

# News Release

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## ACE AVIATION REPORTS 2007 NET INCOME OF \$1.4 BILLION

### 2007 FULL YEAR OVERVIEW

- Net income of \$1,398 million.
- Operating income of \$453 million.
- EBITDAR of \$1,373 million (excluding special charges) including EBITDAR of \$1,263 million at Air Canada.
- Gains on sale of assets (including ACTS, Aeroplan and Jazz) of \$1,366 million.
- Distributions of Aeroplan and Jazz units to ACE shareholders totaling \$2 billion.
- Acquisition of 80 per cent interest in Aeroman completed in February 2007.
- ACTS sale transaction completed in October 2007 with net cash proceeds to ACE on closing of \$723 million with a further \$40 million in January 2008.
- Secondary offerings of Aeroplan and Jazz completed on October 22, 2007 for net cash proceeds of \$726 million.
- ACE cash of \$1.9 billion on December 31, 2007.
- Substantial issuer bid of \$1.5 billion launched in December 2007 and completed in January 2008.

### FOURTH QUARTER OVERVIEW

- Net income of \$1,128 million.
- Operating income of \$46 million.
- EBITDAR of \$248 million including EBITDAR of \$274 million at Air Canada.
- Gains on sale of assets (including ACTS, Aeroplan and Jazz) of \$1,339 million.

MONTRÉAL, February 8, 2008 – ACE Aviation Holdings Inc. (ACE) today reported net income of \$1,398 million for the full year 2007.

Net income included \$1,366 million pre-tax gains mainly from the sale of ACTS and from the secondary offerings of Aeroplan and Jazz.

Operating income amounted to \$453 million including operating income of \$433 million at Air Canada.

EBITDAR<sup>(1)</sup> for ACE amounted to \$1,373 million (excluding special charges of \$15 million). Air Canada reported EBITDAR of \$1,263 million.

For the fourth quarter of 2007, ACE reported operating income of \$46 million. EBITDAR for ACE in the fourth quarter amounted to \$248 million. Air Canada reported operating income of \$72 million

and EBITDAR of \$274 million, increases of \$85 million and \$69 million respectively over fourth quarter 2006 (excluding special charges).

"I am pleased with our strong progress during 2007 with the implementation of ACE's business strategy," said Robert Milton, Chairman, President and Chief Executive Officer, ACE Aviation Holdings Inc. "We have delivered strong financial results for the year and we've also made excellent progress in delivering shareholder value.

"In the first six months of 2007, we returned \$2 billion of capital, under a Plan of Arrangement approved in 2006, to our shareholders through distributions of units in Aeroplan and Jazz.

"We completed the monetization of ACTS during the fourth quarter with net cash proceeds to ACE on closing of \$723 million, and received the remaining proceeds of \$40 million in January 2008 which had been held in escrow. ACE also retains a 23 per cent holding in ACTS post-monetization.

"In the fourth quarter, we also raised \$726 million through secondary offerings of Aeroplan and Jazz, reducing our shareholdings in both to 20.1 per cent. In January 2008, ACE further reduced its holding in Jazz to 9.5 per cent by way of an exempt trade.

"In December 2007, we launched a \$1.5 billion substantial issuer bid which was completed in January 2008.

"I am particularly pleased with the performance of Air Canada during 2007 and in the fourth quarter. In spite of a challenging fuel price environment throughout the year, Air Canada delivered on the performance expectations set for the business at the time of its IPO in November 2006.

"In 2008, ACE will continue, market conditions permitting, to execute its business strategy to maximize shareholder value," concluded Mr. Milton.

#### **Non-GAAP Measures**

The 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. EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies. Readers should refer to ACE's 2007 Management's Discussion and Analysis (MD&A) for a reconciliation of EBITDAR to operating income.

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 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 to ACE’s 2007 MD&A dated February 8, 2008. 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.*

**- 30 -**

## **INFORMATION**

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### Consolidated Statement of Operations

For the year ended December 31 (Canadian dollars in millions except per share figures)	2007*	2006
<b>Operating revenues</b>		
Passenger	\$ 9,344	\$ 8,969
Cargo	548	625
Other	934	1,063
	10,826	10,657
Special charge for Aeroplan Miles	-	(102)
	10,826	10,555
<b>Operating expenses</b>		
Wages, salaries and benefits	2,383	2,553
Aircraft fuel	2,553	2,546
Aircraft rent	323	441
Airport and navigation fees	1,021	983
Aircraft maintenance, materials and supplies	515	471
Communications and information technology	281	289
Food, beverages and supplies	318	335
Depreciation, amortization and obsolescence	582	576
Commissions	201	236
Capacity purchase with Jazz	537	-
Special charge for labour restructuring	15	25
Other	1,644	1,705
	10,373	10,160
<b>Operating income</b>	<b>453</b>	<b>395</b>
<b>Non-operating income (expense)</b>		
Interest income	126	120
Interest expense	(420)	(378)
Interest capitalized	108	61
Gain on disposal of assets	1,366	393
Gain (loss) on financial instruments recorded at fair value	26	(18)
Equity investment income	71	-
Other	(12)	4
	1,265	182
<b>Income before the following items</b>	<b>1,718</b>	<b>577</b>
Non-controlling interest	(157)	(72)
Foreign exchange gain	313	12
Provision for income taxes		
Current	(15)	(7)
Future	(461)	(102)
	<b>\$ 1,398</b>	<b>\$ 408</b>
<b>Earnings per share</b>		
Basic	\$ 13.51	\$ 4.01
Diluted	\$ 11.44	\$ 3.80

\*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 with ACE. Effective October 16, 2007, the results and financial position of ACTS LP are not consolidated with 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**

<b>As at December 31 (Canadian dollars in millions)</b>	<b>2007*</b>	<b>2006</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,300	\$ 1,854
Short-term investments	839	1,324
	<b>3,139</b>	<b>3,178</b>
Restricted cash	124	109
Accounts receivable	793	729
Spare parts, materials and supplies	112	307
Prepaid expenses and other current assets	253	127
Future income taxes	200	584
	<b>4,621</b>	<b>5,034</b>
Property and equipment	7,925	5,989
Deferred charges	51	116
Intangible assets	647	1,643
Deposits and other assets	527	323
Future income taxes	-	336
	<b>\$ 13,771</b>	<b>\$ 13,441</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,266	\$ 1,547
Advance ticket sales	1,245	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	686	367
Current taxes payable	-	345
	<b>3,252</b>	<b>3,948</b>
Long-term debt and capital leases	4,006	3,759
Convertible preferred shares	182	166
Future income taxes	50	136
Pension and other benefit liabilities	1,824	1,876
Aeroplan deferred revenues	-	801
Other long-term liabilities	483	483
	<b>9,797</b>	<b>11,169</b>
Non-controlling interest	757	695
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and other equity	450	742
Contributed surplus	504	25
Retained earnings	2,209	810
Accumulated other comprehensive income	54	-
	<b>3,217</b>	<b>1,577</b>
	<b>\$ 13,771</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 with ACE. Effective October 16, 2007, the results and financial position of ACTS LP are not consolidated with ACE.

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### Consolidated Statement of Changes in Shareholder's Equity

For the year ended December 31 (Canadian dollars in millions)	2007	2006
<b>Share capital</b>		
Common shares, beginning of year	\$ 2,188	\$ 2,231
Distributions of Aeroplan units	(306)	(59)
Distributions of Jazz units	(70)	-
Issue of shares through stock options exercised	86	16
Common shares, end of year	1,898	2,188
Adjustment to shareholders' equity, beginning of year	(1,655)	(1,655)
<b>Total share capital</b>	243	533
<b>Other equity</b>		
Convertible preferred shares	117	117
Convertible notes	90	92
<b>Total share capital and other equity</b>	450	742
<b>Contributed surplus</b>		
Balance, beginning of year	25	19
Fair value of stock options issued to Corporation employees recognized as compensation expense	25	13
Fair value of exercised stock options to share capital	(29)	(7)
Aeroplan negative investment	483	-
<b>Total contributed surplus</b>	504	25
<b>Retained earnings</b>		
Balance, beginning of year	810	402
Cumulative effect of adopting new accounting policies	5	-
Repair Schemes and Non-compete agreement	(4)	-
	811	402
Net income for the year	1,398	408
	2,209	810
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	-	-
Cumulative effect of adopting new accounting policies	(7)	-
Other comprehensive income	61	-
	54	-
<b>Total retained earnings and accumulated other comprehensive income</b>	2,263	810
<b>Total shareholders' equity</b>	<b>\$ 3,217</b>	<b>\$ 1,577</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 with ACE. Effective October 16, 2007, the results and financial position of ACTS LP are not consolidated with ACE.*

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### Consolidated Statement of Comprehensive Income

For the year ended December 31 (Canadian dollars in millions)	2007*	2006
<b>Comprehensive income</b>		
Net income for the year	\$ 1,398	\$ 408
Other comprehensive income, net of taxes:		
Net change in unrealized loss on US Airways securities	(13)	-
Reclassification of realized gains on US Airways securities to income	(6)	-
Net change in unrealized gains on fuel derivatives under hedge accounting (net of taxes of \$29)	88	-
Reclassification of net realized (gains) losses on fuel derivatives to income (net of tax of \$1)	(6)	-
Unrealized loss on translation of self-sustaining operation (net of nil tax)	(9)	-
Proportional reclassification of adjustment from foreign currency translation to income related to the disposal of ACTS (net of nil tax)	7	-
	61	-
<b>Total comprehensive income</b>	<b>\$ 1,459</b>	<b>\$ 408</b>

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**Consolidated Statement of Cash Flow**

For the year ended December 31 (Canadian dollars in millions)	2007*	2006
<b>Cash flows from (used for)</b>		
<b>Operating</b>		
Net income for the year	\$ 1,398	\$ 408
Adjustments to reconcile to net cash from operations		
Depreciation, amortization and obsolescence	582	576
Gain on disposal of assets	(1,366)	(393)
Foreign exchange (gain) loss	(387)	6
Future income taxes	461	102
Excess of employee future benefit funding over expense	(205)	(228)
Increase (decrease) in Aeroplan miles obligation	(79)	34
Non-controlling interest	146	52
Special charge for Aeroplan miles	-	102
Aircraft lease payments less than (in excess of) rent expense	(14)	(16)
Capitalized interest	(108)	(61)
Other	29	65
Changes in non-cash working capital balances	72	85
	<b>529</b>	<b>732</b>
<b>Financing</b>		
Issue of common shares	56	8
Issue of Air Canada shares	-	187
Issue of Jazz units	-	218
Aircraft and facility related borrowings	1,914	397
Credit facility borrowings - Jazz	-	113
Distributions paid to non-controlling interest	(25)	(51)
Reduction of long-term debt and capital lease obligations	(504)	(278)
Other	(38)	(3)
	<b>1,403</b>	<b>591</b>
<b>Investing</b>		
Short-term investments	83	(708)
Proceeds from sale of Air Canada shares	-	304
Proceeds from sale of Aeroplan units	463	-
Proceeds from sale of Jazz units	263	14
Proceeds from sale of ACTS to ACE	723	-
Proceeds from sale of ACTS to Air Canada	65	-
Proceeds from sale of US Airways	16	232
Proceeds from sale of other assets	90	40
Additions to capital assets	(2,622)	(920)
Deconsolidation of Aeroplan cash	(231)	-
Deconsolidation of Jazz cash	(138)	-
Deconsolidation of ACTS cash	(7)	-
Acquisition of Aeroman, net of cash	(53)	-
Funding of ACTS Aero letter of credit	(101)	-
Other	(37)	4
	<b>(1,486)</b>	<b>(1,034)</b>
<b>Increase in cash and cash equivalents</b>	<b>446</b>	<b>289</b>
Cash and cash equivalents, beginning of year	1,854	1,565
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,300</b>	<b>\$ 1,854</b>
<b>Cash payments of interest</b>	<b>\$ 281</b>	<b>\$ 272</b>
<b>Cash payments of income taxes</b>	<b>\$ 13</b>	<b>\$ 1</b>

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