

# News Release

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## ACE AVIATION REPORTS FIRST QUARTER 2007 RESULTS

### OVERVIEW

- EBITDAR of \$230 million (excluding special charges), an increase of \$12 million over the 2006 quarter.
- Operating loss (excluding special charges) of \$20 million compared to an operating loss (excluding special charges) of \$29 million in the 2006 quarter.
- Net loss of \$72 million.
- Solid performance at Air Canada Services, Aeroplan and Jazz with EBITDAR improvements of \$21 million, \$8 million and \$5 million respectively.
- Strong performance at ACTS with EBITDA (excluding special charges) of \$21 million, an improvement of \$27 million over the 2006 quarter.
- Distributions of Aeroplan and Jazz units to ACE shareholders totaling \$1.5 billion.
- Acquisition of 80 per cent interest in Aeroman completed in February 2007.
- ACE cash of \$327 million at March 31, 2007.

MONTRÉAL, May 11, 2007 – ACE Aviation Holdings Inc. (ACE) today reported EBITDAR of \$230 million for the first quarter of 2007 (excluding special charges), an improvement of \$12 million from the first quarter of 2006.

The operating loss (excluding special charges) of \$20 million for the first quarter of 2007 represents an improvement of \$9 million from the first quarter of 2006. Special labour charges amounting to \$9 million were recorded in the 2007 quarter related to the termination of a heavy maintenance contract at ACTS. In the 2006 quarter, \$33 million was recorded related to a non-unionized workforce reduction program in Air Canada Services and ACTS.

A net loss of \$72 million was recorded for the first quarter of 2007 compared to net income of \$118 million in the 2006 quarter. The 2006 quarter included a \$220 million dilution gain (\$210 million, after-tax) as a result of ACE's IPO of Jazz.

ACE ceased to consolidate the results and financial position of Aeroplan with effect from March 14, 2007, and is accounting for its 40.1 per cent investment under the equity method. For the period March 14 to March 31, 2007, ACE recorded its proportionate share of net earnings in non-operating income. The effect of ceasing to consolidate Aeroplan during the first quarter was a reduction to ACE's EBITDAR of \$7 million offset by an improvement to non-operating income of \$3 million.

Air Canada Services reported EBITDAR of \$123 million, an increase of \$21 million. EBITDA reported by Aeroplan amounted to \$51 million, representing an improvement of \$8 million. Jazz EBITDAR amounted to \$76 million, an improvement of \$5 million. ACTS reported EBITDA of \$21 million for the quarter, an improvement of \$27 million.

“Our results for the quarter demonstrate continued improvement by each of our businesses,” said Robert Milton, Chairman, President and Chief Executive Officer, ACE Aviation Holdings Inc.

“Air Canada Services delivered EBITDAR of \$123 million, an increase of \$21 million over 2006. Operating revenues increased by \$140 million or 6 per cent, primarily reflecting traffic and yield improvements.

“Aeroplan reported another strong quarter with a 13 per cent increase in gross billings and a 23 per cent increase in revenues. Operating income improved by \$9 million over the previous year. EBITDA for the quarter reached \$51 million.

“Jazz reported a 14 per cent increase in operating revenues to \$364 million in the quarter, reflecting a 12 per cent increase in block hours. Its EBITDAR amounted to \$76 million.

“ACTS continued to build on the progress made in recent quarters. ACTS delivered EBITDA of \$21 million in the quarter (excluding special labour charges), an improvement of \$27 million over the 2006 quarter. Management continues to deliver to budget whilst also continuing to strategically develop and improve the business, including the acquisition of Aeroman which was completed in February. The monetization process is progressing well and we hope to announce a transaction in the current quarter.

“In accordance with our strategy update on 11 August last year, we also returned \$1.5 billion of capital to shareholders in the form of Aeroplan and Jazz units during the quarter.

### **(1) Non-GAAP Measures**

Special charges refer to expenses recorded in 2007 related to restructuring at ACTS and expenses recorded in 2006 related to labour restructuring. EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation and aircraft rent. EBITDAR is used to view operating results before aircraft rent and depreciation, amortization and obsolescence as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. For segments without aircraft rent, such as Aeroplan and ACTS, EBITDA is used to view operating results before depreciation, amortization and obsolescence as these costs can vary significantly among companies due to differences in the way companies finance their assets. EBITDAR and EBITDA are not recognized measures for financial statement presentation under GAAP and do not have standardized meaning and are therefore not likely to be comparable to similar measures presented by other public companies. Readers should refer to ACE's Quarter 1 2007 Management's Discussion and Analysis (MD&A) for a reconciliation of EBITDAR and EBITDA to operating income (loss).

For further information on ACE's public disclosure file, including ACE's Annual Information Form dated March 27, 2007, please consult SEDAR at [www.sedar.com](http://www.sedar.com) and EDGAR at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml)

## **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

*Certain statements in this news release may contain forward-looking statements. 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. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout ACE’s filings with securities regulators in Canada and the United States and, in particular, those identified in the Risk Factors section of ACE’s 2006 Annual Management’s Discussion and Analysis dated February 14, 2007. The forward-looking statements contained herein represent ACE’s expectations as of the date they are made 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.*

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## Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)	Three Months Ended	
	March 31 2007*	March 31 2006
<b>Operating revenues</b>		
Passenger	\$ 2,152	\$ 2,152
Cargo	140	151
Other	333	312
	2,625	2,484
<b>Operating expenses</b>		
Wages, salaries and benefits	698	642
Aircraft fuel	585	569
Aircraft rent	104	113
Airport and navigation fees	243	230
Aircraft maintenance, materials and supplies	136	129
Communications and information technology	76	78
Food, beverages and supplies	83	80
Depreciation, amortization and obsolescence	146	134
Commissions	59	68
Special charge for labour restructuring	9	33
Other	515	470
	2,654	2,546
<b>Operating loss</b>	<b>(29)</b>	<b>(62)</b>
<b>Non-operating income (expense)</b>		
Interest income	33	22
Interest expense	(123)	(88)
Interest capitalized	36	9
Aeroplan equity investment income	3	-
Dilution gain – Jazz	-	220
Gain on sale of assets	7	3
Gain on financial instruments recorded at fair value	34	-
Other	-	3
	(10)	169
<b>Income (loss) before the following items</b>	<b>(39)</b>	<b>107</b>
Non-controlling interest	(23)	(15)
Foreign exchange gain	33	13
Recovery of (provision for) income taxes		
Current	(6)	-
Future	(37)	13
	(37)	13
<b>Income (loss) for the period</b>	<b>\$ (72)</b>	<b>\$ (72)</b>
<b>Earnings (loss) per share</b>		
Basic	\$ (0)	\$ (0)
Diluted	\$ (0)	\$ (0)

*\*Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE.*

*The notes are an integral part of the consolidated financial statements and are available on SEDAR at [www.sedar.com](http://www.sedar.com) and EDGAR at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml)*

## Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)	March 31 2007*	December 31 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,353	\$ 1,854
Short-term investments	1,077	1,324
	2,430	3,178
Restricted cash	51	109
Accounts receivable	750	729
Spare parts, materials and supplies	274	307
Prepaid expenses and other current assets	166	127
Future income taxes	51	584
	3,722	5,034
Property and equipment	6,262	5,989
Deferred charges	89	116
Intangible assets	1,267	1,643
Deposits and other assets	379	323
Future income taxes	214	336
	<b>\$ 11,933</b>	<b>\$ 13,441</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,620	\$ 1,547
Advance ticket sales	1,192	832
Current portion of Aeroplan Miles obligation	57	58
Current portion of Aeroplan deferred revenues	-	799
Current portion of long-term debt and capital leases	357	367
Current taxes payable	6	345
	3,232	3,948
Long-term debt and capital leases	3,543	3,759
Convertible preferred shares	166	166
Future income taxes	136	136
Pension and other benefit liabilities	1,814	1,876
Aeroplan Miles obligation	80	105
Aeroplan deferred revenues	-	801
Other long-term liabilities	648	378
	9,619	11,169
Non-controlling interest	671	695
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and other equity	436	742
Contributed surplus	456	25
Retained earnings	748	810
Accumulated other comprehensive income (loss)	3	-
	1,643	1,577
	<b>\$ 11,933</b>	<b>\$ 13,441</b>

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## Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)	Three Months Ended March 31 2007*	Year Ended December 31 2006	Three Months Ended March 31 2006
<b>Share capital and other equity</b>			
Common shares, beginning of period	\$ 2,188	\$ 2,	\$ 2,
Distributions of Aeroplan and Jazz units	(325)	(59)	(59)
Issue of shares through stock options exercised	19	16	2
Common shares, end of period	1,882	2,188	2,174
Convertible preference shares	117	117	117
Convertible notes	92	92	92
Adjustment to shareholders' equity, beginning of period	(1,655)	(1,693)	(1,693)
Adjustment to fresh start provisions	-	38	-
Adjustment to shareholders' equity, end of period	(1,655)	(1,655)	(1,693)
<b>Total share capital and other equity</b>	<b>436</b>	<b>742</b>	<b>690</b>
<b>Contributed surplus</b>			
Balance, beginning of period	25	19	19
Fair value of stock options issued to Corporation employees recognized as compensation expense	5	13	1
Fair value of exercised stock options to share capital	-	(7)	-
Aeroplan negative investment	426	-	-
<b>Total contributed surplus</b>	<b>456</b>	<b>25</b>	<b>20</b>
<b>Retained earnings</b>			
Balance, beginning of period	810	402	402
Cumulative effect of adopting new accounting policies	10	-	-
	820	402	402
Net income (loss) for the period	(72)	408	118
	748	810	520
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	-	-	-
Cumulative effect of adopting new accounting policies	(7)	-	-
Other comprehensive income (loss)	10	-	-
	3	-	-
<b>Total retained earnings and accumulated other comprehensive income (loss)</b>	<b>751</b>	<b>810</b>	<b>520</b>
<b>Total shareholders' equity</b>	<b>\$ 1,643</b>	<b>\$ 1,</b>	<b>\$ 1,</b>

## Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)	Three Months Ended March 31 2007*	Three Months Ended March 31 2006
<b>Comprehensive income (loss)</b>		
Net income (loss) for the period	\$ (72)	\$
Other Comprehensive income (loss), net of taxes:		
Net change in unrealized loss on available-for-sale securities	(4)	-
Net change in unrealized gains on fuel derivatives under hedge accounting,	6	-
Reclassification of net realized losses on fuel derivatives to income	8	-
	10	-
<b>Total comprehensive income (loss)</b>	<b>\$ (62)</b>	<b>\$</b>

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## Consolidated Statement of Cash Flows

Unaudited (Canadian dollars in millions)	Three Months Ended	
	March 31 2007*	March 31 2006
<b>Cash flows from (used for)</b>		
<b>Operating</b>		
Income (loss) for the period	\$ (72)	\$
Adjustments to reconcile to net cash provided by operations		
Depreciation, amortization and obsolescence	146	134
Dilution gain – Jazz	-	(220)
Gain on sale of assets	(7)	(3)
Foreign exchange gain	(33)	4
Future income taxes	37	(15)
Employee future benefit funding more than expense	(69)	(22)
Decrease (increase) in accounts receivable	(18)	(16)
Decrease (increase) in spare parts, materials and supplies	34	60
Increase (decrease) in accounts payable and accrued liabilities	105	104
Increase (decrease) in advance ticket sales, net of restricted cash	234	218
Decrease in Aeroplan Miles obligation	(25)	(31)
Increase (decrease) in Aeroplan deferred revenues	(2)	17
Aircraft lease payments (in excess of) less than rent expense	(7)	(5)
Unrealized period change in fair value of derivatives	(40)	10
Capitalized interest	(36)	(9)
Other	36	20
	<b>283</b>	<b>364</b>
<b>Financing</b>		
Issue of common shares	19	2
Issue of Jazz units	-	218
Aircraft related borrowings	112	124
Credit facility borrowings – Jazz	-	113
Reduction of long-term debt and capital lease obligations	(78)	(88)
Reduction of non-controlling interest	(36)	-
Distributions paid to non-controlling interests	(17)	(15)
Other	(1)	-
	<b>(1)</b>	<b>354</b>
<b>Investing</b>		
Short-term investments	(155)	(159)
Acquisition of Aeroman, net of cash	(53)	-
Proceeds from sale of Jazz units	-	14
Additions to capital assets	(401)	(280)
Proceeds from sale of assets	45	-
Deconsolidation of Aeroplan cash	(231)	-
Cash collateralization of letters of credit	12	(4)
	<b>(783)</b>	<b>(429)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(501)</b>	<b>289</b>
Cash and cash equivalents, beginning of period	1,854	1,565
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,353</b>	<b>\$ 1</b>
<b>Cash payments of interest</b>	<b>\$ 60</b>	<b>\$</b>
<b>Cash payments of income taxes</b>	<b>\$ 6</b>	<b>\$</b>

Cash and cash equivalents exclude Short-term investments of \$1,077 as at March 31, 2007 (\$775 as at March 31, 2006).

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