

# News Release

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## ACE AVIATION REPORTS THIRD QUARTER NET INCOME OF \$224 MILLION

### THIRD QUARTER OVERVIEW

- EBITDAR<sup>1</sup> of \$553 million.
- Operating income of \$340 million.
- Net income of \$224 million.
- Strong performance by Air Canada with EBITDAR of \$561 million, \$124 million up over third quarter 2006 (excluding special charge).
- ACTS sale transaction completed on October 16, 2007 with net cash proceeds to ACE on closing of \$723 million.
- Secondary offerings of Aeroplan and Jazz completed on October 22, 2007 for cash proceeds of \$726 million
- ACE cash of \$1.85 billion on October 22, 2007.

MONTRÉAL, November 9, 2007 – ACE Aviation Holdings Inc. (ACE) today reported EBITDAR of \$553 million and operating income of \$340 million for the third quarter of 2007.

ACE ceased to consolidate the results and financial position of Aeroplan and Jazz with effect from March 14, 2007 and May 24, 2007 respectively, and is accounting for its investments under the equity method. As a result, ACE's results for the third quarter of 2007 are not directly comparable to the results for the 2006 quarter.

Net income of \$224 million was recorded for the third quarter of 2007. This included non-controlling interest of \$69 million, foreign exchange gains of \$104 million and provision for income taxes of \$124 million.

Air Canada reported EBITDAR of \$561 million and operating income of \$351 million, increases of \$124 million and \$119 million respectively over the third quarter of 2006 (excluding special charge). Passenger revenues increased by \$108 million or 4% over the 2006 quarter. This increase was partly offset by a decline of \$25 million in cargo revenues, driven by freighter capacity reduction. Operating costs decreased by \$26 million or 1% over the 2006 quarter. Unit cost, as measured by operating expense per ASM, decreased 4.4% over the third quarter of 2006.

ACTS reported EBITDA of \$15 million for the quarter, an improvement of \$3 million on the 2006 quarter.

“The results for the quarter demonstrate very good performances by all of ACE's businesses,” said Robert Milton, Chairman, President and Chief Executive Officer, ACE Aviation Holdings Inc.

"I am particularly pleased with the results for Air Canada for the quarter. Air Canada has delivered the improved operating results signalled at the time of the release of the second quarter results. The benefits of its fleet replacement and refurbishment programs are beginning to translate into improving financial performance for the business. Management expects that this program will continue to yield improved operating results for the remainder of 2007 and beyond.

"ACTS continued to build on the progress made in recent quarters and the business has recorded a 20% increase in year-to-date revenues. The business continues to announce new contracts. On October 16, we completed the sale of a majority interest in ACTS to a consortium consisting of Sageview Capital and KKR. As a result, this is the final quarter that we will consolidate the results of ACTS. ACE received net cash of \$723 million on closing, together with a residual equity stake of 23%.

"Aeroplan and Jazz both delivered strong results in the quarter and we reduced our interests in both entities to 20.1% on October 22 through secondary offerings that generated net cash proceeds to ACE of \$726 million.

"ACE has cash of \$1.85 billion and other assets, primarily its interests in Air Canada, Aeroplan and Jazz, with a market value of \$2.4 billion.

"Management will continue to execute on ACE's strategy to surface shareholder value on a timely basis over the coming months. In particular, ACE intends to continue to realize its remaining non-cash interests in Air Canada, Aeroplan, and Jazz, and also return excess cash to shareholders," said Mr. Milton.

In connection with the wind-up process of ACE determined by the Board and in accordance with the rules of the ACE stock option plan, the Board has resolved to accelerate the exercisability of the remaining unvested ACE stock options, effective on November 12. Trading restrictions, including blackout periods, remain in effect.

Also, as has been previously disclosed, ACE Chairman and CEO Robert Milton will be retiring as Chairman of Air Canada, Aeroplan and Jazz and leaving their respective Board of Directors. These changes will become effective January 1, 2008. Mr. Milton will remain Chairman, President and CEO of ACE.

"The execution of ACE's strategy for Air Canada, Jazz, ACTS, and Aeroplan has translated into successful businesses which have unlocked significant shareholder value, created a new value proposition for customers and generated new opportunities for employees," said Mr. Milton. "The future looks bright for all four of these companies. With its substantial bases in Canada, and El Salvador, ACTS is in a strong position to excel and profit in the rapidly growing world market for aircraft maintenance and related activity. I am leaving the Boards of Air Canada, Jazz, and Aeroplan with the satisfaction that each entity is successfully and profitably executing its respective business plan, has strong management in place, possesses a leading market position and is poised for continued growth for the benefit of shareholders, customers and employees."

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

The special charge refers to a charge recorded in 2006 related to Air Canada's obligations for the redemption of pre-2002 Aeroplan miles. 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 businesses without aircraft rent, such as 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 3 2007 Management's Discussion and Analysis (MD&A) for a reconciliation of EBITDAR and EBITDA to operating income (loss) for the quarter.

For further information on ACE's public disclosure file, including ACE's Annual Information Form, 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 risk 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 and section 13 of ACE's Quarter 3 2007 Management's Discussion and Analysis of Results dated November 8, 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 September 30		Nine Months Ended September 30	
	2007*	2006	2007*	2006
<b>Operating revenues</b>				
Passenger	\$ 2,660	\$ 2,564	\$ 7,148	\$ 6,873
Cargo	132	157	407	460
Other	230	226	751	780
	3,022	2,947	8,306	8,113
Special charge for Aeroplan miles	-	(102)	-	(102)
	3,022	2,845	8,306	8,011
<b>Operating expenses</b>				
Wages, salaries and benefits	558	641	1,882	1,919
Aircraft fuel	716	762	1,938	1,962
Aircraft rent	66	108	261	334
Airport and navigation fees	284	275	783	750
Aircraft maintenance, materials and supplies	85	100	348	347
Communications and information technology	71	70	216	217
Food, beverages and supplies	88	93	252	255
Depreciation, amortization and obsolescence	147	145	442	419
Commissions	54	61	164	188
Capacity purchase with Jazz	234	-	310	-
Special charge for labour restructuring	-	-	15	33
Other	379	387	1,288	1,265
	2,682	2,642	7,899	7,689
<b>Operating income</b>	<b>340</b>	<b>203</b>	<b>407</b>	<b>322</b>
<b>Non-operating income (expense)</b>				
Interest income	25	33	86	84
Interest expense	(96)	(94)	(315)	(273)
Interest capitalized	24	18	88	40
Aeroplan equity investment income	15	-	35	-
Jazz equity investment income	12	-	19	-
Dilution gain – Jazz	-	-	-	220
Gain on sale of US Airways shares	4	52	8	152
Gain (loss) on disposal of assets	(2)	(4)	19	-
Gain (loss) on financial instruments recorded at fair value	(4)	(16)	24	(19)
Other	(5)	(1)	(6)	5
	(27)	(12)	(42)	209
<b>Income before the following items</b>	<b>313</b>	<b>191</b>	<b>365</b>	<b>531</b>
Non-controlling interest	(69)	(19)	(148)	(53)
Foreign exchange gain (loss)	104	(3)	295	117
Recovery of (provision for) income taxes				
Current	(10)	-	(16)	-
Future	(114)	(66)	(226)	(138)
<b>Income for the period</b>	<b>\$ 224</b>	<b>\$ 103</b>	<b>\$ 270</b>	<b>\$ 457</b>
<b>Earnings per share</b>				
Basic	\$ 2.17	\$ 1.01	\$ 2.61	\$ 4.49
Diluted	\$ 1.84	\$ 0.95	\$ 2.48	\$ 4.11

\*Effective March 14, 2007 the results and financial position of Aeroplan LP and effective May 24, 2007 the results and financial position of Jazz LP are not consolidated within ACE.

The notes are an integral part of the interim 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	September 30 2007*	December 31 2006
<b>(Canadian dollars in millions)</b>		
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 978	\$ 1,854
Short-term investments	937	1,324
	1,915	3,178
Restricted cash	54	109
Accounts receivable	862	729
Spare parts, materials and supplies	111	307
Prepaid expenses and other current assets	153	127
Future income taxes	491	584
ACTS assets held for sale	489	-
	4,075	5,034
Property and equipment	7,150	5,989
Deferred charges	51	116
Intangible assets	596	1,643
Deposits and other assets	368	323
Future income taxes	-	336
	<b>\$ 12,240</b>	<b>\$ 13,441</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,367	\$ 1,547
Advance ticket sales	1,217	832
Current portion of Aeroplan Miles obligation	55	58
Current portion of Aeroplan deferred revenues	-	799
Current portion of long-term debt and capital leases	367	367
Current taxes payable	-	345
ACTS liabilities held for sale	164	-
	3,170	3,948
Long-term debt and capital leases	3,696	3,759
Convertible preferred shares	177	166
Future income taxes	68	136
Pension and other benefit liabilities	1,855	1,876
Aeroplan deferred revenues	-	801
Other long-term liabilities	592	483
	9,558	11,169
Non-controlling interest	744	695
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and other equity	338	742
Contributed surplus	520	25
Retained earnings	1,085	810
Accumulated other comprehensive income (loss)	(5)	-
	1,938	1,577
	<b>\$ 12,240</b>	<b>\$ 13,441</b>

\*Effective March 14, 2007 the results and financial position of Aeroplan LP and effective May 24, 2007 the results and financial position of Jazz LP are not consolidated within ACE.

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### Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)	Nine Months Ended September 30 2007	Year Ended December 31 2006	Nine Months Ended September 30 2006
<b>Share capital</b>			
Common shares, beginning of period	\$ 2,188	\$ 2,231	\$ 2,231
Distributions of Aeroplan and Jazz units	(426)	(59)	(59)
Issue of shares through stock options exercised	22	16	3
Common shares, end of period	1,784	2,188	2,175
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	23
Adjustment to shareholders' equity, end of period	(1,655)	(1,655)	(1,670)
<b>Total share capital</b>	<b>338</b>	<b>742</b>	<b>714</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	12	13	7
Fair value of exercised stock options to share capital	-	(7)	-
Aeroplan negative investment	483	-	-
<b>Total contributed surplus</b>	<b>520</b>	<b>25</b>	<b>26</b>
<b>Retained earnings</b>			
Balance, beginning of period	810	402	402
Cumulative effect of adopting new accounting policies	5	-	-
	815	402	402
Net income for the period	270	408	457
	1,085	810	859
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	-	-	-
Cumulative effect of adopting new accounting policies	(7)	-	-
Other comprehensive income	2	-	-
	(5)	-	-
<b>Total retained earnings and accumulated other comprehensive income (loss)</b>	<b>1,080</b>	<b>810</b>	<b>859</b>
<b>Total shareholders' equity</b>	<b>\$ 1,938</b>	<b>\$ 1,577</b>	<b>\$ 1,599</b>

### Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007*	2006	2007*	2006
<b>Comprehensive income (loss)</b>				
Net income for the period	\$ 224	\$ 103	\$ 270	\$ 457
Other comprehensive income, net of taxes:				
Net change in unrealized loss on US Airways securities	-	-	(8)	-
Reclassification of realized gains on US Airways securities to income	(4)	-	(11)	-
Net change in unrealized gains on fuel derivatives under hedge accounting	11	-	25	-
Reclassification of net realized (gains) losses on fuel derivatives to income	(3)	-	7	-
Equity adjustment from foreign currency translation	(4)	-	(11)	-
	-	-	2	-
<b>Total comprehensive income</b>	<b>\$ 224</b>	<b>\$ 103</b>	<b>\$ 272</b>	<b>\$ 457</b>

\*Effective March 14, 2007 the results and financial position of Aeroplan LP and effective May 24, 2007 the results and financial position of Jazz LP are not consolidated within ACE.

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## Consolidated Statement of Cash Flows

Unaudited (Canadian dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007*	2006	2007*	2006
<b>Cash flows from (used for)</b>				
<b>Operating</b>				
Income for the period	\$ 224	\$ 103	\$ 270	\$ 457
Adjustments to reconcile to net cash from operations				
Depreciation, amortization and obsolescence	147	145	442	419
Dilution gain – Jazz	-	-	-	(220)
Gain on sale of US Airways shares	(4)	(52)	(8)	(152)
Loss (gain) on disposal of assets	2	4	(19)	-
Foreign exchange (gain) loss	(139)	1	(326)	(129)
Future income taxes	114	66	226	138
Excess of employee future benefit funding over expense	(32)	(63)	(170)	(131)
Decrease (increase) in accounts receivable	(38)	(49)	(131)	(192)
Decrease (increase) in spare parts, materials and supplies	(32)	12	(29)	47
Increase (decrease) in accounts payable and accrued liabilities	8	120	(31)	175
Increase (decrease) in advance ticket sales, net of restricted cash	(173)	(265)	256	136
Decrease in Aeroplan Miles obligation	(17)	(26)	(63)	(83)
Increase (decrease) in Aeroplan deferred revenues	-	52	(2)	97
Aircraft lease payments (in excess of) less than rent expense	(1)	(5)	(10)	(13)
Special charge for Aeroplan miles	-	102	-	102
Unrealized period change in fair value of derivatives	23	11	(9)	15
Capitalized interest	(24)	(18)	(88)	(40)
Non-controlling interest	69	18	139	39
Other	(19)	3	50	61
	<b>108</b>	<b>159</b>	<b>497</b>	<b>726</b>
<b>Financing</b>				
Issue of common shares	2	-	21	3
Issue of Jazz units	-	-	-	218
Aircraft and facility related borrowings	449	99	1,093	321
Credit facility borrowings – Jazz	-	-	-	113
Reduction of long-term debt and capital lease obligations	(138)	(58)	(305)	(207)
Reduction of non-controlling interest	-	-	(36)	-
Distributions paid to non-controlling interests	-	(14)	(25)	(36)
Other	(1)	-	(2)	-
	<b>312</b>	<b>27</b>	<b>746</b>	<b>412</b>
<b>Investing</b>				
Short-term investments	124	(372)	(15)	(523)
Acquisition of Aeroman, net of cash	-	-	(53)	-
Proceeds from sale of Jazz units	-	-	-	14
Sale of US Airways shares	16	74	16	232
Additions to capital assets	(588)	(213)	(1,699)	(692)
Proceeds from sale of assets	16	40	61	40
Deconsolidation of Aeroplan cash	-	-	(231)	-
Deconsolidation of Jazz cash	-	-	(138)	-
Cash collateralization of letters of credit	(4)	(11)	8	(15)
Other	(47)	(12)	(68)	(12)
	<b>(483)</b>	<b>(494)</b>	<b>(2,119)</b>	<b>(956)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(63)</b>	<b>(308)</b>	<b>(876)</b>	<b>182</b>
Cash and cash equivalents, beginning of period	1,041	2,055	1,854	1,565
<b>Cash and cash equivalents, end of period</b>	<b>\$ 978</b>	<b>\$ 1,747</b>	<b>\$ 978</b>	<b>\$ 1,747</b>
<b>Cash payments of interest</b>	<b>\$ 59</b>	<b>\$ 57</b>	<b>\$ 190</b>	<b>\$ 194</b>
<b>Cash payments of income taxes</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 12</b>	<b>\$ 1</b>

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