and Communities. Bill C-6 seeks, among other things, to address integrated management systems and to authorize the establishment of voluntary reporting programs under which information relating to aviation safety and security may be reported. Air Canada's management cannot predict if or when such proposed legislation will enter into force.

Air Canada is in the process of implementing its safety management systems in accordance with the recent amendments to the Canadian Aviation Regulations. The President and Chief Executive Officer of Air Canada, Montie Brewer, has been appointed as the executive currently accountable for Air Canada's safety management system.

Privacy

Air Canada is subject to applicable Canadian and foreign privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. Among other things, Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* (Canada) (the "PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities by a federally regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally regulated employers. The PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders and within provinces without substantially similar private sector privacy legislation. The PIPEDA requires informed consent by the individuals whose personal information is collected and used. The personal information may then only be used for the purposes for which it was originally collected or for other specific purposes specified in the PIPEDA. Air Canada has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Air Canada's management believes that its privacy policy and practices comply with applicable law in Canada and elsewhere.

Aeroplan

Privacy

Aeroplan is subject to applicable privacy laws. Aeroplan has a privacy policy which is designed to meet or exceed the requirements of PIPEDA. Québec, Alberta and British Columbia also have private sector privacy legislation in force. Aeroplan's management believes that its privacy policy and practices comply with applicable law.

Canadian Transportation Agency

The Canadian Transportation Agency has ruled that air traveler loyalty programs, such as the Aeroplan Program, are subject to the requirements of the CTA and its regulations as such programs are considered terms and conditions of carriage. The Canada Transportation Agency has broad powers to regulate Aeroplan's terms and conditions of carriage, including the power to suspend, disallow or substitute the terms or conditions of carriage that it finds do not comply with the requirements of the CTA or its regulations.

Jazz

Safety Initiatives

Jazz implemented a safety management system in accordance with the recent amendments to the *Canadian Aviation Regulations*. The President and Chief Executive Officer of Jazz, Joseph D. Randell, has been appointed as the executive currently accountable for Jazz's safety management system and Jazz's Director of Corporate Safety is responsible for the implementation of the safety management system. Jazz is in compliance or surpasses all regulatory requirements.

Privacy

Jazz has a privacy policy which is designed to meet or exceed the requirements of PIPEDA. Jazz's management believes that its privacy policy and practices comply with the applicable law.

Others

For additional information with respect to the regulatory environment applicable to Jazz, please see the following sections: "Regulatory Environment – Air Canada – Domestic Services", "Regulatory Environment – Air Canada – Transborder Services", "Regulatory Environment – Air Canada – Charter Services", "Regulatory Environment – Air Canada – Official Languages Act", "Regulatory Environment – Air Canada – Security Initiatives", "Regulatory Environment – Jazz – Safety Initiatives" and "Regulatory Environment – Air Canada – Privacy".

ACTS LP

ACTS LP is certified by Transport Canada to perform aircraft maintenance and related activities on aeronautical products. Transport Canada has recently judged the safety management system ("SMS") of ACTS LP to be in compliance with the new SMS regulations affecting Canadian aviation services providers. ACTS LP is approved to perform work on U.S. registered aircraft under Federal Aviation Regulation 43.17 and the Canadian U.S. Bi-lateral Airworthiness Agreement. ACTS LP also holds certificates from the European Aviation Safety Agency and the national airworthiness authorities of Trinidad & Tobago, China, Vietnam, and Bermuda. Aeroman, operating under the regulating authority of El Salvador, is certified to perform maintenance and related activities on aeronautical products governed by the regulating authorities of El Salvador, Peru, Bolivia, Costa Rica, Guatemala and the United States of America.

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

ACE is an investment holding company of various aviation investments. The following is an overview of both the aviation industry and its competitive environment in general and an overview of the industries and competitive environments of other ACE investments.

General

The airline industry has traditionally been dominated by large established network carriers. Network carriers generally benefit from brand name recognition and a long operating history. They offer scheduled flights to major domestic and international cities while also serving smaller cities. They generally concentrate most of their operations in a limited number of hub cities, serving most other destinations in their network by providing one-stop or connecting service through their hubs.

Over the past two decades, governments have gradually reduced economic regulation of commercial aviation. This has resulted in a more open and competitive environment for domestic, transborder and international airline services, for both scheduled and leisure charter operations. This deregulation has transformed the global airline industry and allowed the emergence of low-cost carriers, which has resulted in a rapid shift in the competitive environment. With their relatively low unit costs largely resulting from lower labour costs and a simplified operational model and product offering, low-cost carriers are able to operate profitably while offering substantially lower fares than network carriers. By offering lower fares, these carriers have expanded and succeeded in taking market share away from network carriers. While the majority of low-cost carriers offer predominantly point-to-point services between designated cities, some utilize a "hub and spoke" strategy, where air transportation is offered from a local airport to a central airport from which long-distance flights are available.

In order to become more competitive with the low-cost carriers and as a result of the succession of challenging factors impacting the airline industry such as the events of September 11, 2001, the SARS crisis and continued high fuel prices, many network carriers have had to restructure or are currently restructuring either through court-supervised or consensual processes. The degree of restructuring and the changes being implemented vary from carrier to carrier. Network carriers have reduced costs and capacity by negotiating labour concessions, renegotiating aircraft financing and other contracts, rationalizing domestic capacity, and redeploying their fleet with a focus on long-haul premium business routes. In order to more efficiently operate their networks, certain network carriers have also developed extensive relationships with regional airlines, which generally operate with smaller aircraft in specific geographic areas at a lower cost than the network carriers. These measures have enabled the network carriers to benefit from their competitive advantages in the global marketplace.

Air Canada

Domestic Market

The Canadian domestic market is characterized by a large geographic territory with a limited number of high density markets accounting for the majority of passenger traffic and revenue. This leads to a concentration of routes in Western and Central Canada around four major hubs: Toronto, Montreal, Vancouver and Calgary.

According to Transport Canada, domestic revenue passengers grew at a compound annual rate of 3.2% from 1994 through 2004 and are expected to grow at a compound annual rate of 3.0% from 2005 through 2009.

Air Canada is Canada's largest domestic airline. Based on Official Airline Guide ("OAG") data, during the period from January 1, 2006 to December 31, 2006, Air Canada led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 60% as measured by Available Seat Miles.

Jazz, Air Canada's regional affiliate, is the largest regional airline in Canada and Canada's second largest airline based on fleet size and number of routes operated. (See "Industry Overview and Competitive Environment – Jazz"). WestJet Airlines Ltd. ("WestJet") is Canada's third largest airline based on fleet size and number of routes operated. CanJet Airlines discontinued its scheduled passenger services on September 10, 2006. CanJet Airlines had previously provided scheduled passenger services to a number of domestic destinations, with a particular focus on Eastern Canada. During the period from January 1, 2006 to August 31, 2006, CanJet Airlines provided approximately 3% of the Canadian airline industry's overall domestic scheduled capacity based on Available Seat Miles. CanJet Airlines cited high fuel costs, rising landing fees and increases in competitive capacity on its primary routes as the primary reasons for its decision to discontinue its scheduled passenger services.

Transborder Market

As of December 31, 2006, there were 1,055 daily scheduled transborder flights operated between Canada and the United States. Toronto Lester B. Pearson International Airport ("Toronto Pearson Airport"), Air Canada's largest hub, is the world's largest originator of flights into the United States.

According to Transport Canada, transborder revenue passengers grew at a compound annual rate of 3.4% from 1994 to 2004 and are expected to grow at a compound annual rate of 4.3% from 2005 to 2009.

Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the transborder market than any other airline. Based on OAG data, during the period from January 1, 2006 to December 31, 2006, Air Canada provided more transborder scheduled capacity than any other airline with an estimated market share of approximately 38% based on Available Seat Miles. Competition in the transborder market is primarily from U.S. network carriers and their regional affiliates, which tend to operate flights between the United States and Canada via their hubs for connecting flights. U.S. network carriers with transborder operations include Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines and U.S. Airways. As of December 31, 2006, Air Canada, together with Jazz, serviced 46 U.S. destinations (including six seasonal destinations) from Canada, while U.S. carriers serviced 31 U.S. destinations from Canada. In addition, one U.S. low cost carrier, Frontier Airlines, operates service from Denver to Calgary.

Canadian low-cost carriers also operate transborder services and have expressed an intention to expand these operations in the future. WestJet currently provides transborder services to 11 destinations in the United States.

International Market

Canadian airlines principally service the international market from three strategically-positioned airports. Toronto Pearson Airport, Canada's largest, is located in Canada's largest city and offers regular non-stop flights to numerous destinations in Europe, Central America/Caribbean and, more recently, to Asian destinations via polar routes. Toronto Pearson Airport offers over 495 daily departures, of which 10% are to international destinations. Montreal-Pierre Elliott Trudeau International Airport ("Montreal Trudeau Airport") is located in Canada's second largest city, and offers regular non-stop service to several European destinations and certain Central American/Caribbean and South American destinations. Montreal Trudeau Airport offers 210 daily departures, of which 9% are to international destinations. Vancouver International Airport, located in Canada's third largest city, is strategically positioned on Canada's west coast and acts as a gateway to many Asian destinations. Vancouver International Airport offers over 300 daily departures, of which 7% are to international destinations.

According to Transport Canada, international revenue passengers in the international market to and from Canada grew at a compound annual rate of 5.2% from 1994 to 2004 and are expected to grow at a compound annual rate of 5.2% from 2005 to 2009. According to The Conference Board of Canada, a strong Canadian dollar, growth in the Canadian economy, an interest by Canadians to visit more distant destinations, an aging Canadian population and an increase in international air capacity are key factors that will contribute to stronger growth in outbound travel spending.

Air Canada is Canada's largest scheduled international carrier and has a broad portfolio of international route rights. Based on OAG data, during the period from January 1, 2006 to December 31, 2006, Air Canada provided more international scheduled capacity in the international market to and from Canada than any other airline with an estimated market share of approximately 43% based on ASMs. Air Canada is currently the only Canadian scheduled carrier with routes from Canada to Asia, although a number of Asian carriers service Canadian destinations. Air Canada is also the sole Canadian scheduled carrier offering flights to South America and no South American scheduled network carrier currently provides service to Canada.

The expansion of major airline alliances, such as Star Alliance®, oneworld® and SkyTeam® has led to more efficient operations in the trans-Atlantic and trans-Pacific markets. In such markets, Air Canada competes primarily with foreign network carriers and, to a lesser extent, with charter carriers on higher density routes during peak travel seasons. In addition, U.S. network carriers compete by flying Canadian passengers through their hubs to the international market.

Aeroplan

Aeroplan generally competes with other forms of marketing services, including advertising, promotions and other loyalty incentives, both traditional and on-line, for a portion of a client's total marketing budget. In addition, Aeroplan competes against proprietary loyalty programs developed by Aeroplan's existing and potential commercial partners. Aeroplan's principal competitors in Canada include the Air Miles™ program, frequent flyer programs operated by airlines, and loyalty programs operated by consumer products and services retailers, credit and charge card institutions and gasoline retailers.

For each of Aeroplan's marketing services, Aeroplan expects competition to remain intense in its market. In addition, competitors of the Aeroplan Program may target its Accumulation Partners (as defined in the section "Business Overview – Aeroplan – Overview") and members as well as draw rewards from Aeroplan's Redemption

Partners (as defined in the section "Business Overview – Aeroplan – Overview"). Aeroplan's ability to generate Gross Billings (as defined in the section "Business Overview – Aeroplan – Aeroplan's Business Model – Sale of Aeroplan Miles and Marketing Services to Sales Partners") from its Accumulation Partners (as defined in the section "Business Overview – Aeroplan – Overview") will depend on its ability to differentiate itself through the products and services it offers and the attractiveness of its Aeroplan Program to consumers. The continued attractiveness of the Aeroplan Program will depend in large part on its ability to remain affiliated with commercial partners that are valuable to consumers and to offer rewards that are both attainable and attractive to consumers. For Aeroplan's database marketing services, its ability to continue to capture detailed transaction data on consumers is critical to providing effective customer relationship management strategies for Aeroplan's Accumulation Partners.

Jazz

As Canada's only nationwide regional airline and as the only regional carrier in Canada operating regional jets, Jazz enjoys a unique position in the Canadian regional airline market.

Jazz's fleet is ten times larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of primarily turboprop aircraft, most of which operate aircraft in the 19 to 50 seat range. These carriers operate primarily independent services, flying in niche markets. Few other regional airlines in Canada operate under capacity purchase agreements, and those who do have relationships with Air Canada for turboprop aircraft with less than 19 seats. All of these carriers are privately held or family-run companies. None of these carriers approach the size and scope of operation of Jazz as their fleets range from one to 12 aircraft. These smaller regional carriers include Central Mountain Air, Hawkair, Corporate Express and Transwest Air in Western Canada; Calm Air and Air Creebec in Central Canada; Provincial Airlines in Atlantic Canada; and First Air, Air Norterra and Air Inuit in Canada’s North. WestJet also competes with Air Canada on certain routes in Canada operated by Jazz.

ACTS LP

The maintenance, repair and overhaul ("MRO") business in North, Central and South America represents a market size of US$18 billion. It is the largest segment of the US$42 billion global MRO market. Aircraft MRO services stem from three primary customer sources (airlines, original equipment manufacturers, and other MRO providers). The MRO industry's performance is predominantly dependent on the airline industry's economic performance, although applicable safety regulations may require a given aircraft to undergo periodic MRO regardless of the aircraft’s load factor.

As airlines add capacity and increase traffic, the MRO market is expected to grow in parallel and as airline cost pressures continue to mount, global MRO outsourcing is expected to continue to grow. A 2006 Mercer Management Consulting survey of 97 industry executives revealed that 85% of MRO providers expect their revenues to increase during the next three years. Furthermore, AeroStrategy forecasts world MRO spending to increase from US$41 billion in 2006 to US$58 billion in 2016.

Going forward, successful full-service MRO providers will be ones that can provide ‘one-stop’ solutions for their customers. Increasingly, airlines and leasing companies already prefer to deal with a single MRO provider that has the expertise required to manage all of their MRO work, including airframe, component, and engine repairs as well as specialized services. However, MRO operators will continue to be under industry pressure to maintain effective cost controls to bid competitively in a cost-sensitive marketplace.

THREE-YEAR SUMMARY: EVOLUTION OF BUSINESS

Air Canada’s Consolidated Plan of Reorganization, Compromise and Arrangement

On April 1, 2003, Air Canada obtained an initial order from the Ontario Superior Court of Justice providing creditor protection under the CCAA. The initial order was further amended by the Ontario Superior Court throughout the CCAA proceedings based on motions from Air Canada, its creditors and other interested parties. On April 1, 2003, Air Canada, through Ernst & Young Inc., its Ontario Superior Court-appointed monitor, also made a concurrent petition for recognition and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The CCAA and U.S. proceedings covered Air Canada and the following of its then wholly-owned subsidiaries: Jazz Air Inc., ZIP Air Inc., 3838722 Canada Inc., Air Canada Capital Ltd., Manoir International Finance Inc., Simco Leasing Ltd., and Wingco Leasing Inc. (collectively, the "Applicants"). Aeroplan, Touram Inc. and Destina.ca were not included in the CCAA filing. These three subsidiaries continued to deal with their creditors on a normal basis, unaffected by the CCAA and U.S. proceedings.

On September 30, 2004, Air Canada, and the other Applicants emerged from creditor protection under the CCAA and implemented the Plan. The purpose of the Plan, together with Air Canada's new business strategy, was to restructure the capitalization, operations and cost structure of Air Canada. The Plan and the new business strategy were designed to:

(i) reduce Air Canada's operating costs to a competitive level through the renegotiation of collective bargaining agreements, aircraft leases, real property leases and various other commercial agreements;

(ii) implement a fleet renewal program to achieve the appropriate number, size and mix of aircraft for Air Canada's route network;

(iii) complete a restructuring of Air Canada's debt and lease obligations;

(iv) redefine Air Canada's core product offerings to enable it to compete effectively in the current and future airline industry environment; and

(v) reorganize Air Canada's corporate structure to enable certain key businesses to better compete for third party business and generate value for their stakeholders.

The implementation of the Plan reduced Air Canada's debt (net of cash and cash equivalents) and lease obligations (on a present value basis) to approximately $4 billion as at December 31, 2004 compared to $12 billion as at December 31, 2002, prior to Air Canada's filing for protection under the CCAA. Also, as part of the implementation of the Plan, all the preferred shares of Air Canada were cancelled and all of the holders of common shares and Class A non-voting shares of Air Canada exchanged their shares for Voting Shares and Variable Voting Shares. Pursuant to such exchange, the former holders of common shares and Class A non-voting shares of Air Canada received 0.01% of the fully diluted equity of ACE upon emergence from the CCAA proceedings.

On September 30, 2004, as part of the implementation of the Plan, Air Canada reorganized its corporate structure. Pursuant to such corporate reorganization, APLN Limited Partnership (a predecessor to Aeroplan), Jazz Air Inc. (the predecessor to Jazz Air Limited Partnership and Jazz Air LP) and Touram Inc. (the predecessor to Air Canada Vacations), which were already established as stand-alone entities under Air Canada, became stand-alone entities under ACE, while ACTS Limited Partnership (the predecessor to ACTS LP), AC Cargo LP and ACGHS LP were established as stand-alone limited partnerships under ACE.

As a result, ACE is an investment holding company of various aviation interests. ACE's corporate structure is designed to facilitate the development of each business unit to its fullest individual potential including, where appropriate, through the pursuit of third party sources of business, and to maximize the value of the subsidiaries.

Rights Offering

As part of the Plan, ACE offered rights to Air Canada's creditors with proven claims to subscribe for up to $850 million of Voting Shares and/or Variable Voting Shares ("Shares"). Pursuant to its standby purchase agreement with Air Canada, Deutsche Bank Securities Inc. ("Deutsche Bank") agreed to act as the exclusive standby purchaser in respect of the rights offering. Deutsche Bank and the participants in its syndicate subscribed for all the Shares not otherwise subscribed for by the creditors at a subscription price per Share of $21.50, which represented the subscription price of $20 paid by creditors, plus a premium of $1.50. On September 30, 2004, ACE completed the issuance of Shares under such rights offering for total gross proceeds of $865 million, including the amount of the premium paid by Deutsche Bank and the participants of its syndicate pursuant to the standby purchase agreement.

Investment Agreement

On September 30, 2004, Promontoria Holding III B.V. ("Cerberus Affiliate") invested $250 million in ACE in consideration for the issuance to it of 12,500,000 Preferred Shares initially convertible into 9.16% of the fully diluted equity of ACE upon emergence from the CCAA proceedings. For a summary of the terms of the Preferred Shares, see "Description of Capital Structure — Preferred Shares".

Pursuant to the investment agreement with the Cerberus Affiliate dated June 23, 2004 ("Investment Agreement"), three of the 11 members of the board of directors of ACE appointed pursuant to the Plan were designated by the Cerberus Affiliate. The Cerberus Affiliate had the right to designate three of the 11 members of the board of directors of ACE for a minimum of two years after September 30, 2004. Since September 30, 2006, for as long as the Cerberus Affiliate and its affiliates hold at least 75% of the Preferred Shares (or Shares into which they are converted or convertible) originally purchased under the Investment Agreement, the Cerberus Affiliate will continue to have the right to designate three individuals to the board of directors of ACE. Since September 30, 2006, for as long as the Cerberus Affiliate and its affiliates hold at least 50% but less than 75% of the Preferred Shares (or Shares into which they are converted or convertible) originally purchased under the Investment Agreement, the Cerberus Affiliate will have the right to designate two individuals to the board of directors of ACE. For as long as the Cerberus Affiliate and its affiliates hold at least 25% but less than 50% of the Preferred Shares (or Shares into which they are converted or convertible) originally purchased under the Investment Agreement, the Cerberus Affiliate will have the right to designate one member of the board of directors of ACE. For as long as the Cerberus Affiliate and its affiliates hold at least 2.5% of the economic equity interests of ACE, the Cerberus Affiliate will have the right, at reasonable times and upon reasonable notice, to have access to the management of ACE and to all reasonable financial and operating information of ACE, including business plans, budgets and quarterly results, in order to consult with management of ACE and express its views on the business and affairs of ACE and its subsidiaries. The Preferred Shares (including the Shares into which they are converted or convertible) were subject to contractual transfer restrictions.

The terms attached to the Preferred Shares provide the Cerberus Affiliate with preemptive rights on any issuance or sale by ACE of Variable Voting Shares or Voting Shares or other equity securities, rights, options, warrants or other convertible securities which represent rights to purchase Variable Voting Shares or Voting Shares. As of March 27, 2007, the Cerberus Affiliate held 9.8 million Preferred Shares, representing 78.4% of all outstanding Preferred Shares. For further details, see "Description of Capital Structure — Preferred Shares — Preemptive Rights".

GECC Lease Restructuring and Financing

In 2003 and 2004, agreements were signed between GECC and Air Canada (the "GECC Agreements") which provided for:

- the restructuring of existing arrangements for 106 aircraft which included lease rate reductions on 47 aircraft, termination of obligations with respect to 20 parked aircraft, the cancellation of four future aircraft lease commitments and the restructuring of the overall obligations of six aircraft;
- exit financing totalling approximately US$681 million in three tranches for use upon emergence from the CCAA proceedings. The loan was repaid in full prior to maturity on April 6, 2005;
- a financing commitment of up to US$950 million to be used for acquisitions of new regional jet aircraft. On exit from CCAA, the parties agreed to reduce the commitment to US$500 million; and
- the purchase from GECC by Air Canada on September 30, 2004 of two Boeing 747-400 Combi aircraft (which Air Canada was leasing at the time) for an aggregate amount of $353 million. The purchase price was paid for with $290 million in cash and the issuance of a limited-recourse loan in the amount of US$50 million. The two Boeing 747-400 Combi aircraft were sold in December 2004 and January 2005 and the proceeds from such sale were used to repay the US$50 million loan from GECC.

Air Canada Pension Plan Arrangements

The solvency position of Air Canada's defined benefit registered pension plans deteriorated significantly in 2002 as a result of various macroeconomic developments, triggering a series of valuation and funding directions to Air Canada by the Office of the Superintendent of Financial Institutions ("OSFI"), the federal pension regulator, in March 2003. On September 30, 2004, after negotiations with OSFI and representatives of the pension plan stakeholders, the *Air Canada Pension Plan Solvency Deficiency Funding Regulations* came into effect. The regulations extended the usual five-year amortization period for solvency deficits to ten years, and provided for the making of variable annual amortization payments according to an agreed schedule rather than the usual equal annual payments. Air Canada also issued a series of subordinated secured promissory notes in the aggregate initial amount of approximately $347 million in favour of the pension plan trustees, of which approximately $185 million was outstanding as at January 31, 2007. The promissory notes are secured by a second priority charge over assets of Air Canada and certain of its affiliates and will be reduced by the capital portion of the solvency deficit amortization payments made by Air Canada to the pension plans in accordance with the agreed schedule.

Arrangements with Unions

Air Canada

Following its filing for protection under the CCAA, Air Canada concluded in 2003 and amended in 2004 long-term collective agreements with the International Association of Machinists and Aerospace Workers ("IAMAW"), the Air Canada Pilots Association ("ACPA"), the Canadian Union of Public Employees ("CUPE"), the Canadian Air Line Dispatchers Association ("CALDA"), the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") and the International Brotherhood of Teamsters ("IBT"), which expire in 2009. Air Canada also concluded agreements with the Transport and General Workers Union ("TGWU") and Amicus, both in the United Kingdom. All these labour agreements were ratified by the members of their respective bargaining units. The agreements provided for a combination of productivity improvements and wage reductions. All unconditional employment security provisions in the collective agreements were also eliminated. All scheduled bonus payments and wage increases were cancelled and all overtime is now paid at one and a half times the applicable pay rate. Air Canada also entered into "clean slate" agreements with all of its North American unions where the parties agreed to resolve, waive or compromise outstanding grievances.

These collective agreements provide that no strikes or lock-outs may lawfully occur during the term of the collective agreements. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. It is still awaiting the arbitrator's decision in respect of its flight attendants, who are represented by CUPE. The CUPE arbitration award decision is expected during the second quarter of 2007. The wage increases awarded or agreed upon range up to 2.6% per year until 2009.

In March 2007, Air Canada concluded an agreement with both the TGWU and Amicus, which represent Air Canada's ground handling employees in the United Kingdom allowing Air Canada to keep certain ground handling activities at London Heathrow Airport in-house. The agreement provides for a number of changes to working practices for current employees as well as structural changes for the future. Under the agreement, the existing defined benefit pension plan will be closed for newly hired employees, which will be covered by a new defined contribution pension plan.

Jazz

Jazz has completed wage re-opener negotiation, mediation and arbitration with CAW and Teamsters Canada, while negotiations with all of its unions with the exception of CALDA, the union representing Jazz's dispatchers. The wage re-opener negotiations with CALDA are continuing.

Contract Renegotiation/Repudiation during CCAA

During the restructuring period, Air Canada reviewed all of its real estate facilities, resulting in the elimination of unused or under-utilized facilities and the consolidation of its operations to further reduce operating costs. In addition, Air Canada evaluated all of its contracts for goods and services to identify opportunities to consolidate its supply base, to better leverage its buying power, and to take advantage of the opportunity represented by the restructuring process to repudiate contracts that were unfavourable.

In addition, Air Canada conducted extensive negotiations with its aircraft lessors and financiers to restructure its aircraft ownership and leasing costs. Through these efforts, Air Canada and Jazz achieved: (i) reduced ownership and leasing costs more consistent with then current market conditions, (ii) modified lease expiry dates based on planned new aircraft acquisitions and scheduled heavy maintenance requirements, and (iii) satisfactory aircraft return conditions consistent with modified lease expiry dates.

Embraer Purchase Agreement

In 2004, Air Canada signed a definitive purchase agreement with EMBRAER — Empresa Brasileira de Aeronautica S.A. ("Embraer") covering firm orders for 45 Embraer ERJ-190 aircraft as well as 15 Embraer ERJ-175 aircraft. (See "Overview of the Business – Air Canada Services – Aircraft Fleet – Narrowbody and Regional Jet Aircraft Fleet – Embraer Orders and Financing Terms".)

Public Offering of ACE Voting Shares, Variable Voting Shares and Convertible Senior Notes due 2035

On April 6, 2005, ACE completed a public offering of an aggregate of 11.35 million Voting Shares and Variable Voting Shares at a price of $37 per share for gross proceeds of approximately $420 million and approximately $300 million of Notes. ACE used approximately $553 million of the aggregate net cash proceeds of the offerings to repay all of its outstanding debt under the exit credit facility with GECC. On April 13, 2005, following the exercise of the over-allotment option by the underwriters, ACE issued an additional 1,135,000 Variable Voting Shares at a price of $37 per share and $30 million of Notes for additional aggregate gross proceeds of approximately $72 million. ACE used the additional proceeds for general corporate purposes.

Initial Public Offering of Aeroplan Income Fund

On June 29, 2005, Aeroplan Income Fund completed its initial public offering of 25 million units at a price of $10 per unit for aggregate gross proceeds of approximately $250 million. On June 30, 2005, following the exercise of the over-allotment option by the underwriters, Aeroplan Income Fund issued an additional 3.75 million units at a price of $10 per unit for additional gross proceeds of approximately $37.5 million. In connection with the June 29, 2005 offering, Aeroplan Limited Partnership completed a $475 million senior secured syndicated credit facility, $300 million of which was used to fund a portion of the reserve for Aeroplan Mile redemption.

US Airways Group Inc.

On September 27, 2005, ACE invested $87 million (US$75 million) in US Airways Group Inc. ("US Airways") in conjunction with the carrier's exit from US bankruptcy proceedings. In connection with the equity investment, ACE also received options to purchase additional common shares in US Airways. On closing of the transaction, ACE sold these options for proceeds of $1 million. In the second and third quarters of 2006, ACE disposed of 4.5 million shares of its holdings in US Airways for net proceeds of $232 million and recorded a gain of $152 million. ACE still holds 500,000 shares in US Airways valued at US$23.3 million based on the closing price of such shares on the New York Stock Exchange on March 27, 2007.

Aircraft Purchase Agreement between The Boeing Company and Air Canada

On November 4, 2005, Air Canada concluded agreements with The Boeing Company ("Boeing") for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 aircraft. The agreements include firm orders for 18 Boeing 777 aircraft, plus purchase rights for an additional 18 aircraft, in a yet-to-be determined mix of the 777 family's newest models. Deliveries of the Boeing 777 aircraft are scheduled to commence in March 2007. Seven of the firm orders for Boeing 777 aircraft are expected to be delivered in 2007, nine aircraft in 2008, and two aircraft in 2009. The agreements also include firm orders for 14 Boeing 787 aircraft, plus options and purchase rights for an additional 46 aircraft. Air Canada's first Boeing 787 aircraft is scheduled for delivery in 2010.

Initial Public Offering of Jazz Air Income Fund

On February 2, 2006, ACE completed an initial public offering of the Jazz Air Income Fund, issuing 23.5 million units at a price of $10 per unit for aggregate gross proceeds of approximately $235 million. In addition, on February 27, 2006, Jazz Air Income Fund issued an additional 1.5 million units at a price of $10 per unit for additional gross proceeds of $15 million from the exercise of an over-allotment option. In addition, a $150 million secured syndicated credit facility was established by Jazz Air Limited Partnership of which approximately $115 million was drawn on closing of the offering.

Distribution of Units of Aeroplan Income Fund by ACE

On March 3, 2006, ACE effected a distribution by way of reduction of capital to its shareholders of record as at such date of 0.18 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. For the purposes of the distribution, ACE converted 20,204,165 units of Aeroplan Limited Partnership into 20,204,165 units of Aeroplan Income Fund which were distributed to ACE's shareholders on the record date.

Initial Public Offering and Secondary Public Offering of Air Canada Shares

On November 24, 2006, ACE and Air Canada completed an initial public offering and secondary offering of an aggregate 25 million Class A variable voting shares and Class B voting shares of Air Canada at $21 per share for gross proceeds of $525 million. Through the initial public offering, Air Canada sold an aggregate of 9,523,810 Class A variable voting shares and Class B voting shares for gross proceeds of approximately $200 million. In the secondary offering, ACE sold an aggregate of 15,476,190 Class A variable voting shares and Class B voting shares for gross proceeds of approximately $325 million. ACE held as of March 27, 2007, a direct and indirect 75% ownership interest in Air Canada.

Statutory Arrangement of ACE and Initial Distribution to its Shareholders

On October 5, 2006, ACE's shareholders approved a statutory arrangement pursuant to the CBCA granting authority to the board of directors of ACE to make, from time to time, one or more distributions in an aggregate amount of up to $2 billion to ACE shareholders by way of reduction of the stated capital on the Variable Voting Shares, Voting Shares and Preferred Shares. Pursuant to the statutory arrangement, ACE announced on December 28, 2006, the terms of an initial distribution of 50 million units of Aeroplan Income Fund to ACE shareholders. ACE shareholders on January 10, 2007, the record date for the distribution, received a distribution of approximately 0.442 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. For the purpose of the distribution, ACE exchanged 50 million Aeroplan Limited Partnership units into 50 million Aeroplan Income Fund units which were distributed to ACE's shareholders on the record date.

Acquisition by ACTS LP of Majority Stake of Aeroman

On February 13, 2007, ACTS LP acquired 80% of Grupo TACA's aircraft maintenance division, Aeroman. Total consideration for this acquisition includes cash and a right to acquire an equity stake in ACTS LP. The cash component of US$44.7 million consists of cash of US$42.7 million on closing and a milestone payment of up to US$2 million, funded by ACTS LP through ACE's available cash resources. The size of the equity stake in ACTS LP will be confirmed at the time of the monetization of ACTS LP, as described below, and is expected to represent less than 7% of the total equity of ACTS LP at the time of monetization. Prior to ACTS LP's monetization, Grupo TACA can put its right to acquire equity back to ACE at a discounted value from US$40.4 million and accreting up to a cap of US$50.5 million over 12 months or the date of monetization, if earlier.

Second Distribution to ACE Shareholders under Statutory Arrangement

On March 2, 2007, ACE announced a second distribution to its shareholders by way of reduction of stated capital under the statutory arrangement approved on October 5, 2006, pursuant to which ACE shareholders of record on March 14, 2007 were entitled to receive approximately 0.177 units of Aeroplan Income Fund and 0.219 units of

Jazz Air Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. For the purpose of the distribution, on March 14, 2007, ACE exchanged 25 million units of Jazz Air Limited Partnership into 25 million units of Jazz Air Income Fund, which were distributed to ACE's shareholders on the record date.

On March 14, 2007, ACE also exchanged its remaining 40,545,835 units of Aeroplan Limited Partnership into 40,545,835 units of Aeroplan Income Fund. Following this distribution, ACE held as of March 27, 2007, a 40.1% ownership interest in Aeroplan Limited Partnership indirectly through its holding of Aeroplan Income Fund units and a 58.8% interest in Jazz Air Limited Partnership, directly and indirectly.

Potential Monetization of ACTS LP

After conducting a strategic review, ACE has determined that the value of the ACTS LP market position and growth prospects could be enhanced by the introduction of a third party investor. The monetization process of ACTS LP, which commenced in late 2006, is expected to be completed by mid-2007.

OVERVIEW OF THE BUSINESS

ACE is an investment holding company of various aviation interests including Air Canada, Aeroplan Limited Partnership, Jazz Air LP, ACTS LP and other investments.

Air Canada

Air Canada 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 LP, together with Air Canada, is Canada's largest provider of air cargo services.

ACGHS LP is a passenger and ground handling service provider.

Air Canada Vacations is a major Canadian tour operator offering leisure vacation. 51% of its units are held by Air Canada and 49% of its units are held by ACE.

(See "Overview of the Business – Air Canada Services").

Aeroplan

Aeroplan is Canada's premier loyalty marketing program. Aeroplan provides its commercial partners, including Air Canada, with loyalty marketing services designed to stimulate demand for such partners' products and services. (See "Overview of the Business – Aeroplan").

Jazz

Jazz 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. (See "Overview of the Business – Jazz").

ACTS LP

ACTS LP is a full-service aircraft maintenance, repair and overhaul organization that competes on a global basis. (See "Overview of the Business – ACTS LP").

Strategy

As part of the Plan, a new corporate structure was established for the investments of ACE. This new corporate structure is designed to:

(i) put in place separate management and business plans for each business to better focus their strategic direction and profit making efforts;

(ii) align management, capital and human resource needs within each individual business;

(iii) facilitate the development of each business to its fullest individual potential including, where appropriate, through the pursuit of third party business; and

(iv) maximize the value of investments that has not been fully recognized.

ACE's value enhancement strategy for its stand-alone entities includes considering stand-alone financings, sales and distributions of equity interests and involving outside investors for these and other purposes. Implementation of this strategy has notably involved: (a) the initial public offering of Aeroplan Income Fund on June 29, 2005; (b) the initial public offering of Jazz Air Income Fund on February 2, 2006; (c) the initial public offering and secondary public offering of Air Canada on November 24, 2006; and (d) a potential monetization of ACTS LP.

Business of ACE

ACE's investments are operated through four reportable segments which include: (i) Air Canada services; (ii) Aeroplan; (iii) Jazz; and (iv) ACTS LP. ACE has eight employees. The table below sets forth the relative financial results of each segment for the year ended December 31, 2006:

	YEAR ENDED DECEMBER 31, 2006 *(in millions)*					
	Air Canada services	**Aeroplan**[1]	**Jazz**[2]	**ACTS LP**	**CIE** [3]	**ACE Consolidated**
Operating Revenue						
Passenger Revenue	$8,887	-	-	-	$82	$8,969
Cargo Revenue	625	-	-	-	-	625
Other Revenue	558	759	7	228	(489)	1,063
External Revenue	10,070	759	7	228	(407)	10,657
Inter-segment Revenue	169	10	1,374	627	(2,180)	-
	10,239	769	1,381	855	(2,587)	10,657
Special charge for Aeroplan Miles	(102)	-	-	-	-	(102)
Total Revenue[4]	10,137	769	1,381	855	(2,587)	10,555
Operating Expenses[5]	10,023	629	1,237	857	(2,586)	10,160
Operating Income	$ 114	$ 140	$ 144	$ (2)	$ (1)	$ 395

(1) ACE held a 75.3% ownership interest in Aeroplan as at December 31, 2006 and currently holds a 40.1% ownership interest in Aeroplan, indirectly through its holdings of units of Aeroplan Income Fund.
(2) Includes Jazz's operations under the capacity purchase agreement with Air Canada. ACE held a 79.7% ownership interest in Jazz as at December 31, 2006 and currently holds a 58.8% ownership interest in Jazz, directly or indirectly through holding units of Jazz Air Income Fund.
(3) Corporate Items and Eliminations ("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 LP (completed contract for engine and component maintenance services) versus the expense recognition in Air Canada and Jazz, which is as the work is completed.
(4) Total revenue includes a special charge of $102 million in connection with Air Canada's obligation for the redemption of pre-2002 Aeroplan miles.
(5) Operating expenses include a special charge for labour restructuring of $25 million.

AIR CANADA SERVICES

Routes and Schedules

Air Canada operates, on average, approximately 580 average daily departures to 15 destinations in Canada, 31 destinations in the United States and 56 destinations in the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada/South America markets. Domestic, transborder and international departures account for 50%, 33% and 17%, respectively, of the approximately 580 average daily departures. Air Canada's current route network extends to 40 countries and territories.

Air Canada, together with Jazz, operates on average approximately 1,300 scheduled flights each day and carries over 32 million passengers annually in the domestic, transborder and international markets. Air Canada, together with Jazz, provides direct passenger service to 161 destinations and, through commercial agreements with other unaffiliated regional airlines, to an additional 15 destinations, for a total of 176 direct destinations on five continents.

Air Canada's hubs are located in Toronto, Vancouver, Montreal and Calgary, each of which has extensive access to domestic, transborder and the international markets.

Toronto Pearson Airport is the largest hub in Canada and a significant airline origin and destination market in North America. For the year ended December 31, 2006, Air Canada operated on average 182 daily departures from Toronto. Vancouver International Airport is the second largest hub in Canada and is Air Canada's gateway to the Pacific Rim. For the year ended December 31, 2006, Air Canada operated on average 65 daily departures from Vancouver. Montreal Trudeau Airport is the third most important hub in Air Canada's network. For the year ended December 31, 2006, Air Canada operated on average 58 daily departures from Montreal. Calgary International Airport is Air Canada's fourth largest hub. For the year ended December 31, 2006, Air Canada operated on average 39 daily departures from Calgary.

Domestic Services

As of December 31, 2006, Air Canada, together with Jazz, provides the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 59 Canadian destinations. The most important Canadian routes, in terms of operating revenues, are the transcontinental routes linking Toronto, Montreal and Ottawa with major Western Canadian cities, including Vancouver, Calgary, Edmonton and Winnipeg. Air Canada, together with Jazz, operates several short-haul commuter routes, including Rapidair routes, linking Toronto, Montreal and Ottawa. Air Canada also offers frequent service linking major centres within Western Canada, and operates numerous flights between Calgary and Vancouver and between Calgary and Edmonton. In addition to transcontinental and commuter routes, Air Canada, together with Jazz, provides service between and within Central Canada, the Prairies and the Atlantic Provinces.

Unaffiliated regional carriers replace Jazz in markets not sufficiently large enough to be served directly. As of December 31, 2006, these airlines operate flights under Air Canada's designator code and provide service to an additional eight domestic destinations under commercial agreements with Air Canada. Air Canada does not own equity interests in any of these carriers.

Following CanJet Airlines' announcement to discontinue its scheduled passenger services on September 10, 2006, Air Canada, together with Jazz, added flights and larger aircraft to serve Eastern Canada on an as-needed basis in September 2006 and increased capacity, as measured by ASMs, by 16% in Eastern Canada during the period starting from October 1, 2006 to December 31, 2006.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with Jazz, carries more passengers between Canada and the United States than any other airline. Air Canada, together with Jazz, directly serves 46 U.S. destinations (including six seasonal destinations) as of December 31, 2006. Air Canada's network reach is also increased by its extensive connections to, and code-sharing flights with, United Airlines, one of its Star Alliance® partners.

During March 2007, Air Canada significantly increased the number of its flights from Canada to leisure destinations such as Florida, California and Las Vegas. Air Canada added 31 more non-stop flights per week to Florida for a total of 184 weekly flights. In addition, Air Canada flew 10 more non-stop flights per week to California for a total of 143 weekly flights. Air Canada also added eight more non-stop flights per week to Las Vegas for a total of 52 weekly flights. This total increase in flights represents a 15 % increase in the number of seats offered by Air Canada on routes between Canada and these leisure destinations compared to last winter.

International Services

Air Canada is uniquely positioned as Canada's largest scheduled international airline. As at December 31, 2006, Air Canada provided scheduled service directly to 56 destinations in Europe, the Middle East, Asia, Australia, the Caribbean/Central America and South America.

Air Canada offers year-round trans-Atlantic services to the United Kingdom, Germany, France, Italy, Switzerland and Israel, and seasonal services to Ireland. In the summer of 2007, Air Canada is planning to operate 15 daily flights to London Heathrow, five daily flights to Frankfurt, one daily flight to Munich, three daily flights to Paris and two daily flights to Rome.

Air Canada also offers services to the Asia-Pacific market via its Vancouver and Toronto hubs. Air Canada operates daily non-stop flights to Japan (Vancouver and Toronto to Tokyo and Vancouver to Osaka), China (Vancouver and Toronto to Beijing and Shanghai), Hong Kong (out of Vancouver and Toronto) and Korea (Vancouver and Toronto to Seoul). In the summer of 2007, a key area of capacity growth for the Corporation is expected to be China. Air Canada is planning to increase capacity by 50% to China, based on ASMs. Air Canada is planning to increase its non-stop flights from Vancouver to Beijing from one daily flight to two daily flights. In addition, Air Canada is planning to increase its non-stop flights from Toronto to Shanghai. During the peak summer period, Air Canada is planning to operate five daily non-stop flights between Canada and China.

In addition to targeting business travelers, these services also capitalize on the high volume of passengers who visit friends and relatives in Asia and Canada. Air Canada believes that the Asia-Pacific market continues to represent an area of growth for air travel.

Air Canada has also expanded its services to South America, Australia and Central America/Caribbean. Air Canada currently provides service directly to six destinations in South America, one in Australia, seven in Central America and 23 in the Caribbean. For its March 2007 schedule, Air Canada added 22 more non-stop flights per week from Canada to Mexico for a total of 59 weekly flights and introduced five more non-stop flights from Canada to the Caribbean for a total of 104 weekly flights.

Aircraft Fleet

Fleet Structure Simplification and Fleet Renewal

The fleet structure simplification which began in October 2004 includes the elimination of older, less efficient aircraft which are not economically viable in the new market environment and the increased utilization in North America of new large Embraer and Bombardier regional jet aircraft which have lower trip costs and are well suited for point-to-point flying. Air Canada's fleet renewal program will provide cost efficiencies; the Embraer ERJ-190 aircraft generates 18% lower trip costs as compared to the Airbus 319 aircraft. These new aircraft are integral to Air Canada's North American strategy, which involves offering high flight frequency on key domestic and transborder routes, while maintaining competitive frequency on other domestic and transborder routes. The use of regional jet aircraft also allows Air Canada to better match capacity with demand by reducing the average seating capacity per departure, and supports the more efficient use of Air Canada's network and hubs, This initiative will result in Air Canada, together with Jazz, having added 90 new regional jet aircraft to their fleet by January 2008.

In order to support its business strategy and deliver a superior aircraft product in its international markets, Air Canada is scheduled to start receiving 19 Boeing 777 aircraft beginning in March 2007 and 14 Boeing 787 aircraft beginning in 2010. All of the new aircraft will be used to modernize and re-size the fleet, improve passenger load factors and yields, and reduce operating costs through fuel efficiencies. The Boeing aircraft offer superior comfort and operating economics through greater fuel efficiency and maintenance cost savings. Air Canada estimates that the fuel usage and maintenance costs of the Boeing 787 aircraft will be approximately 30% less than that of the Boeing 767-300 aircraft. The Boeing 787 aircraft also feature better operational performance in terms of speed and flight range and provide Air Canada with the ability to serve new markets that could not be previously served in an efficient manner. The fleet structure simplification is also focused on reducing the number of aircraft types in order to reduce the costs related to maintenance and pilot training.

Refurbishment of Existing Aircraft

In addition to acquiring new aircraft, Air Canada commenced a major refurbishment of the interior of its existing aircraft in 2006. All existing aircraft, except for the Airbus A340 aircraft, will have refurbished interiors, including new seats and personal in-flight entertainment systems and in-seat power outlets at every seat in Economy

Class and Executive Class. For aircraft that will be flying international routes, seats in the Executive Class cabin will also convert into lie-flat beds. The new Boeing and Embraer aircraft are being delivered with the new seats and in-flight entertainment systems already installed. As of March 27, 2007, Air Canada has completed the refurbishment of 23 Airbus A320 aircraft, five Boeing 767-300 aircraft and two Airbus A319 aircraft. The aircraft refurbishment process is scheduled to be completed by the middle of 2008.

Widebody Aircraft Fleet

Current Fleet of Widebody Aircraft

As at December 31, 2006, Air Canada's operating widebody fleet was comprised of 64 aircraft, each configured in two classes of service: Executive First or Executive Class, and Economy Class. The Airbus A340-300 is a four-engine 286-seat aircraft that serves Air Canada's trans-Pacific and trans-Atlantic routes. The Airbus A330-300 aircraft, with 274 seats, is a twin-engine variant of the Airbus A340-300 aircraft that Air Canada operates mainly on trans- Atlantic routes. The Boeing 767-300 ER is a long-range 203-222-seat aircraft used mainly on international routes. The Boeing 767-200 is a 207-seat aircraft used on domestic and international routes.

Boeing Orders and Financing Terms

In November 2005, Air Canada concluded agreements with Boeing for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 aircraft. The agreements include firm orders for 18 Boeing 777 aircraft and 14 Boeing 787 aircraft and options and purchase rights for an additional 18 Boeing 777 aircraft and 46 Boeing 787 aircraft. In addition, Air Canada has entered into a 10-year lease agreement with International Lease Finance Corporation ("ILFC") for one Boeing 777-300ER aircraft, which is scheduled to be delivered in May 2007.

As a result, Air Canada is scheduled to start receiving 19 Boeing 777 aircraft, beginning in March 2007, and 14 Boeing 787 aircraft, beginning in 2010. Air Canada plans to take delivery of five Boeing 777-300ERs and three Boeing 777-200LRs in 2007 and six Boeing 777-300ERs and three Boeing 777-200LRs in 2008. The two Boeing 777-200F aircraft scheduled to be delivered in 2009 have been converted into two Boeing 777 passenger aircraft, the models of which have yet to be confirmed. The 14 Boeing 787 aircraft are scheduled to be delivered during 2010 and 2011.

The operating costs of the Boeing 777 and 787 aircraft will be significantly lower than the operating costs of the aircraft they will be replacing. A Boeing 777-200LR aircraft uses on average 11% less fuel than an Airbus A340-500 aircraft. Maintenance costs for the Boeing 777 aircraft are also lower than the Airbus A340 aircraft as the Boeing 777 aircraft has two engines to maintain while the Airbus A340 has four engines. Air Canada estimates that the fuel usage and maintenance costs of the Boeing 787 aircraft will be approximately 30% less than that of the Boeing 767-300 aircraft they will be replacing. The Boeing 787 aircraft also feature better operational performance with respect to speed and flight range and will provide Air Canada with the ability to serve new markets that cannot currently be served in an efficient manner. As a result of the new committed Boeing 777 and 787 aircraft, Air Canada expects to eventually remove from operation 10 Airbus A340 aircraft as well as most of its Boeing 767-200 aircraft.

Air Canada has received financing commitments from Boeing and the engine manufacturer covering all firm aircraft orders for approximately 90% of the capital expenditure, with the remainder to be funded from internally available resources. Air Canada is evaluating financing arrangements for the first seven Boeing 777 aircraft deliveries in 2007.

Narrowbody and Regional Jet Aircraft Fleet

Current Fleet of Narrowbody and Regional Jet Aircraft

As at December 31, 2006, Air Canada operated 135 narrowbody aircraft, including 102 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Economy Class. The Airbus A320 aircraft is a 140-seat, twin-engine aircraft. The twin-engine Airbus A319 offers 120 seats and is essentially a shortened version of the Airbus A320 aircraft, with the same engines, operating systems and flight deck. The twin-engine Airbus A321 is the largest narrowbody aircraft in the Airbus family, with 166 seats. The Embraer ERJ-190 and ERJ-175 aircraft are 93-seat and 73-seat twin-engine aircraft, respectively. These large regional jets have lower trip operating costs than conventional narrowbody aircraft. All of these narrowbody aircraft types primarily serve Air Canada's domestic and transborder routes.

Embraer Orders and Financing Terms

In 2004, Air Canada signed a definitive purchase agreement with Embraer covering firm orders for 45 Embraer ERJ-190 aircraft as well as 15 Embraer ERJ-175 aircraft. As of March 13, 2007, Air Canada has taken delivery of all 15 Embraer ERJ-175 aircraft and 20 Embraer ERJ-190 aircraft. An additional 25 Embraer ERJ-190 aircraft are currently scheduled to be delivered by January 2008, for a total Embraer fleet of 60 aircraft. The Embraer aircraft are introduced in Air Canada's fleet both for growth and replacement of a portion of Air Canada's older Airbus A319 and A320 aircraft. As of the date hereof, Air Canada has rights to exercise options for up to 43 additional Embraer ERJ-190 aircraft. The purchase agreement also allows Air Canada to convert its orders to other Embraer models.

Air Canada received loans from a syndicate of banks and the manufacturer covering approximately 80% of the capital expenditure of the first 18 firm Embraer ERJ-190 aircraft, all of which were delivered as at December 31, 2006. Air Canada has also received loan commitments from a third party and from a syndicate of banks covering approximately 80% of the capital expenditure of the remaining 27 firm Embraer ERJ-190 aircraft deliveries. The remainder of the capital expenditures is expected to be funded from internally available resources.

Current and Planned Operating Fleet

Air Canada's operating fleet as at December 31, 2006 and the planned operating fleets for 2007 to 2008 are shown below:

	Number of Operating Aircraft as at December 31, 2006	Planned Operating Aircraft as at December 31, 2007	Planned Operating Aircraft as at December 31, 2008	Planned Operating Aircraft based on Future Committed Aircraft net of Projected Aircraft Removals[5]
Widebody Aircraft				
Airbus A340-300	10	5	0	—
Airbus A340-500	2	2	2	2
Airbus A330-300	8	8	8	8
Boeing 767-300 ER	33	32	29	25
Boeing 767-200/200ER	11	9	8	2
Boeing 777-200LR[1]	0	3	6	6
Boeing 777-300ER[1] [2]	0	5	11	13
Boeing 787[1]	0	0	0	14
Total Widebody Aircraft	64	64	64	70
Narrowbody Aircraft				
Airbus A321	10	10	10	10
Airbus A320	47	42	42	42
Airbus A319	45	35	35	35
Embraer ERJ-190[3]	18	43	45	45
Embraer ERJ-175	15	15	15	15
Total Narrowbody Aircraft	135	135	147	147
Total Operating Aircraft[4]	199	209	211	217

(1) The following aircraft are scheduled to be delivered after 2008: two Boeing 777 are scheduled to be delivered in 2009 and 14 Boeing 787 are scheduled to be delivered in 2010 and 2011. In December 2006 and February 2007, Air Canada exercised its conversion rights to convert two Boeing 777-200F aircraft into two Boeing 777 passenger aircraft, the model of which have yet to be confirmed.
(2) Air Canada has entered into a 10-year lease agreement with ILFC for one Boeing 777-300ER aircraft, which is scheduled to be delivered in May 2007.
(3) The deliveries of 45 Embraer ERJ-190 aircraft are scheduled to be completed by January 2008.
(4) In addition to operating aircraft, as at December 31, 2006, Air Canada had 11 widebody aircraft and 20 narrowbody aircraft that were parked.
(5) These aircraft changes are expected to be completed by 2011.

Fuel

Aircraft fuel is a major expense in the airline industry. During the period from January 1, 2006 to December 31, 2006, the price of Western Texas Intermediate ("WTI") crude oil ranged from a low of US$55.86 to a high of US$76.95. Fuel prices continue to be susceptible to factors such as political unrest in various parts of the world, Organization of Petroleum Exporting Countries (OPEC) policy, the level of demand from emerging economies such as China, the level of inventory carried by the industry, the level of fuel reserves maintained by governments, disruptions to production and refining facilities, alternative fuels and the weather. Based on 2006 volumes and US exchange rates, Air Canada's management estimated that a US$1 per barrel movement in the price of WTI crude oil or in the refining spread between WTI and jet fuel impacted 2006 fuel expense by approximately C$27 million or US$24 million (excluding the impact of fuel surcharges and fuel hedging).

In order to manage the airline's exposure to the volatility of jet fuel prices, the Corporation has hedged a portion of its 2007 anticipated jet fuel requirements using mostly swap and collar option structures. The swap structure allows the Corporation to fix jet fuel price at a specific level, whereas the collar option structure creates a ceiling and a floor price, allowing the Corporation to protect itself against prices above the ceiling but exposing the Corporation to the floor if the price falls below the floor. As at December 31, 2006, the Corporation had 39% of its fuel requirement for 2007 hedged at prices that can fluctuate between an average of US$74 to US$85 per barrel for its heating oil-based contracts, an average of US$58 to US$69 per barrel for its WTI crude oil-based contracts and an average of US$81 to US$85 for jet-fuel based contracts. Since December 31, 2006, the Corporation has entered into new hedging positions, using collar option structures, which have added 5% coverage to 2007 increasing the total hedged volume for 2007 to 44%, as well as an additional 1% coverage to 2008. As at March 20, 2007, for 2007, the Corporation has hedged its projected fuel requirements as follows: 57% for the first quarter of 2007, 44% for the second quarter of 2007, 36% for the third quarter of 2007 and 39% for the fourth quarter of 2007.

Star Alliance®

Air Canada is a founding member of the Star Alliance® network, the world's largest airline alliance group. Air Canada operates an extended global network in conjunction with its international partners.

Since its inception in 1997, the Star Alliance® network has grown to include as of February 2007 the following 17 airlines: Air Canada, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi, LOT Polish Airlines, Lufthansa, SAS, Singapore Airlines, South African Airways, Spanair, Swiss International Airlines, Thai Airways, US Airways, United Airlines and TAP Portugal. The Star Alliance® network also includes three regional members: Adria Airways, Blue 1 and Croatia Airlines.

As of March 2007, through Air Canada's strategic and commercial arrangements with Star Alliance® members and several other airlines, Air Canada's customers have access to over 855 destinations in 155 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance® facilitates code-sharing and passenger connections and transfers by providing a higher level of service between network connection points (which may include one stop check-in). The airlines have implemented initiatives, such as common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada code-shares with all Star Alliance® members, except US Airways, TAP Portugal, South African Airways and the three regional members. In August 2005, the Star Alliance® implemented an electronic interline ticketing service which enables customers to travel across the entire Star Alliance® network using a single electronic ticket.

Other Services

Cargo Services

Air Canada is Canada's largest provider of air cargo services as measured by cargo capacity. AC Cargo LP, with Air Canada, offers cargo services on domestic, transborder and international routes, using the cargo capacity on aircraft operated by Air Canada and Jazz. Air Canada also uses two chartered all freighter aircraft for Canada-Europe and Canada-Asia services.

Air Canada's primary customers for these cargo services are large freight forwarding companies and businesses whose products are most effectively marketed by using air cargo services. Cargo services offered by Air Canada include services for high priority shipments (AC Expedair and AC Priority) and air freight services (AC Air Freight) to Air Canada destinations worldwide and Jazz destinations in North America. AC Cargo LP, with Air Canada, provides direct cargo services to over 150 Canadian and international destinations and has sales representation in over 50 countries. Air Canada is one of the largest suppliers of air cargo services to Canada Post Corporation. The principal routes on which Air Canada offers cargo services are Canada-Germany, Canada-China, Canada-United Kingdom and Canada-Japan. The new Boeing 777 aircraft ordered by Air Canada will provide further opportunities for growth of the cargo services on international routes as these new aircraft offer more cargo capacity than the Airbus aircraft they will be replacing.

Air Canada's cargo terminal at Toronto Pearson Airport is equipped with modern cargo handling technology to ensure efficient cargo handling and meet the needs of customers. Air Canada's freight management system, AC Lynx, offers a number of services including on-line tracking of cargo shipments from initial booking to delivery. Air Canada, United Airlines and Northwest Airlines, in co-operation with Unisys, are the founding members of the Cargo Portal Service introduced in 2003. Endorsed by key freight forwarders globally and their industry associations, this portal represents a one-stop-shop web tool for air cargo shipping requirements by offering a large number of services on a growing number of major air carriers.

Ground Handling Services

Air Canada provides Ground Handling Services to numerous airlines, including major foreign airlines at Canadian and international airports. These services include passenger check-in, gate management, baggage and cargo handling and processing, as well as aircraft ramp services.

Air Canada Vacations

ACE holds a 49% interest and Air Canada holds a 51% interest in Air Canada Vacations. Air Canada Vacations is the fourth largest Canadian tour operator, offering a variety of leisure vacation package options which include air transportation supplied by Air Canada and its Star Alliance® partners, hotel accommodation, cruises, Aeroplan miles and airport transfer/car rentals to popular destinations for Canadians in the Caribbean, Asia, Central and South America and the United States, including Las Vegas, Florida and Hawaii. Air Canada Vacations also sells surplus seat inventory to travel agencies. This part of the business is conducted through its national consolidator division, Netair®.

Approximately 77% of vacation packages currently sold by Air Canada Vacations are from Canada to destinations in the Caribbean and Mexico. Air Canada Vacations has recently introduced new packages from Canada to Europe. It also plans on introducing inbound vacation programs from Europe and Asia to North America with the intent of eventually offering packages for vacations to and from most of Air Canada's foreign destinations.

Facilities

Air Canada owns or leases facilities in major airports consisting of offices, hangar space, aircraft maintenance and ground handling facilities. The following describes the principal properties owned or leased by Air Canada as of December 31, 2006:

Principal Properties	Description	Approx. Square Footage	Nature of Title
Montreal — Air Canada Centre Air Canada Headquarters	Head office and training facilities	272,000	Owned facilities on leased land
Montreal Trudeau Airport Maintenance Base	Offices, computer centre, aircraft maintenance, hangars, workshops and training facilities	1,858,000	Owned facilities on leased land
Toronto Pearson Airport	Counters, offices, passenger and baggage handling facilities and commuter terminal	266,000	Leased
Toronto Pearson Airport Maintenance Base	Offices, simulator, hangars and workshops	1,106,207	Owned facilities on leased land
Toronto — Cargo Facility	Offices, cargo and equipment maintenance facilities	426,000	Leased
Vancouver — Technical Operations Centre	Offices, hangars, shops and simulator	1,076,000	Owned facilities on leased land
Vancouver — South Hangar	Offices, hangars, shops, stores	250,000	Owned facilities on leased land
Calgary International Airport	Hangar, commissary, ground support equipment and warehouse	234,000	Owned facilities on leased land
Winnipeg — Air Canada Building	Offices and computer centre	392,000	Leased facilities on owned land
Winnipeg Airport Maintenance Base	Offices, aircraft maintenance hangars and workshops	300,000	Owned facilities on leased land

Air Canada operates additional office, terminal, maintenance and/or cargo facilities under long-term leases at Toronto, Montreal, Vancouver, Calgary, London (England) and Los Angeles. Most of the hangar space and aircraft maintenance facilities in Montreal, Vancouver, Winnipeg and Toronto are leased or subleased by Air Canada to ACTS LP at market terms.

Safety and Security

Air Canada's first priority is to ensure the safety and security of its customers, employees and aircraft by maintaining the highest safety and security standards.

On August 10, 2006, Transport Canada announced the implementation of heightened security measures after a foiled attack with liquid explosives at Heathrow. Since September 26, 2006, in accordance with new Transport Canada security measures, Air Canada is able to allow passengers to bring on board limited and prescribed quantities of liquids, gels and aerosols.

On October 27, 2006, Transport Canada announced the details of a new Passenger Protect Program and draft regulations pursuant to which the Government of Canada will create a list of specified persons who will be deemed to pose an immediate threat to aviation security should they attempt to board a flight. Air carriers will be expected to screen passengers against the specified persons list through a secure online system. The Government of Canada has also proposed new identity screening regulations which will require air passengers to present government-issued identification showing name, date of birth and gender prior to boarding an aircraft. These measures will come into force for international flights as of June 4, 2007. Air Canada had proactively implemented similar procedures since the events of September 11, 2001.

Air Canada continues to work with the appropriate authorities to ensure full compliance with regulatory requirements, including new programs that will affect the airline industry:

- Air Canada is the first carrier in Canada to provide Transport Canada with a security management system. The security management system includes an oversight cycle that promotes compliance and conformity. It is also linked to a performance plan based on resilience and loss prevention.
- Air Canada is fully prepared to implement the new measures imposed by Transport Canada under the Passenger Protect Program as Air Canada already complies with similar requirements imposed by the Transport Security Agency, a U.S. government agency, for its "No Fly" and "Selectee" lists. Accordingly, the coming into force of the identity screening regulation is expected to have minimal, if any, impact on the operations of Air Canada as Air Canada had proactively implemented these procedures since the events of September 11, 2001.
- Air Canada is also working with the Canadian Air Transport Security Agency and other agencies to continuously improve security measures and to ensure that any innovation adopted by Air Canada maintains the highest degree of security.

Debt Financing

On October 12, 2006, Air Canada entered into an amended and restated credit agreement (the "Amended and Restated Credit Agreement") with a syndicate of lenders (the "Lenders") and an administrative agent (the "Agent"). The Amended and Restated Credit Agreement was intended to amend and restate the credit agreement entered into by Air Canada dated April 6, 2005 with a syndicate of lenders and the Agent.

At the closing of the initial public offering and secondary public offering of Air Canada on November 24, 2006, a $400 million senior secured revolving credit facility (the "Amended Credit Facility") was established in favour of Air Canada pursuant to the Amended and Restated Credit Agreement for working capital and general corporate purposes, of which up to $100 million may be used for the issuance of letters of credit provided exclusively by the Agent and of which up to $20 million may be used as a swingline facility provided exclusively by the Agent for cash management and working capital purposes. As at March 27, 2007, there was no amount drawn under the Amended Credit Facility. The total amount available for borrowing under the Amended Credit Facility is subject to a borrowing base restriction based on certain percentages of the values of eligible accounts receivable and eligible real estate. The accounts receivable of AC Cargo LP are also eligible for inclusion in the borrowing base if AC Cargo LP provides the Agent and the Lenders with a guarantee of Air Canada's obligations under the Amended Credit Facility together with a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations.

The Amended Credit Facility has a three year term that can be extended at Air Canada's option for additional one-year periods on each anniversary of the closing of the initial public offering and secondary public offering of Air Canada on November 24, 2006, subject to prior approval of Lenders holding no less than two thirds of the total commitments under the Amended Credit Facility. Any non-consenting Lenders will be allowed to withdraw from the Amended Credit Facility at the maturity date and may be replaced by other lenders; provided, however that the maturity date will not be so extended if the non-consenting Lenders hold in excess of one third of the total commitments under the Amended Credit Facility.

The Amended and Restated Credit Agreement is secured by a first priority security interest and hypothec over the present and after-acquired personal property of Air Canada, subject to certain exclusions and permitted liens, and by a first priority charge and hypothec over certain owned and leased real property of Air Canada. Air Canada's obligations under the Amended Credit Facility are also guaranteed by 1209265 Alberta Ltd., a subsidiary of Air Canada, which has provided a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations.

The Amended and Restated Credit Agreement contains customary representations and warranties and is subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations on paying distributions (including upon the occurrence and during the continuance of an event of default under the Amended and Restated Credit Agreement).

Trademarks

Air Canada believes that its trademarks are important to its competitive position. Air Canada is Air Canada's trade name and trademark. Other trademarks include Air Canada Jetz®, Air Canada Jazz®, Jazz™, Air Canada Vacations®, Vacances Air Canada®, Executive First®, Executive Class®, Expedair®, AC Expedair™, AC Priority™, AC Air Freight™, AC Lynx™, Hospitality Service®, Service Hospitalité®, Rapidair®, Maple Leaf™, Feuille d'Érable™, AC WEBSAVER™, Super Elite™ and Super Élite™. Air Canada has granted Aeroplan LP a license to use Air Canada® and Air Canada Roundel® trademarks around the world solely in association with the Aeroplan program. Air Canada protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures. Employees, service providers and partners are contractually bound to protect Air Canada's proprietary information in order to control access to and the distribution of any such information.

Employees

As at December 31, 2006, Air Canada had 23,101(3) full-time equivalent ("FTE") employees. The following table provides a breakdown of Air Canada's average FTE employees for the fourth quarter of 2006 and 2005 and for the full year 2006 and 2005 together with the unions that represent them.

Employee Group	Union(1)	Fourth quarter 2006	Fourth quarter 2005	2006	2005
Management and Administrative Support(3)	N/A(2)	3,017	3,504	3,191	3,410
Pilots	ACPA	2,708	2,541	2,625	2,546
Flight Attendants	CUPE	5,985	6,011	6,062	6,167
Customer Sales and Service Agents(3)	CAW/IBT	3,650	3,975	3,767	3,962
Technical Services, Ramp and Cargo(3)	IAMAW	6,812	6,924	6,812	6,766
United Kingdom Unionized Employees	Amicus/TGWU	697	682	691	704
Other Unionized		478	479	482	488
Air Canada Services		23,347	24,116	23,630	24,043

(1) ACPA: Air Canada Pilots Association; CUPE: Canadian Union of Public Employees; CAW: National Automobile, Aerospace, Transportation and General Workers Union of Canada; IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and TGWU: Transport and General Workers Union.
(2) Certain administrative support employees are represented by IAMAW.
(3) In addition to the numbers presented in the table above: (a) pursuant to the Aeroplan GSA (as defined herein), Aeroplan has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of call centre employees who are mainly represented by the CAW and a group of non-unionized employees currently working for Aeroplan's benefit. Such group represented 853 FTE employees as at December 31, 2006 and 852 FTE employees as at December 31, 2005. These employees are not included in the numbers presented above. See "Overview of the Business – Aeroplan – Long-Term Strategic Relationship with Air Canada"). In addition to the numbers presented in the above table, ACTS has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of unionized and a group of non-unionized employees currently working for the benefit of ACTS. Such groups represented 3,923 FTE employees as at December 31, 2006 and 4,063 FTE employees as at December 31, 2005. These employees are not included in the numbers presented above. On March 6, 2007, ACTS LP announced that it would permanently reduce 700 jobs at its Vancouver facility because of the early termination of its contract with Delta Air Lines for maintenance of the Delta Air Lines' Boeing 767 aircraft.

Air Canada has long-term collective bargaining agreements with its pilots, flight attendants, maintenance personnel, certain clerical and finance personnel, customer service agents, ramp and cargo employees, dispatchers and crew schedulers which were concluded in 2003 and 2004 and which expire in 2009. No strikes or lock-outs may lawfully occur during the term of the collective agreements. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. It is still awaiting the arbitrator's decision in respect of its flight attendants, who are represented by CUPE. The CUPE arbitration award decision is expected during the second quarter of 2007. The wage increases awarded or agreed upon range up to 2.6% per year until 2009.

In 2006, Air Canada continued to reduce its workforce of non-unionized employees. As part of a decision to proceed with the reduction of non-unionized staffing levels by 20% in order to further enhance efficiencies and in view of the difficult fuel cost environment, Air Canada has implemented a workforce reduction program for this employee group. As of March 27, 2007, approximately 78% of the planned non-unionized workforce reductions had been completed.

AEROPLAN

Overview

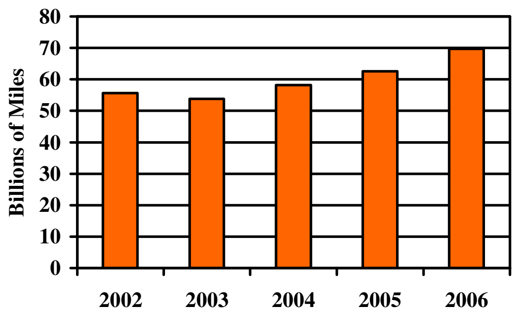
Aeroplan is Canada's premier loyalty marketing company. Aeroplan provides its Accumulation Partners (as defined herein) with loyalty marketing services to attract and retain customers and to stimulate demand for these partners' products and services. Aeroplan's objective is to offer (i) its commercial partners superior value relative to other marketing alternatives through access to Aeroplan's member base, and (ii) the design and execution of marketing programs aimed at increasing revenue, market share, and customer loyalty.

The Aeroplan Program is one of Canada's longest standing loyalty programs. It was founded in 1984 by Air Canada, Canada's largest domestic and full-service international airline, to manage the airline's frequent flyer program. Aeroplan benefits from its unique strategic relationship with Air Canada in addition to its contractual arrangements with leading commercial partners including Amex Bank of Canada ("AMEX"), Bell Canada, Canadian Imperial Bank of Commerce ("CIBC"), Imperial Oil (Esso), Star Alliance member airlines and numerous hotel chains and car rental companies.

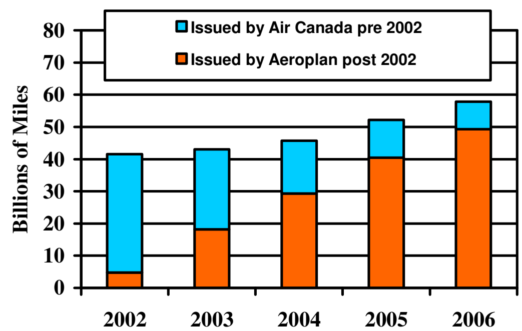
Aeroplan offers its approximately five million active members the ability to accumulate Aeroplan Miles throughout its Accumulation Partner network through purchases of products and services. Aeroplan sells loyalty marketing services, including Aeroplan Miles, to its extensive network of partners ("Accumulation Partners"), representing brands, in credit and charge card, airline and other industries. Today, credit and charge card partners generate the majority of Aeroplan's Gross Billings (as defined herein). In 2006, approximately 70 billion Aeroplan Miles were accumulated by members representing an equivalent of over $50 billion in consumer spending to earn these Aeroplan Miles. Once members have accumulated a sufficient number of Aeroplan Miles, they can redeem through Aeroplan such Aeroplan Miles for air travel and other attractive rewards offered by Aeroplan's redemption partners ("Redemption Partners"). Upon the redemption of Aeroplan Miles by its members, Aeroplan incurs the cost to acquire the desired reward.

The following charts illustrate the number of Aeroplan Miles issued and redeemed on an annual basis for the last five years. In addition, the charts include Aeroplan Miles that were earned by members prior to January 1, 2002, for which the responsibility to provide air rewards remains with Air Canada up to 112.4 billion Aeroplan Miles.

Annual Number of Aeroplan Miles Issued



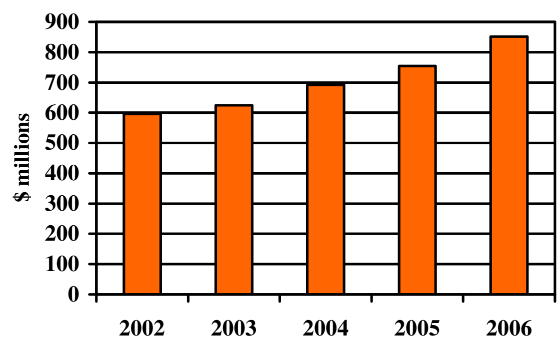
Annual Number of Aeroplan Miles Redeemed



For the year ended December 31, 2006, Aeroplan generated Gross Billings of $851.9 million. Aeroplan's top three Accumulation Partners were responsible for 91% of Gross Billings for the year ended 2006.

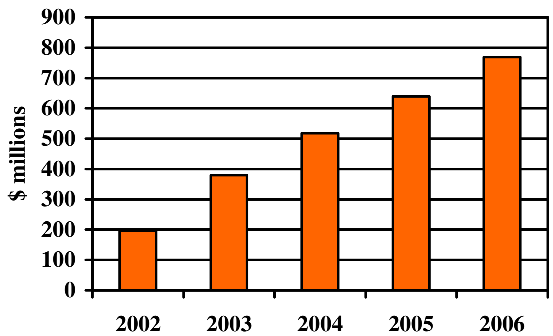
The following chart illustrates Gross Billings generated by Aeroplan for the years ended December 31, 2002, 2003, 2004, 2005 and 2006.

Gross Billings

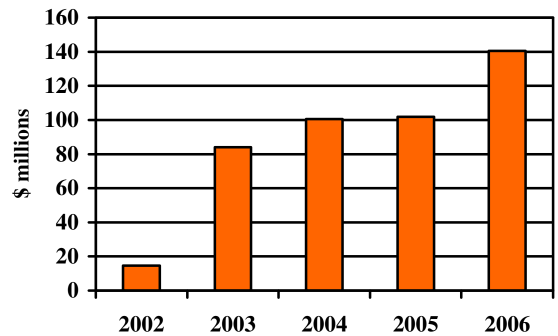


Reported amounts for Aeroplan's total revenue for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, were $195.8 million, $380.1 million, $518.0 million, $639.9 million and $769.4 million, respectively. In addition, reported amounts for Aeroplan's operating income for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, were $14.7 million, $84.0 million, $100.5 million, $101.9 million and $140.5 million, respectively. The following charts illustrate Aeroplan's total revenue and operating income for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 and the increasing impact over time of the higher proportion of Aeroplan Miles issued and redeemed by Aeroplan on or after January 1, 2002.

Total Revenue

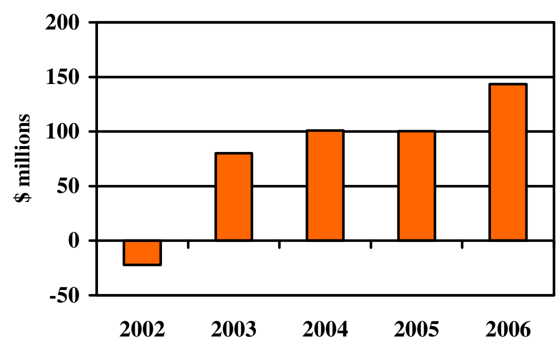


Operating Income



Reported amounts for Aeroplan's net income (loss) for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, were ($22.2) million, $80.2 million, $100.8 million, $100.3 million, and $143.5 million, respectively. The following chart illustrates Aeroplan's net income (loss) for the years ended December 31, 2002, 2003, 2004, 2005 and 2006.

Net Income (Loss)



Recent Aeroplan Management Initiatives

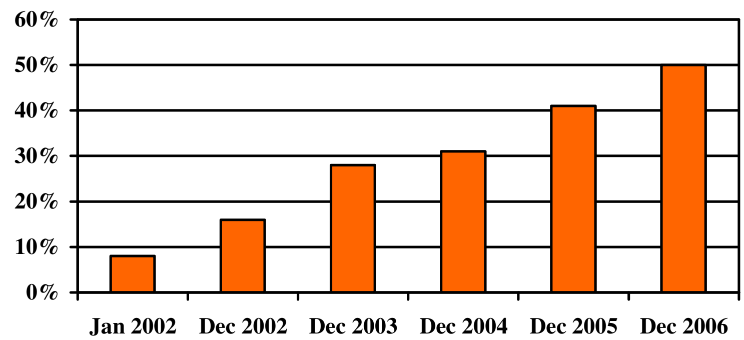
Since Aeroplan's establishment as a wholly-owned limited partnership of Air Canada on January 1, 2002, Aeroplan's management has initiated a number of significant changes aimed at improving its operations and achieving growth in profitability. Most notably, management implemented the initiatives described below.

Improving Member Services

Between 2005 and 2006 calls handled at Aeroplan's contact centres remained flat on a year-to-year basis with 3.6 million calls being processed. From 2005 to 2006, however, the average transaction time for calls handled at the contact centres was reduced by 6%, from 10.5 minutes per call to 9.9 minutes.

Aeroplan's customer service levels meet and frequently exceed industry standards in its comparative groups. With the launch of www.aeroplan.com in May 2002, Aeroplan invested significantly in the progressive development of its online presence, products and services. In 2005, a redesigned online redemption tool was launched for its suite of indulgence rewards, increasing the scope of the program and significantly improving the redemption experience for members. In 2006, Aeroplan completely redesigned its website with a major focus on enhancing usability and the user experience. Aeroplan's new ClassicPlus Flight Rewards were also introduced online in 2006. Since May 2002, Aeroplan has experienced growth in the adoption and use of its website which currently accounts for about 50% of air travel bookings and about 55% of all rewards booked (including non-air rewards).

Percentage of Online Air Bookings for Selected Months



In addition to the development of its contact centres and the *www.aeroplan.com* Internet site, Aeroplan also has an interactive voice recognition system to facilitate members' access to customer services. In December 2005, Aeroplan introduced an automated speech platform to improve self-service functionality which was progressively implemented throughout 2006 and is expected to be fully deployed in 2007. These complementary channels provide Aeroplan with an effective, multiple channel distribution strategy that offers its members a variety of options when redeeming rewards at significantly lower operating costs for the Company.

Increasing Revenue from Credit and Charge Card Partners

In April 2003, Air Canada renegotiated its long-term agreement with CIBC (the "CIBC Agreement"), the operator of Canada's largest retail card franchise and Aeroplan's largest source of Gross Billings. This renegotiation resulted in an increase in Gross Billings per Aeroplan Mile sold and also allowed for less restrictive exclusivity provisions. The CIBC Agreement was assigned by Air Canada to Aeroplan in July 2004. During the last quarter of 2006, Aeroplan and CIBC announced an amendment to the CIBC Agreement to include a 50% multiplier for every dollar spent (1.5 Aeroplan Miles earned) at grocery stores, gas stations and drug stores in Canada and abroad for Aerogold cardholders. Aeroplan and Air Canada also entered into a long-term agreement with AMEX in January 2004 in respect of the creation of the AeroplanPlus card products and the inclusion of Aeroplan in AMEX's Membership Rewards® program.

Acquiring Additional Capacity from Air Canada

Prior to 2004, Air Canada allocated 8% of its seat capacity to Aeroplan rewards. In April 2004, such allocation was increased to 15% under the Avenue Rewards program (which is no longer in effect).

On October 16, 2006, in order to improve reward travel choices and provide greater flexibility to make travel arrangements, Aeroplan introduced ClassicPlus Flight Rewards which offer Aeroplan members unrestricted access to available seat inventory across the Air Canada and Jazz networks in both Economy and Executive Class. ClassicPlus Flight Rewards offer improved flexibility for reward travel, complementing Aeroplan's existing

ClassicFlight and exclusive Star Alliance Flight Rewards. Together, Aeroplan’s flight products provide global reward travel options to more than 850 destinations.

ClassicPlus Flight Rewards effectively replaced the Avenue Rewards product launched in April 2004. The existing ClassicFlight Rewards have not changed and continue to be a core element of Aeroplan’s value proposition to members. These rewards will continue to represent 8% of Air Canada and Jazz seat capacity on every route, every month. ClassicPlus Flight Rewards are currently not available to a limited number of destinations that do not support electronic tickets. However, electronic ticketing is now available throughout Canada and most of Air Canada’s transborder and international destinations, with all destinations planned for electronic ticketing in the near future**.**

With ClassicPlus Flight Rewards, all capacity available over and above the 8% ClassicFlight Rewards capacity, is offered to members at variable mileage levels. Aeroplan uses a new and innovative availability and booking tool to source seat inventory and to calculate mileage levels on a real-time basis. The number of Aeroplan Miles required to redeem for ClassicPlus Flight Rewards is based on actual airline ticket prices – minus Aeroplan’s negotiated discounts as the airline’s largest purchaser of seats – and therefore varies in a way similar to airline pricing, depending on factors such as origin, destination, seasonality, time and day of travel.

Adding Consumer Products and Services Partners

Over the last three years, Aeroplan actively pursued opportunities to increase its partner base with the objective of further expanding its sources of revenue. Aeroplan signed major, nationally recognized retail brand name partners such as Bell Canada and Imperial Oil (Esso) and in 2006 signed Home Hardware. These new partners were selected from retail categories which represent substantial spending by Aeroplan's member base. Aeroplan will continue to seek to sign on and leverage highly recognizable national brand names. Aeroplan also intends to seek product categories where members can "double dip" on Aeroplan Miles. For example, if an Aeroplan member purchases gasoline at Esso using a CIBC Aerogold Visa card, such member receives Aeroplan Miles from both Esso and CIBC.

Diversifying Reward Portfolio

In 2006, as part of its continuing strategy to expand and diversify reward opportunities for its members, Aeroplan added many new rewards to its non-air reward portfolio which by year end offered over 400 such rewards to members for redemption. By the end of 2006, the reward portfolio had expanded to include a wide range of brand name merchandise, gift cards from over 20 national retailers, unique experiential rewards, and the launch of Aeroplan pre-paid gift cards powered by AMEX in eight different categories. Aeroplan’s online booking engine was further expanded to include car rental rewards from National Car Rental and hotel rewards from Best Western, the world’s largest hotel chain. Member response has been consistently positive to the increasing choice and value that non-air rewards provide.

Launching a New Brand Identity

Aeroplan redesigned its brand strategy and commissioned the creation of a new brand identity in late 2003. Two principal factors emerged as drivers of this initiative: (i) the needs of the large non-frequent flyer member base, and (ii) the requirements for branding in the emerging consumer products and services sector of Aeroplan's business. In 2004, Aeroplan launched its new brand identity through its first mass media campaign. Aeroplan's new logo was an award winner for innovation, being included in the 2004 Design Annual edition of the prestigious United States based Communication Arts magazine. Aeroplan initiated a second major mass media campaign in late 2006 that featured the new brand identity in support of the launch of ClassicPlus Flight Rewards.

Aeroplan’s Business Model

In general terms, Aeroplan's business is based on two major streams of activity: (i) the sale of Aeroplan Miles and marketing services to Aeroplan's Accumulation Partners; and (ii) delivering rewards to Aeroplan's members through the purchase of rewards from its Redemption Partners.

Sale of Aeroplan Miles and Marketing Services to Accumulation Partners

Aeroplan derives its Gross Billings (as defined herein) from the sale of Aeroplan Miles and marketing services to its Accumulation Partners. The marketing services consist primarily of advertising, promotion and data analytics. In addition, Aeroplan derives service fees for managing Air Canada’s tier membership program for its most frequent flyers.

Members accumulate Aeroplan Miles through their purchase of products and services from an extensive network of Accumulation Partners, representing brands in credit and charge card, airline, and other industries.

The gross proceeds received by Aeroplan at the time of sale of Aeroplan Miles to its partners, known as "Gross Billings", are deferred and recognized as revenue upon the redemption of Aeroplan Miles for GAAP purposes, except for Breakage as described below. Upon the redemption of Aeroplan Miles, Aeroplan purchases airline seats or other products or services in order to deliver the reward chosen by the member. At such time, Aeroplan incurs and recognizes an expense equal to the cost of the reward, and the deferred revenue related to the Aeroplan Miles being redeemed is recognized as earned revenue from the sale of Aeroplan Miles for GAAP purposes. The other significant expenses incurred by Aeroplan include contact centre expenses and selling and administrative expenses.

Based upon past experience, Aeroplan’s management anticipates that a number of Aeroplan Miles issued will never be redeemed by members. This is known as "Breakage" and is presently estimated by Aeroplan’s management to be 17% of current Aeroplan Miles issued. This estimate is supported by two independent studies conducted in 2004 on behalf of Aeroplan which were updated in 2006. Prior to 2004, Breakage was estimated to be 19% of the Aeroplan Miles sold. For those Aeroplan Miles that Aeroplan has estimated will never be redeemed by members, Aeroplan recognizes revenue on a straight-line basis over the average time between the issuance and redemption of an Aeroplan Mile, referred to as the estimated life of an Aeroplan Mile, currently 30 months.

Aeroplan’s management believes that the issuance and redemption of Aeroplan Miles are influenced by the nature and volume of Commercial Partners, the types of rewards offered, the general economic activity level and the activity level of competing loyalty marketing programs. These influences could affect redemption and breakage rates. As of December 31, 2006, Aeroplan had approximately $1.5 billion in deferred revenue that will be recognized for GAAP purposes in the future upon the redemption of outstanding unredeemed Aeroplan Miles.

On an ongoing basis, the total estimated redemption cost for outstanding Aeroplan Miles is determined by Aeroplan as the product of (i) total outstanding number of unredeemed Aeroplan Miles on a specific measurement date net of estimated Breakage, and (ii) the average unit cost per Aeroplan Mile redeemed in the period. Given that the future unit cost per Aeroplan Mile redeemed may fluctuate, the Future Redemption Cost liability is periodically reevaluated using the average unit cost per Aeroplan Mile redeemed in the most recent period ("Future Redemption Cost" means the total estimated liability of the future cost of rewards for Aeroplan Miles which have been sold and remain outstanding, net of Breakage, and valued at the latest available Average Cost of Rewards per Mile experienced during the most recent quarter (for interim periods) or fiscal year (for annual reporting purposes)).

Service fees are charged for the sale of marketing services to Aeroplan’s partners and for the management of Air Canada’s frequent flyer tier membership program. In addition, Aeroplan collects various fees that may be charged to members upon redemption of Aeroplan Miles, including booking, service and administrative fees.

Redemption Rewards Purchased from Redemption Partners

Once members have accumulated a sufficient number of Aeroplan Miles, members are entitled to redeem their Aeroplan Miles from Aeroplan’s reward portfolio offered through the Company's Redemption Partners. Initially, these rewards were restricted to air travel. Beginning in 2003, Aeroplan made a strategic shift to expand the reward portfolio in order to directly respond to all key areas of interest of the membership. By 2005, in addition to air travel on Air Canada, Jazz and the Star Alliance carriers, the reward portfolio included worldwide car and hotel rewards, a broad selection of brand name merchandise and unique experiential rewards.

On October 16, 2006, in order to improve reward travel choices and provide greater flexibility to make travel arrangements, Aeroplan introduced ClassicPlus Flight Rewards, which offer Aeroplan members unrestricted access to available seat inventory across the entire Air Canada and Jazz networks in both Economy and Executive Class. ClassicPlus Flight Rewards offer significantly improved flexibility for reward travel, complementing Aeroplan's existing ClassicFlight and exclusive Star Alliance Flight Rewards. Together, Aeroplan's flight products provide global reward travel options to more than 850 destinations.

ClassicPlus Flight Rewards effectively replaced the Avenue Rewards product launched in April 2004. The existing ClassicFlight Rewards has not changed and continue to be a core element of Aeroplan's value proposition to members. These rewards will continue to represent 8% of Air Canada and Jazz seat capacity on every route, every month. ClassicPlus Flight Rewards are currently not available to a limited number of destinations that do not support electronic tickets. However, electronic ticketing is now available throughout Canada and most of Air Canada's transborder and international destinations, with all destinations planned for electronic ticketing in the near future.

With ClassicPlus Flight Rewards, all capacity available over and above the 8% ClassicFlight Rewards capacity is offered to members at variable mileage levels. Aeroplan uses a new and innovative availability and booking tool to source seat inventory and to calculate mileage levels on a real-time basis. The number of Aeroplan Miles required to redeem for ClassicPlus Flight Rewards is based on actual airline ticket prices – minus Aeroplan's negotiated discounts as the airline's largest purchaser of seats – and therefore varies in a way similar to airline pricing, depending on factors such as origin, destination, seasonality, time and day of travel.

In 2006, as part of its continuing strategy to expand and diversify reward opportunities for its members, Aeroplan added many new rewards to its non-air reward portfolio which by year end offered over 400 such rewards to members for redemption. By year end, the reward portfolio had expanded to include a wide range of brand name merchandise, gift cards from over 20 national retailers, unique experiential rewards, and the launch of Aeroplan pre-paid gift cards powered by AMEX in eight different categories. Aeroplan's online booking engine was further expanded to include car rental rewards from National Car Rental and hotel rewards from Best Western, the world's largest hotel chain. Member response has been consistently positive to the increasing choice and value that non-air rewards provide.

Air travel remains the most popular reward among members, representing approximately 90% of all rewards claimed by Aeroplan members in 2006. Aeroplan issued nearly ten million air travel rewards over the last ten years, and over 1.4 million in 2006 alone.

Accumulation Partners

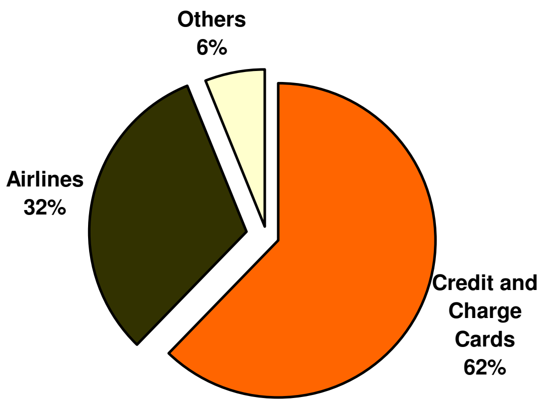
Aeroplan attracts and retains Accumulation Partners based on the value of (i) its member base as a target market for such Accumulation Partners, (ii) the loyalty demonstrated by Aeroplan members with their sustained purchases of partners' products and services, and (iii) the portfolio of value-added marketing services offered by Aeroplan.

Today, Aeroplan has commercial relationships with Accumulation Partners which can be divided into three main categories:

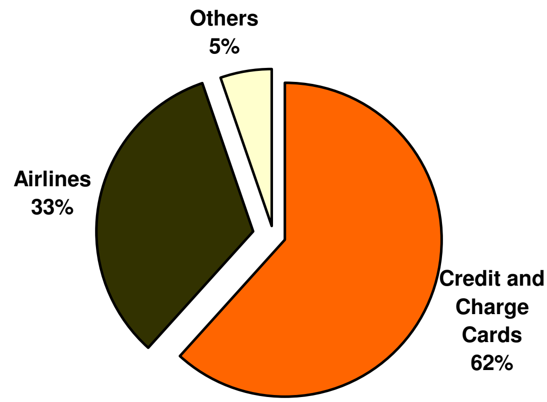
- credit and charge cards;
- airlines; and
- others.

The charts below illustrate Gross Billings in 2005 and 2006 from the sale of Aeroplan Miles by category.

2005 Gross Billings



2006 Gross Billings



Credit and Charge Cards

Overall, the credit and charge card category accounted for approximately 62% of total Gross Billings in 2006 from the sale of Aeroplan Miles to Aeroplan's three partners in this sector: CIBC, AMEX and MBNA America Bank, N.A. ("MBNA").

CIBC

Pursuant to the CIBC Agreement, CIBC administers various Visa and other products through which Aeroplan members can accumulate Aeroplan Miles through their credit card and other spending. In exchange, Aeroplan receives Gross Billings for the Aeroplan Miles credited to participating CIBC Visa cardholders' accounts based on the value of the purchases charged to such cards and other products purchased. Members accumulate Aeroplan Miles based upon an earnings ratio specific to the particular type of card or other product for purchases charged to such card or amounts spent on other products. The CIBC Agreement has a term in excess of five years with renewal provisions.

Aeroplan's association with CIBC started in late 1991, with the launch of the CIBC Aerogold Visa card. Throughout this long-standing relationship, many card innovations have been implemented, enriching the portfolio with complementary products such as CIBC Aerogold Visa card for Business and CIBC AeroCorporate Visa card for business spending. Each CIBC/Aeroplan co-branded Visa card offers a unique set of features and benefits.

AMEX

Pursuant to the AMEX Agreement, AMEX administers various American Express products through which Aeroplan members can accumulate Aeroplan Miles through their card spending. In exchange, Aeroplan receives revenue for the Aeroplan Miles credited to participating AMEX cardholders' accounts based on the value of the purchases charged to such cards. Cardholders accumulate Aeroplan Miles based upon an earnings ratio specific to the particular type of card for purchases charged to such card. The AMEX Agreement has a term in excess of five years with renewal provisions.

AMEX currently offers three card products for consumers: AMEX AeroplanPlus, AMEX AeroplanPlus Gold and AMEX AeroplanPlus Platinum. AMEX also offers the AMEX AeroplanPlus Corporate card. Each AMEX card offers a unique set of features and benefits.

In addition, AMEX operates its own points program called Membership Rewards® that allows certain participants to convert points into Aeroplan Miles.

MBNA

On May 15, 2002, Aeroplan entered into an agreement with MBNA pursuant to which MBNA agreed to offer jointly branded Mastercard credit card products to Aeroplan members who are residents of the United States to allow those Aeroplan members to accumulate Aeroplan Miles through their credit card spending. Cardholders accumulate Aeroplan Miles based upon an earnings ratio specific to the particular card for purchases charged to such card.

Airlines

The airline category accounted for approximately 33% of total Gross Billings in 2006 from the sale of Aeroplan Miles and is comprised of approximately 20 partners, including airlines, most notably Air Canada, Jazz and other Star Alliance member airlines.

Air Canada

Air Canada, Canada's largest domestic and international full-service airline, is one of Aeroplan's leading Accumulation Partners purchasing a high volume of Aeroplan Miles annually for the purpose of awarding Aeroplan Miles to its customers. Aeroplan members can accumulate Aeroplan Miles for travel on flights operated by Air Canada and Jazz.

Star Alliance

Aeroplan members can accumulate Aeroplan Miles for travel on flights operated by many of the Star Alliance member airlines. The Star Alliance network, the world's largest airline alliance group, has grown since its inception in 1997 to include the following 17 airlines: Air Canada, United Airlines, Lufthansa, SAS, Thai Airways, Air New Zealand, All Nippon Airways, Austrian Airlines, Singapore Airlines, British Midland, Asiana Airlines, Swiss International, Spanair, South African Airways, LOT Polish Airlines, US Airways and TAP Air Portugal. The Star Alliance network also includes three regional members: Blue 1 (Finland), Adria Airways and Croatia Airlines.

Others

This category accounted for approximately 5% of Gross Billings in 2006 from the sale of loyalty marketing services, including Aeroplan Miles.

Cars and Hotels

Many of the leading Canadian and internationally recognized car rental and hotel companies have joined the Aeroplan Program. Aeroplan's broad-reaching car rental and hotel partner network provides its members with the opportunity to accumulate Aeroplan Miles at a variety of partner locations and also the benefit of being recognized as an Aeroplan Program member when they travel domestically and internationally.

Consumer Products and Services

The consumer products and services sector is the newest sector to be added to the Aeroplan Program.

Aeroplan's top two partners in this sector based on Gross Billings are currently Bell Canada and Imperial Oil (Esso). Bell Canada provides wireline and wireless communications services, Internet access, data services and video services to residential and business customers. Pursuant to a Canada-wide, multi-year relationship entered into in October 2004, Aeroplan members can also accumulate Aeroplan Miles on purchases of eligible products and services, including fuel, car washes and convenience items, at approximately 2,000 Imperial Oil (Esso) branded retail outlets.

During 2006 Aeroplan continued to implement its retail and consumer products strategy by: (i) signing Sun Life Financial, ING, Home Hardware, Uniprix, and XM Radio as Accumulation Partners, (ii) signing promotional partnerships with Costco, Pepsi-QTG and Chrysler, and (iii) initiating a home moving services program under the name of Aeromove™.

Aeroplan is making progress in negotiating and signing on Accumulation Partners in consumer products and services; however, this process is taking longer than originally anticipated.

Members

Membership

Aeroplan currently has approximately five million active members, consisting of those members who have completed at least one transaction (either accumulating or redeeming an Aeroplan Mile) during the last three years.

Starting January 1, 2007, miles that are unused after 7 years (84 months) in a member's account will expire and will be deducted from the total balance in the member's account. All Aeroplan Miles issued prior to January 1, 2007 are considered as having been accumulated on December 31, 2006 for the purpose of the 7-year period, resulting in a potential expiry date of December 31, 2013.

From July 1, 2007 forward, the terms of the mileage expiry policy will be changed to require members to transact with the program, through either one accumulation or one redemption, at least once in a consecutive 12-month period, failing which accumulated Aeroplan Miles in the account will be expired.

Aeroplan anticipates that as a result of this change to its mileage expiry policy, the number of its active members will be reduced.

Communications to Members

Regular communication with individual members through newsletters, monthly statements and periodic special mailings is a cornerstone of the Aeroplan Program. Subsequent to the completion of a study in 2003 and 2004 on the effectiveness of its member communications, Aeroplan's portfolio of member communications and its list of strategic suppliers were revised in 2005 to offer members more choice in channels, more flexible tools and increased potential for highly targeted and relevant messages. The evolution of Aeroplan's member communication continued in 2006 with the implementation of automated marketing management tools which increased Aeroplan's capacity to accommodate the communication needs of its growing list of Commercial Partners. In addition, both on-line and off-line communication vehicles were re-designed in 2006 for deployment in 2007 in order to be better positioned to leverage Aeroplan's segmentation models and increased campaign management effectiveness.

Over two million members now receive statements and other information from Aeroplan by electronic mail.

Protecting the Privacy of Aeroplan's Members

As set out in Aeroplan's privacy policy, Aeroplan is committed to protecting the personal information of its members and of foremost concern is its members' trust in Aeroplan's custodianship of their personal information. Aeroplan is committed to constant self-evaluation of its practices and procedures and to responding to members' comments in order to meet their expectations in this regard. Aeroplan collects, uses, and discloses member information to administer the Aeroplan Program and to offer its members rewards, benefits, products, goods and services under the Aeroplan Program. Aeroplan does not collect, use or disclose personal information about a member without consent except as may otherwise be permitted or required by law. Aeroplan's members may opt out of its marketing lists which are used to promote special offers from Aeroplan and its partners. Aeroplan uses contractual provisions to ensure that its commercial partners are bound to protect consumer privacy. Aeroplan's privacy policy is designed to meet or exceed the requirements of Canadian privacy law, including PIPEDA, and the principles set forth in the Canadian *National Standard for the Protection of Personal Information* (CAN/CSA-Q830-96). Aeroplan's Code of Ethics and Business Conduct reinforces its commitment to protecting privacy. Aeroplan's investment in this regard contributes to building corporate trust, its reputation, and brand.

Operations

Member Segmentation and Data Analysis

Aeroplan develops member segmentation models using its members' purchasing behaviour data. The current model identifies different categories of members based on key behavioural indicators including flying patterns, accumulation sources and rate, tenure in the Aeroplan Program, and other factors. Aeroplan's communications with its members have become more relevant and meaningful to members, and the information emerging from the model drives such communications. Aeroplan's capacity to provide targeted communications presents a value-added marketing tool to its commercial partners at competitive rates to alternative mass media.

The objectives of such targeted communication are: (i) to increase members' spending and accumulation of Aeroplan Miles with different Accumulation Partners, (ii) to accelerate the activation of new members, and (iii) to maximize the retention of members in the Aeroplan Program by encouraging their active participation in the Aeroplan Program through accumulation and redemption.

All Accumulation Partners are given communications access to targeted members through Aeroplan's member communications, including direct mail, email and new member fulfillment materials, and Aeroplan's Internet site *www.aeroplan.com*. Aeroplan has specialized marketing planning expertise for each of the major industry sectors in which it has significant Accumulation Partners. Aeroplan also offers dedicated and coalition marketing promotions for Accumulation Partners which often take the form of multi-channel national campaigns, including point-of-sale promotions, national advertising and direct marketing.

Member Servicing and Distribution

Prior to 2002, Aeroplan rewards were exclusively distributed through contact centres. Since then, other channels have been developed and distribution is now handled through a combination of contact centres and Aeroplan's Internet site *www.aeroplan.com*. In December 2005, Aeroplan began introducing an automated speech platform to improve self-service functionality which was progressively implemented throughout 2006 and is expected to be fully deployed in 2007. These channels provide Aeroplan with an effective distribution strategy that offers its members a variety of options when redeeming rewards.

Contact Centre Operations. There are two Aeroplan contact centres, one located in Vancouver and the other in Montreal. The contact centres are staffed by a skilled workforce who receive extensive training upon joining Aeroplan and on an ongoing basis. The Vancouver and Montreal contact centres are staffed with approximately 530 and 300 full-time equivalent agents, respectively. The centres are managed by a team of contact centre managers who are accountable for performance and continued productivity improvements.

The centres handle approximately 3.8 million calls per year, which are primarily for booking air reward redemptions. Agents' knowledge of the Aeroplan Program allows them to guide and advise members on how best to utilize the Aeroplan Program. In addition, the contact centres provide product support by answering member queries and provide administrative support for product fulfillment, including ticketing and account crediting.

Aeroplan's Website.aeroplan.com. Aeroplan's website, first introduced in 2002, now accounts for about 50% of all air travel rewards issued by Aeroplan. It also accounts for all non-air travel rewards issued. Over the last four years, major investments in Aeroplan's Internet site have allowed Aeroplan to offer a self-service alternative to members, to optimize communications to members, and to lower overall costs. In 2006, Aeroplan implemented the next phase of development of its Internet site, introducing enhanced user experience, a state-of-the-art booking engine with shopping cart functionality and increased on-line booking functionality. The number of visits to *aeroplan.com* was over 20 million in 2006.

Systems and Infrastructure

Aeroplan's technology organization consists of skilled individuals with strong business knowledge. While project management, systems analysis, strategy and architecture functions are performed internally, Aeroplan relies on external technology partners to perform systems operations and applications development. All systems and infrastructure are designed to safeguard and protect Aeroplan's members' data from unauthorized access, use or disclosure.

Direct Marketing (DM) System. Aeroplan's core system is where member profile information and transactional data is managed and stored. Data is exchanged electronically through a set of predefined solutions to suit Aeroplan's partners' requirements. Connectivity to DM can be batch or real-time allowing access to up-to-the minute information. The DM system was designed by Aeroplan, providing it with a competitive advantage. The system has the ability to host multiple loyalty programs.

Business Intelligence (BI) Infrastructure. Aeroplan's business intelligence system was implemented in 2004 and uses industry leading analytical tools. It features three components providing Aeroplan and its partners significant strategic benefits:

- highly sophisticated analytical software enabling predictive modeling and trend analysis;
- on-line campaign management; and
- enterprise and partner self-service reporting, including daily and monthly accumulation reporting for financial purposes and partner verification.

Telephony. The telephone system used by Aeroplan is a highly advanced and integrated system. Together with its call forecasting and workforce management system, it maximizes use of resources available at the Vancouver and Montreal contact centres.

Long-Term Strategic Relationship with Air Canada

Aeroplan has a long-term strategic relationship with Air Canada, Canada's largest domestic and international full-service airline.

Aeroplan's management believes that Aeroplan's strategic relationship with Air Canada results in several competitive advantages to Aeroplan, including:

- an affiliation with the strong Air Canada brand;
- Aeroplan's role as Air Canada's exclusive loyalty marketing provider based in Canada;
- attractive rates for seat capacity on the Air Canada and Jazz networks based on Aeroplan's status as Air Canada's largest customer; and
- access to Air Canada's passengers for the purposes of acquiring new Aeroplan members.

Aeroplan is a party to the following five major agreements with Air Canada: (i) an Amended and Restated Commercial Participation and Services Agreement dated June 9, 2004, as amended, including by the agreements dated May 13, 2005 and October 13, 2006 ("CPSA"); (ii) a Database Agreement dated May 13, 2005, effective January 1, 2002; (iii) an Amended and Restated Master Services Agreement dated May 13, 2005, effective January 1, 2005 ("MSA"); (iv) a General Services Agreement dated May 13, 2005, effective January 1, 2005 ("Aeroplan GSA"); and (v) Trademark License Agreements dated May 13, 2005 and November 23, 2006.

Logos and Trademarks

Aeroplan’s management believes that its trademarks are important to its competitive position. Aeroplan™, Aéroplan™, Aeroplan Design™, Aéroplan Design™, AeroCorporate™, AéroEntreprise™, Aeroplan Plus™, Aerogold™, Aéro Or™ and Aeromove™ are registered trademarks owned by Aeroplan in Canada. Aeroplan also owns additional trademarks in connection with its loyalty marketing business. Air Canada has granted Aeroplan LP a license to use the Air Canada™ and Air Canada Roundel™ trademarks around the world solely in association with the Aeroplan Program. The Fund has been granted a license to use the Aeroplan™, Aéroplan™, Aeroplan Design™ and Aéroplan Design™ trademarks in Canada.

Aeroplan's intangible assets are an important part of its business. Aeroplan benefits from the goodwill established for the Aeroplan brand name. Aeroplan protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures. Employees, service providers and partners are contractually bound to protect Aeroplan's proprietary information in order to control access to and the distribution of any such information.

Debt Financing

On June 29, 2005, concurrent with the closing of Aeroplan Income Fund's initial public offering, Aeroplan entered into a credit agreement ("Aeroplan New Credit Facilities") comprising of a $300 million (or the U.S. dollar equivalent thereof) term A facility ("Aeroplan Term Facility"), a $100 million (or the US dollar equivalent thereof) term B facility ("Aeroplan Acquisition Facility"), and a $75 million (or the U.S. dollar equivalent thereof) revolving credit facility ("Aeroplan Revolving Facility").

The Aeroplan New Credit Facilities are provided by a syndicate of lenders ("Aeroplan Lenders") with the Royal Bank of Canada acting as the administrative agent. Each of the Aeroplan Term Facility and the Aeroplan Acquisition Facility have a four year term and mature on June 29, 2009, or earlier, at the option of Aeroplan. The three year term of the Aeroplan Revolving Facility was extended in 2006 and now matures on June 29, 2009, instead of June 29, 2008.

The term of the Aeroplan Revolving Facility may be extended at Aeroplan LP's option for additional one-year periods on each anniversary of the closing of the initial public offering, subject to prior approval by Aeroplan Lenders holding no less than two thirds of the total commitment under the Aeroplan Revolving Facility. Non-consenting Aeroplan Lenders are allowed to withdraw from the Aeroplan Revolving Facility at the maturity date. Non-consenting Aeroplan Lenders may be replaced by other lenders, failing which the amount available under the Aeroplan Revolving Facility may be reduced. All of the Aeroplan Lenders consented to the said June 29, 2009 extension to the term under the Aeroplan Revolving Facility.

The Aeroplan Term Facility was available in one drawdown on the closing of Aeroplan Income Fund's initial public offering to fund a portion of a reserve of Aeroplan's management estimate of Future Redemption Costs in respect of unredeemed Aeroplan Miles outstanding (the "Aeroplan Miles Redemption Reserve") and certain capital expenditures in the aggregate amount of $7 million, with the remainder available to repay the promissory note issued by Aeroplan in favour of APLN Limited Partnership, as partial consideration under an acquisition agreement between APLN Limited Partnership and Aeroplan whereby Aeroplan acquired all or substantially all the assets of APLN Limited Partnership (subject to certain adjustments) in an amount equal to $125 million. The Aeroplan Acquisition Facility is available for multiple drawings to fund permitted acquisitions. Under the Aeroplan Revolving Facility, up to $25 million was available on the closing of the initial public offering for general corporate and working capital purposes with the balance fully available thereafter. A swingline facility of up to $5 million is also available as a sub-component of the Aeroplan Revolving Facility for cash management and working capital purposes.

On the closing of the initial public offering, $300 million was drawn under the Aeroplan Term Facility, and as at December 31, 2006, the amount outstanding under the Aeroplan Term Facility remains $300 million. As at December 31, 2006, no amounts were drawn under the Aeroplan Acquisition Facility. An amount of $18 million was drawn under the Revolving Facility on June 29, 2005, concurrent with the closing of the initial public offering, for general and working capital purposes and repaid in September 2005. As at December 31, 2006, no amounts were drawn under the Revolving Facility.

The New Credit Facilities are secured by substantially all of the present and future assets of Aeroplan, subject to a priority guarantee granted jointly and severally by Aeroplan in favour of First Data Loan Company, Canada. This priority guarantee arises in connection with a merchant services agreement dated September 30, 2004 entered into with First Data Loan Company, Canada by Aeroplan, Air Canada and other ACE investments. Aeroplan's maximum exposure under this guarantee as at December 31, 2006 and December 31, 2005 was $205.2 million and $155.2 million, respectively.

Aeroplan's obligations in respect of the New Credit Facilities are also guaranteed by Aeroplan Trust. As security for its guarantee obligations, Aeroplan Trust provided a first ranking security over all of its present and future assets**,** including a first ranking pledge of all securities held by Aeroplan in Aeroplan and Aeroplan Holding GP Inc., subject to certain exclusions and permitted liens.

The Aeroplan New Credit Facilities contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial and other covenants and events of default) for borrowings of this nature, including limitations on paying distributions.

The terms of the Aeroplan New Credit Facilities include certain covenants limiting the aggregate amount of distributions by Aeroplan to holders of record of units of Aeroplan during any twelve-month period from exceeding the aggregate distributable cash of Aeroplan during such period. Distributions by Aeroplan are also prohibited upon the occurrence and continuance of an event of default under the Aeroplan New Credit Facilities.

Other

Facilities

Aeroplan is party to two real estate leases with Air Canada for the following premises: (i) 40,902 square feet of office space and contact centres located at the Vancouver International Airport at 6001 Grant McConachie, Richmond, British Columbia, and (ii) 11,255 square feet of office space at 50 Bay Street, Toronto, Ontario. Aeroplan previously rented 91,476 square feet of office space and contact centres from Air Canada at 5100 de Maisonneuve Boulevard West, Montreal, Québec. In 2006, Air Canada sold its real estate at 5100 de Maisonneuve Boulevard West and since the date of sale, the lease has been between Aeroplan and the purchaser of the property.

All of such leases are at market rates for five-year terms commencing January 1, 2004 with certain renewal and expansion rights.

Environmental

Aeroplan's operations do not create environmental consequences, and Aeroplan has not identified any existing or potential environmental hazards at any of its leased facilities, nor has it received any inquiry or notice that has resulted, or may reasonably be expected to result in, actual or potential proceedings, claims, lawsuits or losses related to environmental liabilities.

Employees

Aeroplan has offices in Montreal, Vancouver and Toronto, with approximately 830 full-time equivalent contact centre agents and approximately 250 management employees.

The Montreal offices serve as Aeroplan's headquarters and house one of its contact centres, with approximately 300 full-time equivalent contact centre agents. Aeroplan's Vancouver offices house Aeroplan's second contact centre with approximately 530 full-time equivalent contact centre agents. The Toronto office serves as Aeroplan's base for commercial development of the Aeroplan Program.

The contact centre agents are currently employees of Air Canada. Access to such employees is provided to Aeroplan pursuant to the Aeroplan GSA. While the contact centre agents are covered by the terms and conditions of a collective agreement between Air Canada and the CAW effective August 7, 2003 and expiring on May 31, 2009, Aeroplan supervises this sub-set of the larger bargaining unit.

Management resources across Aeroplan are primarily concentrated on commercial functions (marketing, Commercial Partner and business development), comprising over 30% of the management employees. Contact centre management represents the next largest group with approximately 30%, followed by technology and other corporate functions at approximately 20% and 15%, respectively.

JAZZ

Overview

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada's domestic and transborder market presence and strategy. Under the Amended and Restated Capacity Purchase Agreement dated January 1, 2006 (the "CPA") with Air Canada, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. During 2006, Jazz provided approximately 720 average daily departures to 59 destinations in Canada and 31 destinations in the United States. At peak demand periods in 2006, Jazz completed scheduled passenger service on behalf of Air Canada with approximately 856 departures per weekday to 56 destinations in Canada and 29 destinations in the United States with a fleet of 135 aircraft. Domestic departures account for approximately 77% and transborder departures account for approximately 23%.

Jazz is the focal point of Air Canada's regional passenger strategy, providing Air Canada with approximately 97% of its regional airline capacity based on ASMs. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes. Jazz's operations also complement Air Canada's operations by allowing more frequent service in lower density markets than could be provided economically with conventional large jet aircraft.

Jazz's business model was transformed upon the emergence of Air Canada and Jazz Air Inc., a corporation incorporated under the laws of Canada and liquidated as of September 30, 2004 from the CCAA by virtue of the implementation of significant cost reductions, the introduction of new regional jet aircraft and the entering into of the capacity purchase agreement between Air Canada and Jazz Air Limited Partnership (the "Successor Partnership") which was in effect from October 1, 2004 until December 31, 2005 ("Initial CPA").

Pursuant to the CPA, Air Canada purchases capacity from Jazz on Jazz's aircraft subject to the CPA (the "Covered Aircraft") in consideration for the payment of certain fees by Air Canada to Jazz. During the period from October 1, 2004 to December 31, 2006, Jazz derived substantially all of its revenues (99%) from the Initial CPA and the CPA. Air Canada currently purchases capacity representing substantially all of the capacity of the 133 Covered Aircraft. In addition, the current 2006 – 2008 high level operating plan provided by Air Canada to Jazz for rate setting purposes only (the "2006 – 2008 High Level Operating Plan") provides for Air Canada to continue to purchase substantially all of the capacity of the Covered Aircraft for such period. The 2006 – 2008 High Level Operating Plan is subject to annual and seasonal (twice-a-year) revisions. Notwithstanding any such revisions, Air Canada must purchase a minimum amount of capacity from Jazz until the expiry of the CPA in December 2015.

Jazz operates its flights on behalf of Air Canada using the Covered Aircraft, and provides all crews (flight and cabin), aircraft maintenance and, in some cases, airport operations for such flights. Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for these flights.

Under the CPA, Jazz is paid fees by Air Canada on a variety of different metrics based on an estimate of all costs and expenses to be incurred and paid by Jazz for the applicable period with respect to Scheduled Flights and other services to aircraft, other than Jazz's pass-through costs (the "Controllable Costs"), marked-up by a specified percentage. Such mark-up equates to a specified margin on an estimate of Jazz's revenues from the flights on the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the CPA (the "Scheduled Flights") and other services to aircraft for each calendar year in the applicable period, excluding the revenues resulting from the reimbursement of Jazz's pass-through costs and the payment of performance incentives (the "Scheduled Flights Revenue"). Controllable Costs represented approximately 60% of Jazz's total costs for the year ended December 31, 2006. In addition, under the CPA, Jazz is entitled to repayment by Air Canada, without mark-up, of certain pass-through costs specified in the CPA and incurred and paid by Jazz with respect to the Scheduled Flights. Pass-through costs represented approximately 40% of Jazz's total costs for the year ended December 31, 2006. Jazz's management believes that the CPA is beneficial to Jazz as it reduces financial and operating risk and results in a more stable business model than its previous pro-rate revenue sharing agreement.

Integral Part of Air Canada's Strategy

Jazz's operations form an essential part of Air Canada's network strategy and Jazz's management believes that they are integral to Air Canada's future growth. Air Canada is Canada's largest airline, with an extensive domestic, transborder and international mainline network. Jazz complements Air Canada's operations by feeding passengers to the mainline service and by allowing more frequent and competitive service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. The complementary nature of the relationship is evidenced by the fact that approximately 34% of Jazz's passengers connect to or from an Air Canada flight. These passengers connect to Air Canada's extensive domestic, transborder and international network, which is further enhanced by Air Canada's membership in the long-standing Star AllianceTM network, the world's largest airline alliance group.

Jazz's management estimates that during the year 2006, Jazz contributed approximately 37% of Jazz and Air Canada's combined domestic scheduled capacity and approximately 27% of the combined transborder scheduled capacity of Jazz and Air Canada based on the number of airline seats available. Jazz's regional jets' operational capabilities allow it to profitably service markets that do not have enough passenger traffic to support Air Canada's mainline jet service. In turn, Jazz benefits from Air Canada's strong brand, marketing and product distribution expertise as well as the fact that Air Canada handles all reservation and ticket sales through its reservations system. In addition, Jazz passengers benefit from the Aeroplan™ program and other amenities made available to Air Canada passengers.

Leading Market Position in the Canadian Regional Airline Industry

Through its affiliation with Air Canada, Jazz serves more destinations in Canada than any other airline. At peak demand periods in 2006, Jazz operates up to 856 departures per weekday to 56 destinations in Canada and 29 destinations in the United States. Jazz's management believes that the scope and diversity of Jazz's coverage area is a significant competitive advantage. Being the only pan-Canadian regional airline, Jazz can shift capacity across regions as demand dictates.

Of the 105 North American destinations served by Air Canada and Jazz as of December 31, 2006, 90 (or approximately 86%) of such destinations were served by Jazz and Jazz was the sole provider at 59 (or approximately 56%) of these 105 destinations. As of December 31, 2006, Jazz was the sole operator of aircraft of 37 seats or greater at 18 airports. Furthermore, Jazz provides customer service at 48 airports and is the only airline serving all top 30 airports in Canada, as measured by the Canadian Airports Council, for total domestic passenger traffic.

Jazz is the only Canadian regional airline with a fleet including regional jets. As at December 31, 2006, Jazz's fleet of 135 operating aircraft consisted of 73 Bombardier regional jets and 62 Dash 8 turboprop aircraft.

Jazz's fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of turboprop aircraft, most of which operate aircraft in the 19 to 50 seats range. These carriers are primarily stand-alone operations, operating in niche markets. None of these carriers approach the size and scope of operation of Jazz. Low-cost carriers, including WestJet, also compete with Air Canada on certain routes in Canada operated by Jazz.

Predictable and Stable Business Model

During the period from October 1, 2004 to December 31, 2006, Jazz derived substantially all of its revenues (99%) from the Initial CPA and the CPA. The CPA will expire on December 31, 2015, subject to renewal for two additional five-year periods. The CPA protects Jazz's earnings from many of the day-to-day business risks of scheduled air service such as passenger load factor, flight cancellations due to weather, increases in fuel costs, navigation, landing and terminal fees, and certain other costs. Jazz's management believes that the CPA is beneficial to Jazz because it brings stability and predictability to Jazz's operations, enabling Jazz's management to focus on costs and operational efficiency.

The benefits of the CPA include:

- The significant reduction of Jazz's former exposure to revenue volatility associated with ticket prices and passenger traffic. The number of aircraft operated by Jazz and block hours, which are the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60 ("Block Hours") flown by such aircraft are the main drivers determining Jazz's revenues. Out of the 135 aircraft of Jazz's fleet, 133 aircraft are Covered Aircraft under the CPA.
- The reduction of Jazz's exposure to cost volatility through full recovery of all pass-through costs such as fuel, navigation, landing and terminal fees, which in the past have been volatile and have undergone significant increases. Pass-through costs represented approximately 40% of Jazz's total costs for the year ended December 31, 2006.
- Although Jazz bears the risk of changes to its Controllable Costs, which represented approximately 60% of its total costs for the year ended December 31, 2006, it is compensated by a mark-up on its estimated Controllable Costs. Jazz has been able to, and continues to seek to, significantly reduce its exposure to fluctuations in certain of these Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, aircraft rent, depreciation on owned aircraft and interest on financed aircraft through agreements with its employees, MRO suppliers and aircraft lessors and financiers.
- Jazz has the ability to increase its profitability by reducing its Controllable Costs over time. In addition, Jazz is able to earn performance incentive payments if it achieves or exceeds certain operational targets.
- The number of Covered Aircraft is 133 and is scheduled to remain at this level until the expiry of the CPA in December 2015. The total number of Covered Aircraft cannot be reduced below the numbers set forth in the existing long range fleet plan without the mutual agreement of Air Canada and Jazz, except if Jazz enters into an agreement with another carrier to provide regional airline services.
- Although Air Canada's actual usage of the Covered Aircraft is not fixed, Air Canada has agreed to pay Jazz for certain minimum levels of operating capacity until the expiry of the CPA in December 2015.

Cost Structure

Jazz's management believes that Jazz's cost structure is competitive with North American regional airlines and allows Air Canada to offer services through Jazz at a lower cost than it otherwise could directly. Jazz's management believes that Jazz's competitive cost structure is driven in large part by the factors described below:

- The renegotiation of labour agreements with all its union groups as part of the CCAA process resulted in lower pilot and flight attendant costs and allowed Jazz to operate flights with labour costs that are lower than Air Canada's labour costs when operating the same size aircraft.
- The revised agreements with Teamsters Canada, CALDA and CAW provide Jazz with wages and productivity levels for new hires that are competitive with new industry entrants and low-cost

carriers. In the case of the pilots union group, Jazz has a status pay system with one pay scale based on seniority and status regardless of the type of aircraft flown. With the status pay system, there is less incentive for the pilots to seek assignments on larger aircraft, which reduces relocation and training costs, which are otherwise significant costs for Jazz.

- The repudiation and renegotiation of various contractual obligations as part of the CCAA process, including those related to aircraft, real estate and suppliers.
- A simple fleet composed of two aircraft types, Bombardier regional jet aircraft and turboprops, which Jazz's management believes is well suited to efficiently serve its extensive network across Canada and transborder to the United States and allows for lower trip costs, better matching of capacity with demand, lower maintenance, inventory and pilot training costs, and better synergies in crew deployment than its prior fleet configuration.

History of Operational Performance

Jazz has a history of strong operational performance, along with an excellent safety record. In addition to the fees Jazz receives from Air Canada under the CPA, Jazz can earn certain performance incentive payments up to 2.36% of its Scheduled Flights Revenue for the relevant period. In 2006, Jazz outperformed the average of a selected group of United States regional airlines in terms of on-time performance. Over such period, Jazz's average on-time performance was 9.4 percentage points higher than the average for selected United States regional airlines.

Fleet

Unless otherwise specified herein, information relating to Jazz's fleet is provided as of December 31, 2006. As at such date, Jazz's operating fleet was made up of 135 aircraft, of which 73 were regional jets and 62 turboprop aircraft.

Jazz has restructured its fleet to support its growth to reduce its costs by flying fewer types of aircraft and to ensure an efficient operation by better matching seat capacity with demand. The reduction in the types of aircraft in Jazz's fleet has contributed to cost savings in the areas of maintenance, inventories and pilot training.

Jazz's management currently believes that there may be attractive opportunities to acquire additional regional aircraft. In the event that more of these modern aircraft are acquired, it is currently anticipated that such aircraft would be substituted for aircraft operated by Jazz.

Jazz's operating fleet as at December 31, 2005 and December 31, 2006 is as follows:

	Operating Fleet as at	
Aircraft (number of seats)	**December 31, 2005**	**December 31, 2006**
CRJ – 100/200 (50 seats)	42	58
CRJ – 705 (75 seats)	15	15
Dash 8 – 300 (50 seats)	26	26
Dash 8 – 100[(1)] (37 seats)	38	36
Total	121	135

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(1) Two Dash 8-100 (included in the totals for all periods presented) are currently dedicated to Jazz's charter operations.

All aircraft in Jazz's operating fleet as of December 31, 2006 are Covered Aircraft under the CPA except for two Dash 8-100 aircraft being used for charter purposes.

CRJ-100/200

The 50-seat Bombardier CRJ-100/200 is a twin engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The CRJ-200 has more efficient engines than the CRJ-100 and a longer flight distance and pay-load capability. Of the 58 CRJ-100/200 in Jazz's fleet, 35 are subleased from Air Canada and 23 are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring between 2007 and 2024.

CRJ-705

Jazz is the first carrier in the world to operate the state-of-the-art Bombardier CRJ-705 regional jet aircraft. Jazz's CRJ-705s feature leather seats and are configured into ten Executive Class seats and 65 Hospitality Class seats and offer more Hospitality Class legroom than any other Canadian carrier's aircraft and boast ample underseat storage. Jazz has installed in-flight entertainment in the back of every seat of its CRJ-705. The CRJ-705 provides Jazz with the capability to offer services comparable to a mainline aircraft.

The CRJ-705 is an economical aircraft due to its operational efficiencies and lower trip costs. The efficiency, range, size and versatility of the CRJ-705 should allow Jazz to economically fly longer routes in addition to high frequency routes and offer superior comfort and choice in non-stop services to its customers. With its cruising speed of approximately 880 kilometers per hour, Jazz's management believes that the CRJ-705 is the appropriate aircraft to fly on higher frequency long routes with low volumes such as Edmonton-Los Angeles, Vancouver-San Diego and Montreal-Winnipeg.

All CRJ-705 aircraft currently in Jazz's fleet are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring in 2022 and 2024.

Dash 8-300

The 50-seat Bombardier Dash 8-300 has advanced turboprop characteristics that approach those of a jet aircraft. Of the 26 Dash 8-300 in Jazz's fleet, 19 are owned by Jazz and seven are leased from third parties, with such leases expiring between 2007 and 2011.

Dash 8-100

The Dash 8-100 is a twin engine turboprop medium range aircraft with seating capacity of 37 passengers. Of the 36 Dash 8-100 aircraft in Jazz's fleet, 29 are owned by Jazz and seven are leased from Air Canada Capital Ltd., with such leases expiring between 2007 and 2008.

Scope Clause

Scope clauses are an industry norm for network airlines operating in conjunction with regional carriers and are usually found in collective agreements of pilot union groups. Jazz, like many regional airlines, is restricted by scope provisions in the collective agreement between Air Canada and ACPA. Prior to the CCAA restructuring, Jazz's operations were limited by scope provisions restricting Jazz's operations to 39 55-seat regional jet aircraft including ten grandfathered BAe-146 aircraft, which have since been retired. The scope provisions in place at the time also required that growth beyond the 39 55-seat regional jet aircraft could only take place with growth in the Air Canada fleet.

As a result of the CCAA process, a unique arrangement was reached between Air Canada, Jazz, ACPA and ALPA. The agreement, known as the small jets settlement agreement (the "Small Jets Settlement Agreement"), modifies the scope clauses that existed prior to the CCAA restructuring, provides a process to allocate the orders of regional jets between Air Canada and Jazz, determines the types and number of jets that can be flown by Jazz and provides mechanisms for resolving disputes over future regional jet additions to either fleet. There are no limits to the number of turboprop aircraft that Jazz may operate.

The Small Jets Settlement Agreement provides that:

- Jazz may maintain a fleet of 50 CRJ-100s/200s and 15 CRJ-705s made up as follows: (i) ten CRJ-200s, 15 CRJ-200s and 15 CRJ-705s which Air Canada ordered from Bombardier, all of which have been delivered, and (ii) 25 CRJ-100s originally operated by Air Canada, all of which have been transferred to Jazz by the end of July 2006.
- If either Air Canada or Jazz seeks to increase the fleet beyond what is outlined above, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to an arbitrator or a mediator who will then make a decision, taking into account the business case put forward by the respective parties and the impact of the matter at hand on the respective pilots groups.
- Jazz may not operate the CRJ-705 aircraft if configured in excess of 75 seats, inclusive of all classes.
- As was previously the case, Air Canada must ensure that a minimum of ASMs are flown by Air Canada compared to ASMs flown by Jazz.

In 2005, Jazz took delivery of an additional 8 CRJ-200 aircraft beyond the 50 aircraft maximum described in the Small Jets Settlement Agreement. The additional 8 aircraft were permitted to be added to Jazz's fleet following an arbitration as per the Small Jets Settlement Agreement.

Capacity Purchase Agreement with Air Canada

Pursuant to the CPA, Air Canada purchases capacity from Jazz on the Covered Aircraft in consideration for the payment of certain fees by Air Canada to Jazz. During the period from October 1, 2004 to December 31, 2006, Jazz derived substantially all of its revenues (99%) from the Initial CPA and the CPA. Jazz's management expects this to continue under the CPA.

All of the 135 aircraft in Jazz's operating fleet as of December 31, 2006 are Covered Aircraft under the CPA except for two Dash 8-100 aircraft being used for charter purposes. (See "Business Overview – Jazz – Fleet"). Air Canada currently purchases capacity from Jazz representing substantially all of the capacity of the 133 Covered Aircraft. In addition, the 2006 – 2008 High Level Operating Plan provides for Air Canada to continue to purchase substantially all of the capacity of the Covered Aircraft for such period. The 2006 – 2008 High Level Operating Plan is subject to annual and seasonal (twice-a-year) revisions.

Notwithstanding any revisions to the 2006 – 2008 High Level Operating Plan, Air Canada has agreed to pay Jazz for certain daily minimum levels of operating capacity calculated in terms of a minimum number of Block Hours for each Covered Aircraft other than aircraft being modified, undergoing scheduled maintenance or being painted (the "Active Aircraft") type until the expiry of the CPA in December 2015. The minimum average daily utilization guarantee for the 2007 calendar year represents approximately 82% of the planned Block Hours currently scheduled to be flown by Jazz's Covered Aircraft during such period.

Under the CPA, Jazz operates its flights on behalf of Air Canada using the Covered Aircraft, and provides all crews (flight and cabin), aircraft maintenance and, in some cases, airport operations for such flights. Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for these flights. Air Canada is entitled to all revenues (except bar and buy-on board sales) resulting from the Scheduled Flights and from all freights, Canada Post mail and small package service carried on Scheduled Flights including, without limitation, ticket sales, baggage charges, passenger charges and employee pass travel service charges.

In addition to being reimbursed for all pass-through costs, Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated Controllable Costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for each calendar year in the applicable period. The fees payable by Air Canada to Jazz on a monthly basis are broken down into a number of categories. These payment categories fall into two broad groups: there are those that are variable depending on the Covered Aircraft utilization and those that remain unchanged regardless of how often or where or with what load factors the Covered Aircraft are utilized.

The fleet of Covered Aircraft operated as at December 31, 2006 by Jazz on behalf of Air Canada pursuant to the CPA is shown below:

	Number of Covered Aircraft under the Jazz CPA as at December 31, 2006
Bombardier CRJ Aircraft	
Bombardier CRJ-100	25
Bombardier CRJ-200	33
Bombardier CRJ-705	15
Total Bombardier CRJ Aircraft	73
Bombardier Dash-8 Aircraft:	
Bombardier Dash 8-300	26
Bombardier Dash 8-100	34
Total Turboprop Aircraft	60
Total Covered Aircraft	133

Other Agreements

In addition to the CPA, Jazz has entered into: (i) a master services agreement with Air Canada dated September 24, 2004; (ii) an agreement with ACGHS related to certain ground handling services dated September 20, 2004; (iii) a component maintenance agreement with ACTS LP dated August 1, 2005; and (iv) certain trademark licensing agreements with Air Canada, each dated September 30, 2004.

Charter Operations

In addition to its operations under the CPA, Jazz offers charter services to customers in Canada as well as transborder services. Jazz has been able to attract a wide variety of charter customers over the years including sports teams, fishing lodges, oil and gas companies, various provincial forestry ministries, musical groups and corporate clients. All revenues from the charter operations performed with aircraft other than the Covered Aircraft accrue directly to Jazz. Generally, margins on charter services are higher as customers are prepared to pay a premium for flights that fit their needs and schedule.

Two Dash 8-100 aircraft are currently dedicated to Jazz's charter operations and is based in both Western and Eastern Canada. In addition, Jazz is allowed under the CPA to use the Covered Aircraft for ad hoc charter services in consideration for the payment of a charter fee to Air Canada, provided such services do not interfere with the CPA schedule.

Maintenance, Repair and Overhaul Operations

Jazz's technical operations team performs regional jet and turboprop line maintenance, heavy maintenance and aircraft modifications to support Jazz's operations. Jazz has two MRO facilities, one located in Halifax and the other in London, Ontario. Supporting in excess of 100 aircraft, including the largest Dash 8 fleet in the world, the Jazz team is considered a leading service provider on the Dash 8 product. Customers such as Bombardier, Air Inuit, Air Creebec and Canadian Air Metro have provided Jazz with repeat business on the Dash 8 aircraft because of its strong performance and dependability. As well, Jazz is an operator of Bombardier regional jets and is building considerable expertise on this fleet type.

Environmental Matters

Jazz believes that it is in compliance in all material respects with the terms of applicable government regulations. Jazz is committed to conducting its operations in a manner that complies with all legal requirements regarding health and safety and the environment and regularly evaluates and monitors activities affecting these issues.

To date, environmental laws and regulations have not had a material adverse effect on the business or financial condition of Jazz. However, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. Jazz is not able to predict future costs which may be incurred in order to comply with future environmental regulations.

Logos and Trademarks

Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks are trademarks owned or registered by Air Canada in Canada and the United States. Air Canada has granted Jazz a license to use the Air Canada Jazz™, Jazz™, Air Canada ™, Air Canada Design™, Air Canada and Design™ and other trademarks in Canada and the United States in association with the provision of scheduled airline services in regions of Canada and across the Canada — United States border. Jazz also owns additional trademarks in connection with its regional airline business. The Fund and the Trust have been granted licenses to use the Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks in Canada.

Jazz's trademarks and brand name assets are an important part of its business. Jazz benefits from the goodwill established for the Jazz brand name. Jazz protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures.

Facilities

Jazz owns two buildings, one in Halifax, where Jazz's Corporate Headquarters is located and one in London, Ontario. Jazz carries on heavy maintenance, repair and overhaul operations at both of its Halifax and London, Ontario facilities. The Halifax facility is located at the Halifax Robert L. Stanfield International Airport and is comprised of approximately 133,000 square feet of office and hangar space. The London, Ontario facility is located at the London Airport and is comprised of approximately 83,800 square feet of office and hangar space. The land comprising Jazz's Halifax and London, Ontario facilities is leased from the airport authorities.

Jazz also leases other facilities and the following describes the four principal leased facilities of Jazz and two smaller facilities. The first five are leased from Air Canada:

Description	Square Feet	Expiry Date
Hangar, parking and office space at Toronto Pearson	187,713	February 28, 2010
Hangar and office space at Vancouver International Airport	86,554	August 31, 2010
Hangar and office space at Calgary International Airport	91,964	Current lease expired, new lease expiring June 1, 2011, pending approval.
Hangar and office space at Montreal-Pierre Elliott Trudeau International Airport	86,213	January 31, 2008
Jazz GSE Shop Hangar A at Toronto Pearson	2,904	February 28, 2010
Office space at Airway Center across Toronto Pearson	21,779	June 30, 2010

In addition to the foregoing, Jazz currently leases airport terminal building spaces, hangars, office spaces, counters, maintenance offices, baggage make-up, and parking spaces throughout Canada. See "The Jazz Business — Capacity Purchase Agreement with Air Canada — Facilities".

Debt Financing

On November 25, 2005, Jazz entered into a commitment letter with Canadian chartered banks in respect of the establishment of $150 million senior secured syndicated credit facilities (the "Jazz New Credit Facilities"). The credit facilities made available to Jazz LP consisted of one $115 million (or the U.S. dollar equivalent thereof) term facility (the "Jazz Term Facility"), and a $35 million (or the U.S. dollar equivalent thereof) revolving credit facility (the "Jazz Revolving Facility"), subject to the satisfaction of certain customary conditions, including the completion of the initial public offering of Jazz Air Income Fund. The Jazz New Credit Facilities were entered into on February 2, 2006.

The Jazz New Credit Facilities were provided by a syndicate of lenders (the "Jazz Lenders") with a Canadian chartered bank acting as administrative agent (the "Jazz Agent"). Each of the Jazz Term Facility and the Jazz Revolving Facility have a three-year term. On each anniversary of the closing of the initial public offering, the term of the Jazz Revolving Facility can be extended at Jazz's request for additional one-year periods, subject to prior approval by Jazz Lenders holding no less than two-thirds of the total commitment under the Jazz Revolving Facility. On each anniversary of the closing of the initial public offering, the term of the Jazz Term Facility can be extended at Jazz's request for only one additional one-year period, subject to prior approval by Jazz Lenders holding no less than two-thirds of the total outstanding principal amount under the Jazz Term Facility. Non-consenting Jazz Lenders will be allowed to withdraw from the Jazz Revolving Facility and the Jazz Term Facility, as applicable, at the maturity date. Non-consenting Jazz Lenders may be replaced by other lenders, failing which the amount available under the Jazz Revolving Facility may be reduced or the amount outstanding under the Jazz Term Facility may be reduced, as applicable.

Advances under the Jazz New Credit Facilities bear interest at the prevailing prime rate, U.S. base rate, bankers' acceptance rate or LIBOR plus, in each case, an applicable margin to those rates that will initially vary between 1.75% and 3.75 % depending on the type of advance and Jazz's quarterly total debt to EBITDA ratios. (Reference to "EBITDA" is to total debt-to-net income of Jazz before interest expense, interest income, income taxes, depreciation, amortization, gains and losses on disposal of property and equipment and other non-operating income and expenses. EBITDA is not an earning measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as an indicator of Jazz's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.) In addition, a commitment fee was payable based on the unused amount of the Jazz Revolving Facility calculated daily and payable quarterly in arrears.

The Jazz Term Facility was available in one drawdown only on the closing of the initial public offering to repay a portion of the promissory note to be issued by Jazz in favour of Jazz Air Limited Partnership on the closing of the initial public offering of Jazz Air Income Fund, as partial consideration in accordance with the acquisition agreement pursuant to which Jazz Air Limited Partnership sold all or substantially all of its assets to Jazz, to repay other existing term indebtedness and for general working capital purposes. The Jazz Revolving Facility was available on the closing of the initial public offering for general corporate and working capital purposes. A swingline facility of up to $5 million was also be provided exclusively by the Jazz Agent as a sub-component of the Jazz Revolving Facility for cash management and working capital purposes. On the closing of the initial public offering, Jazz drew $115 million under the Jazz Term Facility.

The Jazz New Credit Facilities are secured by a first priority security interest and hypothec over the present and after-acquired personal and certain real property of Jazz, subject to certain exclusions and permitted liens. Jazz's obligations in respect of the Jazz New Credit Facilities is guaranteed by each of Jazz Air Trust and Jazz Air Holding GP Inc., with Jazz Air Trust providing a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations, and with Jazz Air Holding GP Inc. providing a pledge of its interests in Jazz as security for its guarantee obligations. Jazz Air Income Fund provides certain covenants in favour of the Jazz Lenders pursuant to a collateral covenant agreement.

The Jazz New Credit Facilities contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations on paying distributions.

The terms of the Jazz New Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz to holders of record of its units during any twelve-month period from exceeding the aggregate Distributable Cash of Jazz during such period. ("Distributable Cash" for a given period will consist, in general, of Jazz LP's EBITDA for the particular period less any estimated cash amounts required for debt service obligations of Jazz, if any, other expense obligations, capital expenditures, taxes, reserves (including reserves intended to stabilize distributions to Unitholders), and such other amounts as may be considered appropriate by the general partner of Jazz, Jazz Air Holding GP Inc.) Distributions by Jazz are prohibited upon the occurrence and continuance of an event of default under the Jazz New Credit Facilities.

Employees

For the year ended December 31, 2006, Jazz had an average of 4,144 full time equivalent ("FTE") employees compared to an average of 3,582 FTE employees in 2005. This reflects a 15.7% increase over the same period in 2005. The increase in the number of employees is due to Jazz's growing operation. As a result, Jazz's operational departments have grown significantly. Specifically, operational departments such an In-flight Services, Flight Operations and Maintenance and Engineering grew by 27.4%, 18.7% and 11.2%, respectively. Jazz's management carefully monitors growth and these employment increases are considered prudent in comparison with capacity growth of 50.8% as measured by ASMs, resulting in a 30.4% improvement of ASMs per employee compared to the prior year.

Jazz has completed wage re-opener negotiation, mediation and arbitration with all of its unions with the exception of the CALDA, the union representing Jazz's dispatchers. The wage increases awarded range from 1% to 1.75% per year until 2009. The wage re-opener negotiations with CALDA are continuing.

ACTS LP

ACTS LP is a full-service MRO service provider to the airline industry in the Americas (North, Central and South America). ACTS LP offers the following MRO services in its portfolio:

1. Airframe services;

2. Engine and auxiliary power unit services;

3. Component services; and

4. Specialized services, including aircraft painting, cabin conversions and modifications, engineering, fleet management, non-destructive testing, regulatory compliance and airworthiness, supply chain management, technical training, technical records management, and technical publications.

The major maintenance facilities of ACTS's business are located in Montreal, Vancouver, Winnipeg, Toronto and San Salvador. ACTS LP services more than 100 global customers, including Air Canada, US Airways, the Department of National Defense of Canada, JetBlue, and Air Transat.

On February 13, 2007, ACTS LP acquired 80% of Grupo TACA's aircraft maintenance division, Aeroman. Total consideration for this acquisition includes cash and a right to acquire an equity stake in ACTS LP. The cash component of US$44.7 million consists of cash of US$42.7 million on closing and a milestone payment of up to US$2 million, funded by ACTS LP through ACE's available cash resources. The size of the equity stake in ACTS LP will be confirmed at the time of the monetization of ACTS LP, as described below, and is expected to represent less than 7% of the total equity of ACTS LP at the time of monetization. Prior to ACTS LP's monetization, Grupo TACA can put its right to acquire equity back to ACE at a discounted value from US$40.4 million and accreting up to a cap of US$50.5 million over 12 months or the date of monetization, if earlier.

Aeroman, the leading narrow body MRO provider in Central America, provides ACTS LP with a strategically valuable low cost platform from which it can service narrow body aircraft from throughout the Americas region.

ACTS LP has launched strong initiatives to improve efficiencies for both customers and shareholders. It has taken steps to deepen its management team while bringing an influx of new perspectives and skills to the Company's existing operational expertise. Several cost reduction strategies have begun: ACTS LP successfully executed a real estate floor space reduction, is implementing a new Enterprise Resource Planning system in 2007 and a lean manufacturing program. As well, it has initiated company-wide material cost reduction and inventory optimization initiatives. ACTS LP is also reviewing contracts with several major customers.

ACTS LP's combination of reputation, scale, service capabilities, independence, customer base, and low-cost presence positions ACTS LP to benefit from anticipated growth in the MRO outsourcing industry. To execute its growth plan, ACTS LP has identified four strategic priorities:

(i) lower costs through operational excellence, while maintaining high quality: While maintaining its enviable reputation for high quality work, ACTS LP will focus on delivering superior operational performance at lower costs in order to improve cost competitiveness;

(ii) become a full-service provider of customized maintenance solutions with expanded capabilities: As a leading MRO provider, ACTS LP will offer customers a portfolio of enhanced services to reduce total fleet cost of maintenance;

(iii) build a customer-centric organization: Based on its existing capabilities, ACTS LP has already attracted a range of non-Air Canada customers. ACTS LP will take advantage of MRO industry outsourcing trends and build on its strong market position; and

(iv) increase leadership effectiveness and employee alignment: Over the past year, ACTS LP has significantly strengthened its management team, building a strong team with lean manufacturing and Six Sigma expertise who draw on backgrounds in the aerospace, telecommunications, and logistics industries.

After conducting a strategic review, ACE has determined that the value of the ACTS LP market position and growth prospects could be enhanced by the introduction of a third party investor. The monetization of ACTS LP, which commenced in late 2006, is expected to be completed by mid-2007.

Employees

As at December 31, 2006, ACTS LP (through Air Canada and Aeroman) employed 4,780 workers across its five locations. As at December 31, 2006, ACTS LP had 3,923 full-time equivalent ("FTE") employees compared to 4,063 FTE employees as at December 31, 2005. This reflects a 3.8% decrease from the fourth quarter of 2005. As a result of the acquisition of Aeroman, ACTS LP has increased its total number of FTE employees by 1,424, for a total of 5,421 FTE employees at ACTS LP (including Aeroman) as at February 28, 2007.

Pursuant to a general services agreement dated September 24, 2004, with respect to certain unionized employees employed by Air Canada and a general services agreement dated September 24, 2004, with respect to certain non-unionized employees of Air Canada, ACTS LP must reimburse Air Canada on a fully-allocated basis, including salary and benefits related to certain of the abovementioned employees, who are unionized and non-unionized employees of Air Canada who work for the benefit of ACTS LP.

ACTS LP announced on March 6, 2007, the early termination of its contract with Delta Air Lines for airframe maintenance of the airline's Boeing 767s (the "Delta Contract"). By the end of June 2007, ACTS LP will start adjusting its workforce at its Vancouver facility. Out of a workforce of approximately 1,000 employees in Vancouver, ACTS LP will permanently reduce approximately 700 jobs currently supporting the Delta Contract.

RISK FACTORS

The risks described in this section may not be the only risks faced by the Corporation. Other risks of which the Corporation is not aware or which the Corporation currently deems to be immaterial may surface and have a material adverse impact on the Corporation's business, results from operations and financial condition.

ACE

Reliance on Key Personnel

The success of ACE depends on the abilities, experience, industry knowledge and personal efforts of senior management of ACE. The loss of the services of such key personnel could have a material adverse effect on the business, financial condition or future prospects of ACE. In addition, ACE may not be able to attract and retain additional qualified management as needed in the future.

Proposed Changes to the Canadian Federal Income Tax Treatment of Income Trusts

On October 31, 2006, the Minister of Finance (Canada) announced new tax proposals concerning the taxation of income trusts and other flow-through entities and tabled a Notice of ways and means motion to amend the Tax Act in that regard (the "October Proposal"). The October Proposal was followed on December 21, 2006 by the release of draft legislation by the Department of Finance (Canada) (the "draft legislation" and, together with the October Proposal, the "2006 Proposed Amendments") concerning the distribution tax on income trusts and partnerships. The 2006 Proposed Amendments, if enacted as currently drafted, will subject Aeroplan Income Fund and Jazz Air Income Fund to trust level taxation as of January 1, 2011, which will reduce the amount of cash available for distributions by income trusts. Loss of the benefit of the deferred application of the new tax regime until 2011 could have a material adverse effect on the value of ACE's interest in Aeroplan and Jazz.

Dependence upon Principal Investments

ACE is an investment holding company of various aviation interests and most of ACE's assets are its ownership interest in Air Canada, Aeroplan, Jazz and ACTS LP. ACE's cash flows and ability to distribute earnings to its shareholders are dependent upon the ability of these entities to pay dividends or distributions to ACE.

The ability of these entities to pay dividends or distributions will be dependent upon their operating performance and profitability, and will be subject to applicable laws and regulations and contractual restrictions that may be contained in the instruments governing any indebtedness of those entities. Each of these separate legal entities has no legal obligation to pay dividends or distributions to ACE.

Air Canada

Financial Results

In the recent past, Air Canada has sustained significant operating losses and may sustain significant losses in the future. On September 30, 2004, Air Canada and certain of its subsidiaries emerged from protection under the CCAA and implemented a plan of arrangement. For the years ended December 31, 2003, 2002 and 2001, Air Canada incurred operating losses before reorganization and restructuring items and non-recurring labour expenses of $684 million, $192 million and $731 million, respectively, and incurred net losses of $ 1,867 million, $828 million and $ 1,315 million, respectively. For the nine-month period ended September 30, 2004, Air Canada realized operating income before reorganization and restructuring items of $120 million and, for the three-month period ended December 31, 2004, Air Canada incurred an operating loss of $59 million. For the years ended December 31, 2006 and 2005, Air Canada realized operating income of $259 million and $318 million, respectively, and incurred net losses of $74 million and $20 million, respectively. Prior to September 30, 2004, the operations of Air Canada included the operations of various entities included in the Air Canada Services segment, as well as those of Jazz, Aeroplan and ACTS and, as such, those prior results may not be comparable. Despite Air Canada's emergence from creditor protection under the CCAA, the resulting and ongoing business initiatives and efforts at cost reductions and its recent results, Air Canada may not be able to successfully achieve planned business initiatives and cost reductions, including those which seek to offset significant fuel and other expenses or restore positive net profitability and may sustain significant losses in the future.

Leverage and Liquidity

Air Canada has, and is expected to continue to have, a significant amount of indebtedness, including substantial fixed obligations under aircraft leases and financings. Air Canada may incur additional debt, including secured debt, in the future. The amount of indebtedness that Air Canada currently has and which it may incur in the future could have a material adverse effect on Air Canada, for example, by (i) limiting Air Canada's ability to obtain additional financing , (ii) requiring Air Canada to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness and fixed cost obligations, thereby reducing the funds available for other purposes, (iii) making Air Canada more vulnerable to economic downturns, and (iv) limiting Air Canada's flexibility in planning for, or reacting to, competitive pressures or changes in its business environment.

The ability of Air Canada to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance and its ability to refinance its indebtedness, if necessary. Each of these factors is to a large extent subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond Air Canada's control. In addition, as Air Canada incurs indebtedness which bears interest at fluctuating interest rates, to the extent these interest rates increase, its interest expense will increase. There can be no assurance that Air Canada will be able to generate sufficient cash from its operations to pay its debts and lease obligations.

Need for Additional Capital

Air Canada faces a number of challenges in its current business operations, including high fuel prices and increased competition from international, transborder and low-cost domestic carriers. In order to meet such challenges and to support Air Canada's business strategy, significant operating and capital expenditures are, and may in the future be, required. There can be no assurance that Air Canada will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to Air Canada to provide adequate liquidity and to finance the operating and capital expenditures necessary to support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate additional funds, whether from operations or additional debt or equity financings, may require Air Canada to delay or abandon some or all of its anticipated expenditures or to modify its business strategy, which could have a material adverse effect on Air Canada's business, results from operations and financial condition. Furthermore, the ability of competitors to raise money more easily and on less onerous terms could create a competitive disadvantage for Air Canada.

In addition, Air Canada's credit ratings influence its ability to access capital markets. There can be no assurance that Air Canada's credit ratings will not be downgraded, which would add to Air Canada's borrowing and insurance costs, hamper its ability to attract capital and limit its ability to operate its business, all of which could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Limitations Due to Restrictive Covenants

Some of the financing and other major agreements of Air Canada contain restrictive covenants which affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Air Canada may structure or operate its business, including by limiting Air Canada's ability to incur indebtedness, create liens, sell assets, make capital expenditures and engage in acquisitions, mergers or restructurings. In addition, certain financing arrangements require Air Canada to maintain financial ratios. Any future borrowings may also be subject to similar covenants which limit Air Canada's operating and financial flexibility, which could materially and adversely affect Air Canada's profitability.

A failure by Air Canada to comply with its contractual obligations (including restrictive covenants), or to pay its indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of its indebtedness, the withholding of credit card proceeds by the credit card service providers and the exercise of remedies by its creditors and lessors, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that Air Canada would be able to repay the accelerated indebtedness or fulfill its obligations under certain contracts, make required lease payments or otherwise cover its fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of the assets of Air Canada which secure Air Canada’s obligations.

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of Air Canada in 2006. Fuel prices fluctuate widely depending on many factors including international market conditions, geopolitical events and the Canada/U.S. dollar exchange rate. Air Canada cannot accurately predict fuel prices. During 2004, 2005 and 2006, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices continue at, or continue to increase above, such high levels, fuel costs could have a material adverse effect on Air Canada’s business, results from operations and financial condition. Due to the competitive nature of the airline industry, Air Canada may not be able to pass on increases in fuel prices to its customers by increasing its fares. Based on 2006 volumes, Air Canada’s management estimates that a US$1 per barrel movement in the average price of West Texas Intermediate crude oil would have resulted in an approximate C$27 million change in 2006 fuel expense for Air Canada (excluding any impact of fuel surcharges and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between West Texas Intermediate crude oil and jet fuel as well as foreign exchange rates remained constant.

Labour Costs and Labour Relations

Labour costs constitute one of Air Canada’s largest operating cost items. There can be no assurance that Air Canada will be able to maintain such costs at levels which do not negatively affect its business, results from operations and financial condition. There can be no assurance that future agreements with employees’ unions or the outcome of arbitrations will be on terms consistent with Air Canada’s expectations or comparable to agreements entered into by Air Canada’s competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Most of Air Canada's employees are unionized and long-term collective agreements were concluded in 2003 and amended in 2004. No strikes or lock-outs may lawfully occur during the term of the collective agreements expiring in 2009. However, there can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in Air Canada's service or otherwise adversely affect the ability of Air Canada to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition.

If there is a labour disruption or work stoppage by any of the unionized work groups of Jazz, there could also likely be a material adverse effect on Air Canada’s business, results from operations and financial condition. In addition, labour problems at Air Canada's Star Alliance® partners could result in lower demand for connecting traffic with Air Canada and, ultimately, could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Airport User Fees and Air Navigation Fees

With the privatization of airports and air navigation authorities over the last decade in Canada, new airport and air navigation authorities have imposed significant increases in their fees. If such authorities continue to increase their fees at the rate at which they have increased them in the recent past, Air Canada's business, results from operations and financial condition could be materially adversely affected.

Competition

Air Canada operates within a highly competitive industry. Over the past few years, several carriers have entered or announced their intention to enter into the domestic, the U.S. transborder and international markets in which Air Canada operates.

Canadian low-cost carriers have entered or announced their intention to compete in many of Air Canada's key domestic markets and have also entered the U.S. transborder market. U.S. carriers currently operate routes in Air Canada's transborder market. Air Canada is also facing increasing competition in international markets as carriers increase their international capacity, both by expansion and by shifting existing domestic capacity to international operations to avoid low-cost domestic competition.

If Canadian low-cost carriers are successful in entering or expanding into the domestic or the U.S. transborder markets, if additional U.S. carriers are successful in entering Air Canada's transborder market or if carriers are successful in their expansion in international markets of Air Canada, Air Canada's business, results from operations and financial condition could be materially adversely affected.

Air Canada also encounters substantial price competition. The expansion of low-cost carriers in recent years has resulted in a substantial increase in discounted and promotional fares initiated by Air Canada's competitors. The decision to match competitors' fares, to maintain passenger traffic, results in reduced Yields which, in turn, could have a material adverse effect on Air Canada's business, results from operations and financial condition. Furthermore, Air Canada's ability to reduce its fares in order to effectively compete with other carriers may be limited by government policies to encourage competition.

Internet travel websites have enabled consumers to more efficiently find lower fare alternatives by providing them with access to more pricing information. The increased price awareness of both business and leisure travelers as well as the growth in new distribution channels have further motivated airlines to price aggressively to gain fare and market share advantages.

In addition, consolidation in the airline industry could result in increased competition as some airlines emerging from such consolidations may be able to compete more effectively against Air Canada which could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Strategic, Business, Technology and Other Important Initiatives

In order to operate its business, achieve its goals and remain competitive, Air Canada continuously seeks to identify and devise, invest in and implement strategic, business, technology and other important initiatives, such as those relating to the aircraft fleet restructuring program, the aircraft refurbishment program, the new revenue model, the reservation and airport customer service initiative (which will also support the revenue model), the business process initiatives as well as other initiatives. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond Air Canada's control. Such factors include the performance of third parties, including suppliers, the implementation and integration of such initiatives into Air Canada's other activities and processes as well as the adoption and acceptance of initiatives by Air Canada's customers, suppliers and personnel. A delay or failure to sufficiently and successfully identify and devise, invest in or implement these initiatives could adversely affect Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada's business, results from operations and financial condition.

For instance, a key component of Air Canada's business plan is the restructuring of its aircraft fleet, including the elimination and replacement of older, less efficient aircraft, the introduction of new regional jet aircraft, and the modernization of its international wide-body fleet through the acquisition of new and more efficient aircraft. A delay or failure in the completion of Air Canada's fleet restructuring, including a delay by the manufacturers in the delivery of the regional jet or wide-body aircraft, or an inability to remove, as planned, certain aircraft from the fleet in coordination with the planned entry into service of new aircraft, could adversely affect the implementation of Air Canada's business plan which may, in turn, have a material adverse effect on Air Canada's business, results from operations and financial condition.

Another important component of Air Canada's business plan is the replacement of its legacy systems for passenger reservation and airport customer service with a newly developed web-enabled system in order to support the rapid and efficient implementation of Air Canada's revenue model. The new system is expected to be deployed in phases from late 2007 and running through a major part of 2008. A delay or failure in the implementation of Air Canada's new system could adversely affect the implementation of Air Canada's business plan which may, in turn, have a material adverse effect on Air Canada's business, results from operations and financial condition.

Dependence on Technology

Air Canada relies on technology, including computer and telecommunications equipment and software and Internet-based systems, to operate its business, increase its revenues and reduce its costs. These systems include those relating to Air Canada's telecommunications, websites, computerized airline reservations and airport customer services and flight operations.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, terrorist attacks, telecommunications failures, power failures, computer viruses, hackers, unauthorized or fraudulent users, and other operational and security issues. While Air Canada continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any such technology systems failure could materially and adversely affect Air Canada's operations and could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Key Supplies and Suppliers

Air Canada is dependent upon its ability to source, on favourable terms and costs, sufficient quantities of goods and services in a timely manner, including those required for Air Canada's operations such as fuel, aircraft and related parts and aircraft and engine maintenance services (including maintenance services obtained from ACTS). In certain cases, such goods and services may only be available from a limited number of suppliers. Such failure, refusal or inability may arise as a result of a wide range of causes, many of which are beyond Air Canada's control. Any failure or inability of Air Canada to successfully source goods and services, including by reason of a failure, refusal or inability of a supplier, or to source goods and services on terms and pricing and within the timeframes acceptable to Air Canada, could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Aeroplan

Through its relationship with Aeroplan, Air Canada is able to offer its customers who are Aeroplan members the opportunity to earn Aeroplan miles. Based on customer surveys, Air Canada's management believes that rewarding customers with Aeroplan Miles is a significant factor in customers' decision to travel with Air Canada and Jazz and contributes to building customer loyalty. The failure by Aeroplan to adequately fulfill its obligations towards Air Canada under the CPSA and in connection with the Aeroplan Program, or other unexpected interruptions of Aeroplan services which are beyond Air Canada's control could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Jazz

Under the CPA, Jazz provides Air Canada's customers service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States and also provides valuable traffic feed to Air Canada's mainline routes. Air Canada reimburses Jazz, without mark-up, for certain pass-through costs incurred directly by Jazz, such as fuel, navigation, landing and terminal fees and certain other costs. Significant increases in such pass-through costs, the failure by Jazz to adequately fulfill its obligations towards Air Canada under the CPA, or other unexpected interruptions of Jazz's services which are beyond Air

Canada’s control could have a material adverse effect on Air Canada’s business, results from operations and financial condition. In addition, the CPA requires that Jazz maintain a minimum fleet size and contains a minimum average daily utilization guarantee which requires that Air Canada make certain minimum payments to Jazz regardless of the revenue generated by Jazz.

Pension Plans

Canadian federal pension legislation requires that the funded status of registered pension plans be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination).

The solvency liability is influenced primarily by long-term interest rates and by the investment return on plan assets. The interest rate used to calculate benefit obligations for solvency purposes is a prescribed rate derived from the interest rates on long-term Government of Canada bonds. In the current low interest rate environment, the calculation results in a higher present value of the pension obligations, leading to a larger unfunded solvency position.

In May 2004, Air Canada and the Office of the Superintendent of Financial Institutions agreed on a protocol pursuant to which the solvency funding requirements for Air Canada’s registered pension plans provided for in the then existing regulations were amended retroactive to January 1, 2004. Air Canada is required to make substantial annual cash contributions, and the level of those contributions will increase in the event of poor pension fund investment performance and/or further declines in long-term Government of Canada bond rates. Underfunded pension plans or a failure or inability by Air Canada to make required cash contributions to its registered pension plans could have a material adverse effect on Air Canada’s business, results from operations and financial condition.

Equal Pay Litigation

CUPE, which represents Air Canada’s flight attendants, has two complaints before the Canadian Human Rights Commission where it alleges gender-based wage discrimination. CUPE claims the predominantly female flight attendant group should be paid the same as the predominantly male pilot and mechanics groups because their work is of equal value. The complaints date from 1991 and 1992 but have not been investigated on the merits because of a legal dispute over whether the three groups work in the same "establishment" within the meaning of the Canadian Human Rights Act. On January 26, 2006, the Supreme Court of Canada ruled that they do work in the same "establishment" and sent the case back to the Canadian Human Rights Commission, which may now proceed to assess the merits of CUPE's complaints. On March 16, 2007, the Canadian Human Rights Commission referred the complaint for investigation.

As part of the restructuring under the CCAA, it was agreed that any resolution of the complaints would have no retroactive financial impact prior to September 30, 2004. It is the view of Air Canada that any investigation will show that Air Canada has complied and continues to comply with the equal pay provisions of the Canadian Human Rights Act. Nonetheless, should these complaints succeed, the accrued liability and future costs could be very significant and Air Canada's business, results from operations and financial condition could be materially adversely affected.

Star Alliance®

The strategic and commercial arrangements with Star Alliance® members provide Air Canada with important benefits, including codesharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave Star Alliance® or otherwise fail to meet its obligations thereunder, Air Canada's business, results from operations and financial condition could be materially adversely affected.

Interruptions or Disruptions in Service

Air Canada's business is significantly dependent upon its ability to operate without interruption at a number of hub airports, including Toronto Pearson Airport. Delays or disruptions in service, including those due to security or other incidents, weather conditions or work stoppages or strikes by airport workers, baggage handlers, air traffic controllers and other workers not employed by Air Canada or other causes beyond the control of Air Canada could have a material adverse impact on Air Canada's business, results from operations and financial condition.

Foreign Exchange

Air Canada's financial results are sensitive to the changing value of the Canadian dollar. In particular, Air Canada has a significant annual net outflow of U.S. dollars and is affected by fluctuations in the Canada/U.S. dollar exchange rate. Air Canada's management estimates that during 2006, a $0.01 increase in the Canada/U.S. dollar exchange rate (i.e., $1.13 to $1.14 per U.S. dollar) would have had an estimated $16 million unfavourable impact on operating income and an estimated $48 million unfavourable impact on pre-tax income. Conversely, an opposite change in the exchange rate would have had the opposite effect on operating income. Air Canada incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental charges, interest payments, debt servicing and computerized reservations system fees, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of Air Canada relative to its U.S. competitors and could have a material adverse effect on Air Canada's business, results from operations and financial condition. In addition, Air Canada may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

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 fully with these investigations. 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. It is Air Canada's policy to conduct its business in full compliance with all applicable competition laws.

In October 2006, ACPA commenced proceedings before the Ontario Superior Court of Justice against Air Canada, ACE and certain members of the board of directors of Air Canada alleging that certain past and future actions are oppressive to them. A variety of remedies were sought against the parties including an injunction to impose, among other things, limits on corporate distributions including those contemplated under the ACE plan of arrangement which became effective on October 10, 2006. Following a hearing in December, 2006, Mr. Justice Cumming of the Ontario Superior Court of Justice dismissed ACPA's application for an injunction and granted Air Canada's motion to dismiss ACPA's claim. ACPA has not appealed the dismissal of the injunction application but has appealed the order dismissing its claim. No date has yet been set for the hearing.

In addition, see the above risk factor entitled "Equal Pay Litigation".

Reliance on Key Personnel

Air Canada is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If Air Canada were to experience a substantial turnover in its leadership or other key employees, Air Canada's business, results from operations and financial condition could be materially adversely affected. Additionally, Air Canada may be unable to attract and retain additional qualified key personnel as needed in the future.

Aeroplan

Dependency on Top Three Accumulation Partners

Aeroplan’s top three Accumulation Partners were responsible for 91% of Gross Billings for the year ended 2006. A decrease in sales of Aeroplan Miles to any of Aeroplan's significant partners for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services Aeroplan provides could have a material adverse effect on Gross Billings. Subject to the minimum number of Aeroplan Miles to be purchased by Air Canada under the CPSA, Air Canada can change the number of Aeroplan Miles awarded per flight without Aeroplan's consent, which could result in a significant reduction in Gross Billings. Aeroplan cannot ensure that its contracts with these, or other, Accumulation Partners will be renewed on similar terms, or at all when they expire.

Reduction in Activity Usage and Accumulation of Aeroplan Miles

A decrease in Gross Billings from any of Aeroplan's Accumulation Partners for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services Aeroplan provides, or a decrease in the accumulation of Aeroplan Miles by members could have a material adverse effect on Aeroplan's Gross Billings and revenue.

Greater than Expected Redemptions for Rewards

A significant portion of Aeroplan's profitability is based on its estimate of the number of Aeroplan Miles that will never be redeemed by the member base. The percentage of Aeroplan Miles that are not expected to be redeemed is known as "Breakage" in the loyalty industry. Aeroplan's current estimate of Breakage is based on two independent studies conducted in 2006 on behalf of Aeroplan. Breakage may decrease from the current estimate of 17 percent as the Aeroplan Program grows and a greater diversity of rewards become available. If actual redemptions are greater than Aeroplan's current estimates, its profitability could be adversely affected due to the cost of the excess redemptions. Furthermore, the actual mix of redemptions between air and non-air rewards could adversely affect Aeroplan's profitability. Total "Broken" Miles still outstanding, amounted to 70.0 billion Aeroplan Miles as at December 31, 2006 and include 46.7 billion Aeroplan Miles. Responsibility to provide rewards for these 70.0 billion Aeroplan Miles rests with Aeroplan should such Aeroplan Miles ever be redeemed. There can be no assurances that a material portion of these estimated Broken Aeroplan Miles will not be redeemed.

Labour Relations

Contact centre agents are currently covered by a collective agreement between the CAW and Air Canada in place until 2009. While Aeroplan enjoys positive employee relations with the unionized call centre agents, if Air Canada faces labour disturbances resulting in work stoppages or other action instigated from within the larger bargaining unit, this could have a material adverse effect on Aeroplan's business. Furthermore, if at the expiration of the applicable collective agreement, the relevant parties are unable to renegotiate the collective agreement with the CAW, it could result in work stoppages and other labour disturbances which would similarly have a material adverse effect on Aeroplan's business. In addition, if the general services agreement between Aeroplan and Air Canada is terminated by Air Canada, it could have a material adverse effect on Aeroplan's business in the event that Aeroplan is unable to hire a sufficient number of call centre agents during the six month termination period under the agreement.

Technological Disruptions and Inability to use Third Party Software

Aeroplan's ability to protect its data and contact centres against damage from fire, power loss, telecommunications failure and other disasters is critical. In order to provide many of its services, Aeroplan must be able to store, retrieve, process and manage large databases and periodically expand and upgrade its capabilities. While Aeroplan has in place, and continues to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any damage to Aeroplan's data and contact centres, any failure of Aeroplan's telecommunication links that interrupts its operations or any impairment of Aeroplan's ability to use software licensed to it could adversely affect its ability to meet Aeroplan's partners' and members' needs and their confidence in utilizing Aeroplan in the future.

In addition, proper implementation and operation of technology initiatives is fundamental to Aeroplan's ability to operate a profitable business. Aeroplan continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Aeroplan's ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Aeroplan's business, results from operations and financial condition.

Leverage and Restrictive Covenants in Current and Future Indebtedness

The ability of Aeroplan Income Fund, Aeroplan Trust and Aeroplan to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Aeroplan Trust and/or Aeroplan (including Aeroplan's credit facilities). The degree to which Aeroplan is leveraged could have important consequences to the holders of units of Aeroplan Income Fund, including: (i) that Aeroplan's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) that a significant portion of Aeroplan's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; (iii) that certain of Aeroplan's borrowings will be at variable rates of interest, which exposes Aeroplan to the risk of increased interest rates; and (iv) that Aeroplan may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of distributable cash to interest rate variations.

In addition, Aeroplan's credit facilities contain a number of financial and other restrictive covenants that require Aeroplan to meet certain financial ratios and financial condition tests and limit Aeroplan's ability to enter into certain transactions. A failure to comply with the obligations in Aeroplan's credit facilities could result in a default which, if not cured or waived, could result in a termination of distributions by Aeroplan and permit acceleration of the relevant indebtedness. If the indebtedness under Aeroplan's credit facilities, including any possible hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of Aeroplan would be sufficient to repay in full that indebtedness.

Aeroplan may need to refinance its available credit facilities or other debt and there can be no assurance that Aeroplan will be able to do so or be able to do so on terms as favourable as those presently in place. If Aeroplan is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on Aeroplan's financial position, which may result in a reduction or suspension of cash distributions to unitholders of Aeroplan Income Fund. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive than the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of Aeroplan Income Fund to pay cash distributions.

Economic Downturn

Aeroplan derives its Gross Billings principally from the sale of Aeroplan Miles to its Accumulation Partners which is, ultimately dependant on consumer spending. Cyclical deviations in the economy, a prolonged recession or an increase in interest rates could have a material adverse effect on members spending with Aeroplan Accumulation Partners or the use of credit or charge cards. This could decrease Aeroplan's attractiveness to its commercial partners and their participation in the Aeroplan Program. These factors, individually or in combination, could have a material adverse effect on Aeroplan's business, results from operations and financial condition.

Cash Distributions Are Not Guaranteed and Will Fluctuate with the Business Performance

Although Aeroplan Income Fund intends to distribute cash distributions received from Aeroplan, less expenses and amounts, if any, paid by Aeroplan Income Fund in connection with the redemption of units, there can be no assurance regarding the amounts of income to be generated by Aeroplan's business or ultimately distributed to Aeroplan Income Fund. The actual amount distributed in respect of units is not guaranteed and will depend upon numerous factors, including Aeroplan's profitability and its ability to sustain EBITDA margins and the fluctuations in Aeroplan's working capital and capital expenditures, all of which are susceptible to a number of risks.

Restrictions on Certain Unitholders and Liquidity of Units

The declaration of trust of Aeroplan Income Fund imposes various restrictions on unitholders. Non-resident unitholders are prohibited from beneficially owning more than 49.9 percent of the units of Aeroplan Income Fund. These restrictions may limit (or inhibit the exercise of) the rights of certain unitholders, including non-residents of Canada and U.S. persons, to acquire units, to exercise their rights as unitholders and to initiate and complete take-over bids in respect of the units. As a result, these restrictions may limit the demand for units of Aeroplan Income Fund from certain unitholders and thereby adversely affect the liquidity and market value of the units of Aeroplan Income Fund held by the public.

Jazz

Many of the risk factors in the nature of those described under "Risk Factors – Air Canada" and " – Risks Related to the Airline Industry" could have a material adverse effect on Jazz's business, results from operations and financial condition. In addition to those risk factors, the following risk factors could also have a material adverse effect on Jazz's business, results from operations and financial condition.

Dependence on Air Canada

Jazz is directly affected by the financial and operational strength of Air Canada and its competitive position. In the event of any decrease in the financial or operational strength of Air Canada, Jazz's ability to receive payments from Air Canada, and the amount of such payments, may be adversely affected.

Air Canada is the sole marketing agent for Jazz's aircraft capacity covered by the CPA (the "Covered Aircraft") and is solely responsible for establishing schedule, routes, frequency and ticket prices for Jazz. To the extent Air Canada does not effectively and competitively market the routes serviced through Jazz, the utilization of the Covered Aircraft could be reduced with the result that Jazz's operating margin in dollar terms would be reduced.

Termination of the CPA

Substantially all of Jazz's current revenues are received pursuant to the CPA with Air Canada which currently covers all of Jazz's existing operating fleet (except two Dash 8 aircraft). The CPA will terminate on December 31, 2015 and is subject to renewal on terms to be negotiated for two additional periods of five years unless either party terminates the agreement by providing a notice not less than one year prior to December 31, 2015 or the end of the first renewal term. In addition, either party is entitled to terminate the CPA at any time upon the occurrence of certain events of default.

If the CPA is terminated, Jazz's revenue and earnings would be significantly reduced or eliminated unless Jazz is able to enter into satisfactory substitute arrangements. There is no assurance that Jazz would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Jazz as the CPA.

Labour Costs and Labour Relations

Labour costs constitute the largest percentage of Jazz's total operating costs that are borne by Jazz. There can be no assurance that the estimates of Jazz's future labour costs will be accurate. If such costs exceed Jazz's estimates, Jazz may realize decreased profits or even losses under the CPA. Most of Jazz's employees are unionized and new or modified collective bargaining agreements were concluded in 2003 and 2004. No strikes or lock-outs may lawfully occur until after the agreements expire in 2009. However, there can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in Jazz's service. Any labour disruption or work stoppage could adversely affect the ability of Jazz to conduct its operations and have a material adverse effect on its ability to carry out its obligations under the CPA and on its business, results from operations and financial condition. There can be no assurance that future agreements with employees' unions will be on terms in line with Jazz's expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Jazz.

If there is a labour disruption or work stoppage by any unionized work group of Air Canada which provides services to Jazz under the CPA, Jazz may lose access to such services and there can be no reassurance that sufficient replacement services could be obtained or that replacement services could be obtained on a cost effective basis.

Impact of Competition on Air Canada's Need to Utilize Jazz's Services

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Jazz flies. Competitors could rapidly enter markets Jazz serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Jazz's regional jet operations to Air Canada.

Impact of Increased Competition in the Regional Airline Industry on Jazz's Growth Opportunities

Aside from the limitations under the CPA and the regulatory prohibition on cabotage, Jazz's ability to provide regional air service to a major United States airline is limited by existing relationships that all of the United States network airlines have with other regional operators. Additionally, most of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity.

In addition, new competitors may enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Jazz. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry.

Cash Distributions are not Guaranteed and will Fluctuate with the Business Performance

Although Jazz Air Income Fund intends to distribute the interest received in respect of the Jazz Air Trust trust notes and the cash distributions received in respect of the Jazz Air Trust trust units, less expenses and amounts, if any, paid by Jazz Air Income Fund in connection with the redemption of units of Jazz Air Income Fund, there can be no assurance regarding the amounts of income to be generated by Jazz's business or ultimately distributed to Jazz Air Income Fund. The actual amount distributed in respect of the units of Jazz Air Income Fund is not guaranteed and depends upon numerous factors, including Jazz's profitability and its ability to sustain EBITDA and the fluctuations in Jazz's working capital and capital expenditures, all of which are susceptible to a number of risks.

Restrictions on Certain Unitholders and Liquidity of Units

The declaration of trust of Jazz Air Income Fund imposes various restrictions on unitholders of Jazz Air Income Fund. Non-resident unitholders are prohibited from beneficially owning more than 49.9 percent of the units of Jazz Air Income Fund. In addition, the voting rights of non-resident unitholders are limited to 25 percent of the aggregate number of outstanding votes attaching to all outstanding units and 25 percent of the aggregate number of votes that may be cast at any meeting of the unitholders. These restrictions may limit (or inhibit the exercise of) the rights of certain unitholders of Jazz Air Income Fund, including non-residents of Canada and United States persons, to acquire units of Jazz Air Income Fund, to exercise their rights as unitholders and to initiate and complete take-over bids in respect of the units. As a result, these restrictions may limit the demand for units of Jazz Air Income Fund from certain investors and thereby adversely affect the liquidity and market value of the units of Jazz Air Income Fund held by the public.

ACTS LP

Dependency on Air Canada and other Significant Customers

For the year ended December 31, 2006, Air Canada was responsible for approximately 69 percent of ACTS LP's revenues. A significant decrease in revenues generated from Air Canada or from any of ACTS LP's other major customers for any reason, including a decrease in activity, or a decision to either utilize another service provider could have a material adverse effect on ACTS LP's revenues. ACTS LP cannot ensure that its contracts with Air Canada and other significant customers will be renewed on similar terms, or at all when they expire.

ACTS LP is directly affected by the financial and operational strength of its major customers, including Air Canada and their competitive position. In the event of any decrease in the financial or operational strength of these customers, ACTS LP's ability to receive payments from customers, and the amount of such payments, could be adversely affected.

Dependency on the Airline Industry

ACTS LP's business is highly dependent on the performance of the airline industry. Economic and regulatory factors and passenger security concerns that affect the airline industry also impact ACTS LP's business. Many of the risk factors in the nature of those described under "Risk Factors – Risks Related to the Airline Industry" could result in lower demand for ACTS LP's products and services and, as a result, could have a material adverse effect on ACTS LP's business, results from operations and financial condition.

Key Supplies and Suppliers

ACTS LP is dependent upon its ability to source, on favourable terms and costs, sufficient quantities of goods in a timely manner, including aircraft, aircraft engine and other related parts. Such goods may only be available from a limited number of suppliers. Such failure, refusal or inability may arise as a result of a wide range of causes, many of which are beyond ACTS LP's control. Any failure or inability of ACTS LP to successfully source goods, including by reason of a failure, refusal or inability of a supplier, or to source goods on terms and pricing and within the timeframes acceptable to ACTS LP, could have a material adverse effect on ACTS LP's business, results from operations and financial condition.

Labour Relations

Most of the non-management personnel of ACTS LP are currently covered by a collective agreement between IAMAW and Air Canada in place until 2009. While ACTS LP enjoys positive employee relations, if Air Canada faces labour disturbances resulting in work stoppages or other action from within the larger bargaining unit, this could have a material adverse effect on ACTS LP's business. Furthermore, if at the expiration of the applicable collective agreement, the relevant parties are unable to renegotiate the collective agreement with the IAMAW, it could result in work stoppages and other labour disturbances which would similarly have a material adverse effect on ACTS LP's business. In addition, if the general services agreements between ACTS LP and Air Canada are terminated by Air Canada, it could have a material adverse effect on ACTS LP's business in the event that ACTS LP is unable to hire a sufficient number of employees prior to the termination of the agreements.

Highly Regulated Industry

ACTS LP operates in a highly regulated industry. Governmental agencies throughout the world regulate the manufacture, repair and overhaul of aircraft and related parts and accessories. Regulatory authorities monitoring the ACTS LP's business include Transport Canada, the Federal Aviation Authority in the U.S., and the European Aviation Safety Agency. Regulatory authorities perform regular compliance audits, including to ensure that all ACTS LP's technical and administrative processes, procedures, equipment and facilities are being maintained within the regulatory requirements. New and more stringent regulatory requirements, if adopted and enacted, could have a material adverse effect on ACTS' business, financial condition and results of operations.

In addition, ACTS LP's repair and overhaul operations are subject to certification, including pursuant to regulations established by Transport Canada and the Federal Aviation Authority. Specific regulations vary from country to country, although compliance with Transport Canada and Federal Aviation Authority requirements generally satisfies regulatory requirements in other countries. Any failure to comply with regulatory requirements or maintain the necessary regulatory approvals or any other of ACTS LP's material authorizations or approvals could have a material adverse effect on ACTS LP's business, financial condition and results of operations.

Risks Related to the Airline Industry

Airline Reorganizations

Since September 11, 2001, a number of U.S. air carriers have sought to reorganize under Chapter 11 of the United States Bankruptcy Code or outside the scope of formal reorganization proceedings. Successful completion of such reorganizations could present Air Canada with competitors having reduced levels of indebtedness and significantly lower operating costs derived from labour, supply and financing contracts renegotiated under the protections of the United States Bankruptcy Code or outside the scope of formal reorganization proceedings. In addition, certain air carriers, including those involved in reorganizations, may undertake substantial fare discounting in order to maintain cash flows and to enhance continued customer loyalty. Such fare discounting could result in lower Yields for Air Canada which, in turn, could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Economic and Geopolitical Conditions

Airline operating results are sensitive to economic and geopolitical conditions which can have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares that Air Canada may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America, as well as geopolitical instability in various areas of the world, could have the effect of reducing demand for air travel in Canada and abroad and, together with the other factors discussed herein, could have a material adverse effect on Air Canada's profitability. Any prolonged or significant weakness of the Canadian or world economies could materially adversely impact Air Canada's business, results from operations and financial condition, especially given Air Canada's substantial fixed cost structure.

Airline Industry Characterized by Low Gross Profit Margins and High Fixed Costs

The airline industry generally and scheduled service in particular are characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. Accordingly, a shortfall from expected revenue levels could have a material adverse effect on Air Canada's business, results from operations and financial condition. Air Canada incurs substantial fixed costs which do not meaningfully fluctuate with overall capacity. As a result, should Air Canada be required to reduce its overall capacity or the number of flights operated, it may not be able to successfully reduce certain fixed costs in the short term and may be required to incur important termination or other restructuring costs, which could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Terrorist Attacks and Security Measures

The September 11, 2001 terrorist attacks and subsequent terrorist activity, notably in the Middle East, Southeast Asia and Europe, caused uncertainty in the minds of the traveling public. The occurrence of a major terrorist attack (whether domestic or international and whether involving Air Canada or another carrier or no carrier at all) and increasingly restrictive security measures, such as the current restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's flights. It could also lead to a substantial increase in insurance, airport security and other costs. Any resulting reduction in passenger revenues and/or increases in insurance, security or other costs could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Epidemic Diseases (Severe Acute Respiratory Syndrome (SARS), Influenza or Other Epidemic Diseases)

As a result of the international outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003, the World Health Organization (the "WHO") issued on April 23, 2003 a travel advisory, which was subsequently lifted on April 30, 2003, against non-essential travel to Toronto, Canada. The seven day WHO travel advisory relating to Toronto, the location of Air Canada's primary hub, and the international SARS outbreak had a significant adverse effect on passenger demand for air travel destinations served by Air Canada and Jazz, and on the number of passengers traveling on Air Canada's and Jazz's flights and resulted in a major negative impact on traffic on the entire network. The WHO warns that there is a substantial risk of an influenza pandemic within the next few years. An outbreak of SARS or of another epidemic disease such as influenza (whether domestic or international) or a further WHO travel advisory (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Jazz's flights. Any resulting reduction in traffic on Air Canada's and Jazz's network could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Casualty Losses

Due to the nature of its core operating business, Air Canada may be subject to liability claims arising out of accidents or disasters involving aircraft on which Air Canada's customers are traveling or involving aircraft of other carriers maintained or repaired by Air Canada, including claims for serious personal injury or death. There can be no assurance that Air Canada's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material. Additionally, any accident or disaster involving one of Air Canada's aircraft or an aircraft of another carrier maintained or repaired by Air Canada may significantly harm Air Canada's reputation for safety, which would have a material adverse effect on Air Canada's business, results from operations and financial condition.

Seasonal Nature of the Business, Other Factors and Prior Performance

Air Canada has historically experienced considerably greater demand for its services in the second and third quarters of the calendar year and significantly lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the preference of a high number of leisure travelers to travel during the spring and summer months. Air Canada has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short term.

As described elsewhere, demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Regulatory Matters

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, noise levels and the environment and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Competition Bureau and/or the Competition Tribunal, the Canadian Transportation Agency, the Treasury Board or other domestic or foreign governmental entities may have a material adverse effect on Air Canada's business, results from operations and financial condition. Air Canada cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Air Canada's business, results from operations and financial condition.

The availability of international routes to Canadian air carriers is regulated by agreements between Canada and foreign governments. Changes in Canadian or foreign government aviation policy could result in the alteration or termination of these agreements and could adversely affect Air Canada's international operations.

In July 2000, the Government of Canada amended the Canada Transportation Act, the Competition Act and the Air Canada Public Participation Act to address the competitive airline environment in Canada and ensure protection for consumers. This legislation included airline-specific provisions concerning "abuse of dominance" under the Competition Act, later supplemented by creating "administrative monetary penalties" for a breach of the abuse of dominance provisions by a dominant domestic air carrier.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Competition and Air Canada which had considered the approach to be taken in determining whether Air Canada was operating below "avoidable costs" in violation of one of the new airline-specific abuse of dominance provisions. The Competition Tribunal applied a very broadly crafted cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal's approach to avoidable costs remains relevant.

In addition, on November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. Air Canada's management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons.

If the Commissioner of Competition commences inquiries or brings similar applications with respect to significant competitive domestic routes and such applications are successful, it could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Air Canada is subject to domestic and foreign laws regarding privacy of passenger and employee data that are not consistent in all countries in which Air Canada operates. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Air Canada's business, results from operations and financial condition.

Increased Insurance Costs

Since September 11, 2001, the aviation insurance industry has been continually reevaluating the terrorism risks that it covers and this activity may adversely affect some of Air Canada's existing insurance carriers or Air Canada's ability to obtain future insurance coverage. To the extent that Air Canada's existing insurance carriers are unable or unwilling to provide it with insurance coverage, and in the absence of measures by the Government of Canada to provide the required coverage, Air Canada's insurance costs may increase further and may result in Air Canada being in breach of regulatory requirement or contractual arrangements requiring that specific insurance be maintained, which may have a material adverse effect on Air Canada's business, results from operations and financial condition.

Third Party War Risk Insurance

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it currently provides to Air Canada and certain other carriers in Canada. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Air Canada and other industry participants would have to turn to the commercial insurance market to seek such coverage. Air Canada estimates that such coverage would cost Air Canada approximately $15 million per year. Alternative solutions, such as those envisioned by the International Civil Aviation Organization ("ICAO") and the International Air Transport Association ("IATA"), have not developed as planned, due to actions taken by other countries and the recent availability of supplemental insurance products. ICAO and IATA are continuing their efforts in this area, however the achievement of a global solution is not likely in the immediate or near future. The U.S. federal government has set up its own facility to provide war risk coverage to U.S. carriers, thus removing itself as a key component of any global plan.

Furthermore, the London aviation insurance market has introduced a new standard war and terrorism exclusion clause which is applicable to aircraft hull and spares war risk insurance, and intends to introduce similar exclusions to airline passenger and third party liability policies. Such clause excludes claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or biochemical materials. The Government of Canada indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion. Unless and until the Government of Canada does so, the loss of coverage exposes Air Canada to this new uninsured risk and may result in Air Canada being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on Air Canada's business, results from operations and financial condition.

MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are traded on the Toronto Stock Exchange under the trading symbols "ACE.A" and "ACE.B", respectively. On May 8, 2006, the trading symbol for the Variable Voting Shares changed from ACE.RV to ACE.A. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the Toronto Stock Exchange for the months of January to, and including, December 2006:

	Variable Voting Shares				Voting Shares			
2006	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**
January..........	$40.09	$35.60	526,222	11,050,653	$40.13	$35.63	189,018	3,969,385
February........	$37.39	$32.50	736,236	14,724,728	$37.33	$32.51	175,791	3,515,821
March[1].........	$35.26	$30.26	506,550	11,650,656	$35.25	$30.25	211,439	4,863,096
April	$34.49	$30.50	737,414	14,010,868	$34.43	$30.46	177,092	3,364,739
May..............	$35.10	$30.75	744,732	16,384,106	$35.00	$30.70	206,746	4,548,408
June..............	$33.50	$30.75	453,024	9,966,536	$33.39	$30.75	180,902	3,979,842
July	$32.10	$27.85	301,490	6,029,791	$32.03	$27.90	188,200	3,764,001
August	$31.39	$25.85	549,635	12,091,976	$31.37	$25.98	183,797	4,043,524
September.....	$35.20	$29.90	605,836	12,116,719	$35.25	$29.85	186,159	3,723,170
October.........	$39.54	$34.26	758,368	15,925,734	$39.53	$34.25	309,055	6,490,153
November.....	$39.60	$34.01	1,130,067	24,861,477	$40.01	$33.10	406,916	8,952,152
December......	$38.45	$34.11	787,759	14,967,429	$38.38	$34.15	180,091	3,421,736

(1) Shareholders of record of ACE as of March 3, 2006 received a distribution by way of reduction of capital from ACE of 0.18 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE representing $2.23 per Variable Voting Share, Voting Share and Preferred Share based on the closing price of Aeroplan Income Fund and Jazz Air Income Fund on March 1, 2006. Shareholders of record of ACE on January 10, 2007 received a distribution by way of reduction of capital of approximately 0.442 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. Shareholders of record of ACE on March 14, 2007 received a distribution by way of reduction of capital of 0.177 units of Aeroplan Income Fund and 0.219 units of Jazz Air Income Fund per Variable Voting Share, Variable Share and Preferred Share (on an as converted basis) of ACE.

The Notes are traded on the Toronto Stock Exchange under the trading symbol "ACE.NT.A". The following table sets forth the price range and trading volume of the Notes as reported by the Toronto Stock Exchange for the months of January to, and including, December 2006:

	Notes			
2006	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**
January..........................	$101.00	$97.00	3,424	54,790
February........................	$98.75	$94.00	5,450	70,850
March	$98.50	$94.25	6,111	103,890
April	$96.51	$94.00	8,060	48,360
May...............................	$102.50	$92.75	9,368	112,410
June...............................	$97.25	$95.00	710	2,840
July	$95.00	$94.00	550	1,650
August	$94.75	$92.00	15,195	151,950
September.....................	$97.61	$94.00	1,587	11,110
October	$103.50	$98.00	18,738	243,590
November	$102.75	$100.00	8,719	78,470
December......................	$102.00	$98.00	31,180	280,620

DIVIDEND RECORD

The Corporation has not paid dividends on its Voting Shares, Variable Voting Shares or Preferred Shares for the year ended December 31, 2006.

DESCRIPTION OF CAPITAL STRUCTURE

The share capital of ACE is composed of an unlimited number of Variable Voting Shares and Voting Shares and of 12,500,000 Preferred Shares. In addition, ACE has issued debt securities in the form of Notes. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares, Voting Shares and Preferred Shares, and includes a description of the Notes and the ratings ascribed to them. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the ACE Articles of Arrangement.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA.

The Variable Voting Shares may be held only by persons who are not Canadians (as such term is defined in the *Canada Transportation Act*) and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding (including the Preferred Shares, on an as converted basis), as a percentage of the total number of votes attaching to Voting Shares outstanding exceeds 25% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares (including the Preferred Shares, on an as converted basis) at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class (including the Preferred Shares on an as converted basis) do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of ACE and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares (including the Preferred Shares on an as converted basis) at any meeting do not exceed 25 % of the votes that may be cast at such meeting.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of ACE properly applicable to the payment of dividends, any dividends declared and payable by ACE on the Variable Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share for share basis with the Voting Shares and the Preferred Shares participating on an as converted basis. All dividends declared in any fiscal year of ACE shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, Voting Shares and the Preferred Shares participating on an as converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE ranking prior to the Variable Voting Shares, including the Preferred Shares, upon liquidation, dissolution or winding up of ACE or other distribution of ACE's assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of ACE and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of ACE or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian; or (ii) the provisions contained in the *Canada Transportation Act* relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer and the transfer agent shall deposit the resulting Voting Shares on behalf of the shareholder.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be reconverted automatically and without further act from ACE or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the ACE Articles of Arrangement.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians.

Voting Shares

Voting

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA) and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of ACE.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of ACE properly applicable to the payment of dividends, any dividends declared and payable by ACE on the Voting Shares and the Voting Shares shall rank equally as to dividends on a share for share basis with the Variable Voting Shares and the Preferred Shares participating on an as converted basis and all dividends declared in any fiscal year of ACE shall be declared in equal or equivalent amounts per share on all Voting Shares, Variable Voting Shares and the Preferred Shares on an as converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE ranking senior to the Voting Shares, including the Preferred Shares, upon liquidation, dissolution or winding up of ACE or other distribution of ACE's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of ACE and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the *Canada Transportation Act* are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of ACE or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Constraints on Ownership of Shares

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians.

Preferred Shares

Voting

The holders of Preferred Shares will be entitled to vote on an as converted basis with the Variable Voting Shares and the Voting Shares and to the extent that they are held by persons who are not Canadians they shall be subject to the same proportionate reduction in voting percentage as if, for voting purposes only, the Preferred Shares had been converted into Variable Voting Shares.

Participation

The holders of Preferred Shares shall participate on an as converted basis with the Variable Voting Shares and the Voting Shares with respect to all dividends, distributions, spin off, split-off, subscription rights or other offers or rights made available to holders of Variable Voting Shares and the Voting Shares and any other similar transactions.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of ACE (with each holder of the Preferred Shares being entitled to treat the occurrence of a merger, amalgamation, sale of all or substantially all of the assets of ACE or other similar transaction involving a change in control of ACE as a liquidation for these purposes), then the holders of the Preferred Shares shall be entitled to receive, prior to and in preference to the holders of Variable Voting Shares and the Voting Shares, an amount per Preferred Share equal to the Fully Accreted Value of such Preferred Shares, determined as of the date of such event. For the purposes of the terms of the Preferred Shares, "Fully Accreted Value" means, with respect to each Preferred Share issued on September 30, 2004 as of any date, the initial purchase price of such Preferred Share, increased at a rate of 5% per annum, compounded semi annually from the date of issuance of such Preferred Shares.

Optional Conversion

The Preferred Shares shall be convertible at the option of the holders thereof at any time into Variable Voting Shares, if held by a non Canadian, or into Voting Shares, if held by a Canadian, at a conversion rate equal to the Fully Accreted Value per Preferred Share (as of the conversion date) divided by the Conversion Price. For the purposes of the terms of the Preferred Shares, "Conversion Price" is equal to $26 or 130% of the initial per share value attributed to the Variable Voting Shares and Voting Shares on September 30, 2004 of $20. The Conversion Price of the Preferred Shares is subject to (i) adjustment as described in "Mandatory Redemption/Conversion" below and (ii) customary public company anti-dilution protection for stock splits, stock dividends, subdivisions, combinations and similar transactions. There shall be no special adjustment for below market or below Conversion Price issuances.

Mandatory Redemption/Conversion

The holders of Preferred Shares shall be required to convert the Preferred Shares into Variable Voting Shares (if the Preferred Shares are not owned and controlled by a Canadian) or Voting Shares (if the Preferred Shares are owned and controlled by a Canadian), within 10 days after the seventh anniversary of the date of issuance of the Preferred Shares (the "Initial Mandatory Conversion Date") provided, however, that if the closing price of Variable Voting Shares or Voting Shares, as the case may be, does not exceed the Fully Accreted Value of a Preferred Share on at least 30 of the 100 trading days immediately prior to the Initial Mandatory Conversion Date then the holders thereof shall not be required to convert their Preferred Shares into Variable Voting Shares or Voting Shares, as the case may be, and on the Initial Mandatory Conversion Date the then applicable Conversion Price shall automatically be reduced by 3.75%.

In the event the Preferred Shares have not been converted on or prior to the Initial Mandatory Conversion Date, on each six month anniversary of the Initial Mandatory Conversion Date (each a "Subsequent Mandatory Conversion Date") until and including the 10 year anniversary of the date of issuance of the Preferred Shares (the

"Final Maturity Date"), the Preferred Shares shall be subject to mandatory conversion within 10 days of any Subsequent Mandatory Conversion Date if, and only if, the closing price of Variable Voting Shares or Voting Shares, as the case may be, exceeds the Fully Accreted Value of a Preferred Share on at least 30 of the 100 trading days immediately prior to such Subsequent Mandatory Conversion Date and, if such threshold is not met, the then applicable Conversion Price shall automatically be reduced by an additional 3.75% on each such Subsequent Mandatory Conversion Date. If the foregoing test is not met with respect to the Subsequent Mandatory Conversion Date that is the Final Maturity Date, the holders of Preferred Shares shall have the right to require ACE to redeem each of the Preferred Shares in cash on the Final Maturity Date at a per share redemption price equal to the Fully Accreted Value (as at the Final Maturity Date).

Notwithstanding the foregoing, the Preferred Shares shall not be subject to mandatory conversion as described above unless the Variable Voting Shares and Voting Shares are then listed and posted on the Toronto Stock Exchange, and a registration statement, prospectus or similar offering document permitting the distribution and sale of such Variable Voting Shares and Voting Shares throughout Canada and/or the United States of America is then effective covering all of the Variable Voting Shares and Voting Shares into which the Preferred Shares are convertible at the time of such mandatory conversion.

Mandatory Conversion

If at any time during (i) the period commencing on the date of issuance of the Preferred Shares and ending on and including the first anniversary thereof the closing price of the Variable Voting Shares or Voting Shares, as the case may be, for each of 30 consecutive trading days exceeds 200% of the then applicable Conversion Price or (ii) any period after the first anniversary of the date of issuance of the Preferred Shares the closing price of the Variable Voting Shares or Voting Shares, as the case may be, for each of 30 consecutive trading days exceeds 175% of the then applicable Conversion Price, and, in each case, if the Variable Voting Shares or Voting Shares are then listed and posted on the Toronto Stock Exchange and a registration statement, prospectus or other similar offering document permitting the distribution and sale of such Variable Voting Shares and Voting Shares throughout Canada and/or the United States of America is then effective covering all of the Variable Voting Shares and Voting Shares into which the Preferred Shares are convertible, then ACE may require the holders of Preferred Shares to convert the Preferred Shares into Variable Voting Shares, if the Preferred Shares are not owned by a Canadian, or Voting Shares, if the Preferred Shares are owned by a Canadian.

Organic Change

With respect to any recapitalization, reorganization, reclassification, consolidation, amalgamation, arrangement, merger, sale of all or substantially all of ACE's assets to another person or other transaction which is effected in such a way that holders of Variable Voting Shares and Voting Shares are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Variable Voting Shares or Voting Shares, as the case may be (each an "Organic Change") which includes a sale of all or substantially all of ACE's assets or where ACE is not the surviving entity, the holders of the Preferred Shares shall be entitled to cause ACE to either (i) require that the surviving entity or its publicly traded parent issue to the holders of Preferred Shares in exchange for such shares, a security of the surviving or publicly traded parent entity evidenced by a written instrument substantially similar in form and substance to the Preferred Shares, including, without limitation, having the same economic rights and preferences as the Preferred Shares and having a rank senior to all capital stock of such issuing entity or (ii) make appropriate adjustments contemporaneously to the rights attached to the Preferred Shares so as to preserve in all respects the benefits conferred on the holders of the Preferred Shares by the terms of the Preferred Shares.

With respect to any reorganization, amalgamation, arrangement, merger or other similar transaction that does not constitute an Organic Change, appropriate adjustments shall contemporaneously be made to the rights (including, without limitation, the conversion right) attached to the Preferred Shares so as to preserve in all respects the benefits conferred on the holders of the Preferred Shares by the terms of the Preferred Shares.

Pre-emptive Rights

If ACE proposes to issue or sell any Variable Voting Shares or Voting Shares or other equity securities, rights, options, warrants or other convertible securities which represent rights to purchase Variable Voting Shares or Voting Shares, as the case may be, each holder of Preferred Shares shall be entitled to purchase a number of such Variable Voting Shares or Voting Shares, as the case may be, or other equity securities, rights, options, warrants or other convertible securities sufficient to allow such holder to maintain its proportionate equity ownership in ACE, on a fully diluted basis at the level of such interest immediately prior to such issuance or sale, subject to exceptions for issuances under management and employee stock incentive plans approved by the board of directors of ACE.

Notes

4.25% Convertible Senior Notes

ACE currently has an amount of $329,998,000 in 4.25% Convertible Senior Notes (the "Notes") issued and outstanding. The Notes are senior unsecured obligations of ACE and rank equally in right of payment to all other senior unsecured indebtedness of ACE and senior in right of payment to any subordinated indebtedness of ACE. The Notes are subordinated to all existing and future secured indebtedness of ACE. In addition, the Notes are effectively subordinated to all existing and future indebtedness and other liabilities and commitments of the subsidiaries of ACE.

Each Note is convertible at the option of the holder into Voting Shares (if the Notes are owned and controlled by a Canadian) or into Variable Voting Shares (if the Notes are not owned and controlled by a Canadian) at an initial conversion ratio of approximately 20.8333 Shares per $1,000 principal amount of Notes, subject to adjustment in certain events in accordance with the indenture governing the Notes. On March 22, 2006, ACE announced that, following the distribution of 0.18 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share, the conversion ratio in effect immediately prior to the opening of business on March 22, 2006 was adjusted to 22.2838 Shares for each $1,000 principal amount of Notes. On January 29, 2007, ACE announced that, in connection with its previously announced distribution of units of Aeroplan Income Fund to its shareholders as of a record date of January 10, 2007, the conversion ratio was being adjusted again, effective January 29, 2007, to 27.6987 Shares for each $1,000 principal amount of Notes. Holders converting their Notes will not receive any payment upon conversion representing accrued but unpaid interest on such Notes. Subject to the satisfaction of certain conditions, ACE may, in lieu of delivering Voting Shares or Variable Voting Shares upon conversion of all or a portion of the Notes, elect to pay cash or a combination of cash and Voting Shares or Variable Voting Shares.

Ratings

Ratings generally address the ability of a company to repay principal and interest or dividends on securities. The Notes are rated by Dominion Bond Rating Service Limited ("DBRS").

This section describes the credit ratings that ACE has received for its Notes. These ratings provide investors with an independent measure of credit quality of an issue of securities. Each rating should be evaluated independently.

These ratings are not recommendations to purchase, hold or sell the Notes, or a comment on the market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn in the future by a rating agency.

The table below shows the range of credit ratings that DBRS assigns to long-term debt instruments.

Agency	Highest Quality of Securities Rated	Lowest Quality of Securities Rated
DBRS	AAA	D

The DBRS long-term debt rating scale indicates the risk that a company may not meet its obligations to pay interest and principal in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity.

ACE has received the following credit rating for the Notes it has issued.

Agency	Long-Term Debt Credit Rating
DBRS	B (high)

The DBRS B (high) rating on long-term debt rank 14th among the 26 long-term debt credit ratings given by DBRS. According to DBRS, a company with a long-term debt rated B is considered highly speculative and there is a reasonably high level of uncertainty as to the ability of the entity to pay interest and principal on a continuing basis in the future, especially in periods of economic recession or industry adversity.

DIRECTORS AND OFFICERS

Directors

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of ACE since the dates and hold the number of shares of ACE set forth opposite their respective names.

Name and Municipality of Residence	Principal Occupation	Director Since	Shares Held
Bernard Attali[4][6] Paris, France	Country Advisor / Texas Pacific Group France	September 30, 2004	5,000[2]
Robert E. Brown[4][5] Montreal, Québec	President and Chief Executive Officer CAE Inc.	September 30, 2004	10,000[1]
Carlton D. Donaway[4][6] Redmond, Washington	Senior Advisor – Operations Cerberus Capital Management, L.P.	December 15, 2004	Nil
Michael M. Green[4][6] Radnor, Pennsylvania	Managing Director and President-Operations Cerberus Capital Management, L.P.	September 30, 2004	Nil
W. Brett Ingersoll[3][5] New York, New York	Managing Director Cerberus Capital Management, L.P.	September 30, 2004	Nil
Pierre Marc Johnson[4][5] Montreal, Québec	Senior Counsel Heenan Blaikie LLP	September 30, 2004	5,000[1]
Richard H. McCoy[4][5][6] Toronto, Ontario	Corporate Director	August 3, 2005	4,000[1]
John T. McLennan[3][6] Mahone Bay, Nova Scotia	Corporate Director	September 30, 2004	10,000[1]
Robert A. Milton Westmount, Québec	Chairman, President and Chief Executive Officer, ACE	June 29, 2004	24,336[1]
David I. Richardson[3][5] Grafton, Ontario	Corporate Director	September 30, 2004	10,000[1]

Name and Municipality of Residence	Principal Occupation	Director Since	Shares Held
Marvin Yontef (4) Toronto, Ontario	Senior Partner Stikeman Elliott LLP	June 29, 2004	5,000(1)

(1) Voting Shares.
(2) Variable Voting Shares.
(3) Member of the Audit, Finance and Risk Committee.
(4) Member of the Governance and Corporate Matters Committee.
(5) Member of the Human Resources and Compensation Committee.
(6) Member of the Nominating Committee.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Brown was Chairman of Air Canada from 2003 to 2004 and President and Chief Executive Officer of Bombardier from 1999 to 2002. Mr. Donaway was Executive Chairman of DHL Holdings USA from 2003 to 2004, Chairman, President and Chief Executive Officer of Airborne Inc. from 2002 to 2003 and President and Chief Executive Officer of ABX Air Inc. from 1992 to 2003. Mr. Ingersoll was a Partner at J.P. Morgan Partners from 1994 to 2002. Mr. McLennan was Vice Chairman and Chief Executive Officer of AT&T Canada (which was renamed Allstream Inc.) from 2000 to 2004. Mr. Richardson was Chairman, Ernst & Young Inc. and Senior Partner, Ernst & Young LLP (Canada) from 1987 to 2002. Mr. McCoy was Vice Chairman, Investment Banking at TD Securities from 1997 to 2003.

The term of office of all of the above directors will expire at the next annual meeting of shareholders of ACE or until their successors are appointed or elected.

Officers

The name, municipality of residence and position held with ACE of each of the officers are as set forth below:

Name and Municipality of Residence	Position Held
Robert A. Milton Westmount, Québec	Chairman, President and Chief Executive Officer, ACE, Chairman, Air Canada, Chairman, Aeroplan and Chairman, Jazz
Brian Dunne Westmount, Québec	Executive Vice President and Chief Financial Officer
Greg Cote Toronto, Ontario	Senior Vice President, Corporate Finance and Strategy
Duncan Dee Ottawa, Ontario	Senior Vice President, Corporate Affairs and Chief Administrative Officer
Sydney John Isaacs Westmount, Québec	Senior Vice President, Corporate Development and Chief Legal Officer
Jack McLean Winnipeg, Manitoba	Controller
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary

Unless otherwise indicated below, each of the officers has held a position with Air Canada similar to that listed above for more than five years. Brian Dunne was a partner at Arthur Andersen prior to taking up the position of Chief Financial Officer of Aer Lingus in October 2001. Mr. Dunne joined ACE in September 2005. Greg Cote was a partner at Ernst & Young since 1997 prior to joining ACE in September 2005. Duncan Dee was appointed Executive Assistant to the President & Chief Executive Officer, Air Canada in May 2000, Vice President, Corporate

Affairs, Air Canada in November 2002, Senior Vice President, Corporate Affairs, Air Canada in April 2004 and Senior Vice President, Corporate Affairs & Chief Administrative Officer, ACE in December 2004. Sydney John Isaacs joined Air Canada in 2000, initially in a business development capacity, and subsequently became Senior Director, Mergers & Acquisitions, and then Senior Director, Restructuring before being appointed Senior Vice President, Corporate Development and Chief Legal Officer of ACE in November 2004. Jack McLean was General Manager, Finance, Air Canada since 1999 before being appointed Controller of ACE in November 2004. Carolyn Hadrovic was Deputy Secretary of ACE before being appointed Corporate Secretary in December 2005 and previously, Senior Counsel, Regulatory and International Law, with Air Canada.

As at March 20, 2007, the directors and officers mentioned above as a group owned, directly or indirectly, or had control or direction over 74,523 Voting Shares representing approximately 0.32% of the outstanding Voting Shares and 5,000 Variable Voting Shares representing approximately 0.01% of the outstanding Variable Voting Shares of the Company. As at March 20, 2007, the directors and officers mentioned above as a group owned, directly or indirectly, or had control or direction over 104,978 units of Aeroplan Income Fund representing approximately 0.32% of the outstanding units of Aeroplan Income Fund. As at March 20, 2007, the directors and officers mentioned above as a group owned, directly or indirectly, or had control or direction over 75,500 units of Jazz Air Income Fund representing approximately 0.10% of the outstanding units of Jazz Air Income Fund. As at March 20, 2007, the directors and officers mentioned above as a group owned, directly or indirectly, or had control or direction over 45,500 Class B Shares of Air Canada representing approximately 0.05% of the outstanding units of Air Canada.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of ACE, in the last ten years, no director or executive officer of ACE is or has been a director or executive officer of any company that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days, (b) was the subject of an event that resulted, after that person ceased to be a director or executive officer, in the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to an exemption under securities legislation, for a period of more than 30 consecutive days or (c) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets except for the following:

(i) Following the acquisition of Canadian Airlines International Ltd. ("CAIL") by Air Canada in 2000, Robert A. Milton became a director of CAIL. Thereafter, CAIL restructured under the CCAA pursuant to a plan of compromise which became effective on July 5, 2000. CAIL's common shares and non-voting shares were suspended from trading by the Toronto Stock Exchange on June 27, 2000 and delisted on July 6, 2000. Robert A. Milton was President and Chief Executive Officer and a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(iii) Robert E. Brown was a director of Air Canada when Air Canada filed for protection under the CCAA on April 1, 2003 and became chairman of Air Canada on May 13, 2003. Mr. Brown was a director of Nortel Networks Corporation when, on or about May 31, 2004, cease trade orders were issued against directors, officers and certain other current and former employee of Nortel Networks Corporation and Nortel Networks Limited (collectively, "Nortel Networks"). The management cease trade orders were imposed in response to the failure by Nortel Networks to file certain financial statements with the Canadian securities regulators;

(iv) John T. McLennan was the Chief Executive Officer of AT&T Canada when it filed for protection under the CCAA on October 15, 2002;

(v) Rupert J. Duchesne was President and Chief Executive Officer, Aeroplan when Air Canada filed for protection under the CCAA on April 1, 2003;

(vi) Michael M. Green was a director of Anchor Glass Container Corporation when it filed a voluntary petition for reorganization under Chapter 11 of the US Bankruptcy Code in August 2005;

(vii) Carlton D. Donaway was a director of Anchor Glass Container Corporation, but had ceased to be a director when such filed a voluntary petition for reorganization under Chapter 11 of the US Bankruptcy Code in August 2005; and

(viii) Montie R. Brewer was Senior Vice President, Planning for United Airlines until March 31, 2002. UAL Corp., the parent company of United Airlines, filed for protection under Chapter 11 of the US Bankruptcy Code on December 9, 2002.

Penalties or Sanctions

To the knowledge of ACE, no director or executive officer of ACE, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of ACE, in the last ten years, no director or executive officer has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

AUDIT COMMITTEE

Audit Committee Charter

The charter of the Audit, Finance and Risk Committee ("Audit Committee") is attached as Appendix A to this Annual Information Form.

Composition of Audit Committee

The Audit Finance and Risk Committee (the "**Audit Committee**") of ACE consists of David I. Richardson (chairman), W. Brett Ingersoll and John T. McLennan. Each member of the Audit Committee is independent and financially literate as defined under Multilateral Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of Audit Committee Members

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

(i) David I. Richardson is a corporate director. Mr. Richardson is also a director of Air Canada, Jazz Air Holding GP Inc. and a trustee of Aeroplan Income Fund. Mr. Richardson is the former Chairman of Ernst & Young Inc. (Canada) and a former Executive Partner of Ernst & Young LLP. Mr. Richardson joined its predecessor Clarkson, Gordon & Co. in 1963 and was appointed President of The Clarkson Company Limited in 1982. Mr. Richardson was also a member of the Management and Executive Committees of Ernst & Young LLP, national managing partner of the firm's Corporate Finance practice and the senior partner in the Corporate Recovery and Restructuring practice until retirement from the partnership in 2002. Mr. Richardson holds a Bachelor of Commerce degree from the University of Toronto, is a member and a Fellow of the Institute of Chartered Accountants of Ontario.

(ii) W. Brett Ingersoll is the Managing Director of Cerberus Capital Management, L.P. (private equity investment firm), a senior member of its Private Equity Practice and a member of its Investment Committee. Mr. Ingersoll is also a director of Aeroplan Holding GP Inc. Prior to joining Cerberus in 2002, Mr. Ingersoll was a Partner at JP Morgan Partners (formerly Chase Capital Partners) from 1993 to 2002 (private equity investment firm). Mr. Ingersoll is a director of various public and private companies including Coram Health Care, IAP Worldwide Services, Inc., AerCap B.V., Talecris Bio Therapeutics Inc. and Endura Care, LLC. Mr. Ingersoll holds a BA in economics from Brigham Young University and a MBA from Harvard University.

(iii) John T. McLennan is a corporate director. Mr. McLennan is a director of Amdocs Ltd., Emera, Manitoba Telephone Systems (Vice-Chairman) and Medisys Health Services. Mr. McLennan is a director of Air Canada and Jazz Air Holding GP Inc. and also a trustee of Aeroplan Income Fund Mr. McLennan was recently Vice-Chairman and Chief Executive Officer of Allstream. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc. Mr. McLennan holds a BSc and a MSc in Industrial Management from Clarkson University.

Pre-approval Policies and Procedures

The Audit Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard, the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period.

The Audit Committee will also require and review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2006 and December 31, 2005 to PricewaterhouseCoopers LLP and its affiliates are $9,075,383 and $5,320,697, respectively. Fees payable to PricewaterhouseCoopers LLP and its affiliates in 2006 and 2005 are detailed below.

	Year ended December 31, 2006	Year ended December 31, 2005
Audit fees	8,445,500	$5,046,202
Audit-related fees	599,883	$252,745
Tax fees	30,000	$21,750
All other fees	Nil	Nil
	9,075,383	$5,320,697

The nature of each category of fees is described below.

Audit fees

Audit fees were paid for professional services rendered for the audit of the Corporation's annual financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements, including services related to the audit of internal controls over financial reporting.

Audit-related fees

Audit-related fees were paid for professional services related to pension plan audits, specified procedures reports and other items related to the audit.

Tax fees

Tax fees were paid for professional services rendered with respect to commodity and income taxes.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On September 30, 2004, as part of Air Canada's restructuring process, the Cerberus Affiliate invested $250 million in ACE in consideration for the issuance of 12,500,000 Preferred Shares of ACE. The Cerberus Affiliate is an affiliate of Cerberus Capital Management, L.P. Michael M. Green, Carlton D. Donaway and W. Brett Ingersoll, all directors of ACE, are respectively President-Operations, Senior Advisor-Operations and Managing Director of Cerberus Capital Management, L.P. As of March 20, 2007, the Cerberus Affiliate holds 9.8 million Preferred Shares, which is 78.4% of all outstanding Preferred Shares.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and registrar for the Variable Voting Shares and Voting Shares of ACE is CIBC Mellon Trust Company at its principal transfer offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which ACE is a party appears under the heading "Contingencies, Guarantees and Indemnities" in Note 17 to the consolidated audited annual financial statements of ACE for the year ended December 31, 2006, which is incorporated herein by reference. ACE's audited annual financial statements for the year ended December 31, 2006, are available on SEDAR at www.sedar.com.

Please see also the sections, "Risk Factors – Air Canada – Equal Pay Litigation" and "Risk Factors – Air Canada – Current Legal Proceedings".

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2006 or before such year but which are still in effect are the following:

(i) Investment Agreement between Cerberus ACE Investment, LLC and Air Canada dated June 23, 2004;

(ii) The Aircraft General Terms Agreement AGTA-ACN and related agreements between The Boeing Company and Air Canada dated November 4, 2005; and

(iii) Indenture dated as of April 6, 2005 with respect to the 4.25% Convertible Senior Notes due 2035.

Please refer to the section, "Three-Year Summary: Evolution of Business" for the particulars of such contracts.

EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditor's report dated February 13, 2007 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2006 and December 31, 2005 and the Corporation's internal control over financial reporting and management's assessment thereof as at December 31, 2006. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Code of Ethics of the Ordre des comptables agréés du Québec and the rules of the US Securities and Exchange Commission.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the ACE's securities and securities authorized for issuance under equity compensation plans will be contained in ACE's management proxy circular for its 2007 annual meeting of shareholders. Additional financial information is provided in ACE's financial statements and management's discussion and analysis for the year ended December 31, 2006. The above information and additional information relating to ACE are available on SEDAR at *www.sedar.com.*

The following documents can be obtained by sending your request to the Corporate Secretary of ACE, at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2 :

(i) this Annual Information Form, together with any document incorporated herein by reference;

(ii) the 2006 Management's Discussion & Analysis / 2006 Financial Statements and Notes of ACE and any interim financial statements filed after the audited financial statements for ACE's most recently completed financial year;

(iii) the Corporation's management proxy circular for the 2006 annual and special shareholder meeting filed with the Securities Commissions on September 1, 2006; and

(iv) any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus pursuant to which securities of ACE are in the course of a distribution.

Except when securities of ACE are in the course of distribution pursuant to a short form prospectus or a preliminary short form prospectus, ACE may require the payment of a reasonable charge from persons, other than security holders of ACE, requesting copies of these documents.

APPENDIX A -
CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE

(the "Committee")

OF THE BOARD OF DIRECTORS OF ACE

(the "Corporation")

1. Structure, Procedure, Qualifications

The Audit, Finance and Risk Committee (the "Audit Committee") of ACE Aviation Holdings Inc. (the "Corporation") shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors (the "Board"). The members of the Audit Committee shall have no relationships with management, the Corporation and its related entities that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit Committee member shall not receive, other than for service on the Board or the Audit Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related parties or subsidiaries. The members of the Audit Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit Committee and in particular each member of the Audit Committee shall be "financially literate" and at least one member shall be a "financial expert" as defined by relevant securities legislation or regulations.

A quorum of the Audit Committee shall be a majority of the members, and a majority of the members present shall be required to pass a resolution of the Audit Committee. The Audit Committee shall be responsible to the Board of Directors of the Corporation. The Chairman and the members of the Audit Committee shall be appointed annually by the Board.

2. Objectives

(a) The objectives of the Audit Committee are as follows:

- (i) To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.
- (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
- (iii) To assist the Board of Directors in its oversight of the independence, qualifications and appointment of the external auditor.
- (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
- (v) To provide independent communication between the Board and the internal auditor and the external auditor.
- (vi) To facilitate in-depth and candid discussions between the Audit Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

3. Duties

To achieve its objectives, the Audit Committee shall:

(a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analyses ("MD&As") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews will include:

(i) Discussions with management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;

(ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;

(iii) a review of significant adjustments arising from an audit;

(iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements;

(v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;

(vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;

(vii) a review of the nature and size of unadjusted errors of a non-trivial amount;

(viii) a review to ascertain that various covenants are complied with; and

(ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.

(b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.

(c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.

(d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.

(e) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.

(f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Audit Committee. The Corporation shall ensure that funding is available to the Audit Committee for payment of compensation to the external auditor.

(g) Review

(i) and approve, or delegate to a member of the Audit Committee the responsibility to review and approve and subsequently report to the Audit Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period;

(ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.

(h) Review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once a year the Audit Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.

(i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.

(j) At least once each year:

(i) Meet privately with management to assess the performance of the external auditor.

(ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

(k) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.

(l) Regarding the services provided by the internal audit department, the Audit Committee will:

(i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;

(ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;

(iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;

(iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;

(v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and

(vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.

(m) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.

(n) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.

(o) Review policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Audit Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Audit Committee.

(p) Review policies for approval of senior management expenses.

(q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.

(r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.

(s) Review and approve all related party transactions as such term is defined from time to time in Policy Statement Q-27 of the Quebec Securities Commission and Rule 61-501 issued by the Ontario Securities Commission, as may be amended from time to time.

(t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.

(u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall ensure that funding is available to the Audit Committee in respect of the aforementioned activities.

(v) Report regularly to the Board in writing on the activities, findings and conclusions of the Audit Committee.

(w) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.

(x) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.

(y) Perform such other functions as may be delegated from time to time by the Board.

(z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.

(aa) Set policies for the hiring of employees or former employees of the Corporation's external auditors.

<u>OTHER</u>

(a) Public Disclosure

The Audit Committee shall:

(i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices;

(ii) Where practicable, management will review with the Audit Committee or the Chairman of the Audit Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting by the Corporation which are expected by management to be material in relation to the market price of any of the Corporation's securities.

(b) Risk Identification and Management

The Audit Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board of Directors of the Corporation. The Audit Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Audit Committee shall be entitled, from time to time, to retain experts and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

(c) Contingent Liabilities

The Audit Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of these duties, the Audit Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Audit Committee shall make recommendations, from time to time, to the Board of Directors of the Corporation on these matters.

(d) Corporate Authorizations Policies

The Audit Committee shall:

(i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;

(ii) Periodically review any administrative resolutions adopted from time to time pursuant to the Corporation's By-laws pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;

(iii) Review, monitor and approve the Corporate Donations Policy and any changes thereto and the annual Corporate Donations Budget; and

(iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(e) Performance to Budget

The Audit Committee shall review actual financial performance compared to budget.

(f) Meetings

(i) The Audit Committee shall meet at least quarterly at the call of the Chairman of the Audit Committee, any other member of the Audit Committee or the external auditors.

(ii) An "in-camera" session of the members of the Committee shall be held as part of each meeting of the Committee.

(g) Responsibilities

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board of Directors' responsibility to ensure the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Audit Committee. Even though the Audit Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor.

December 14, 2006