ACE AVIATION

Quarter 1 2008
Interim Unaudited
Consolidated Financial Statements
and Notes

May 9, 2008

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2008	 March 31 2007*
Operating revenues			
Passenger		$ 2,311	$ 2,152
Cargo		124	140
Other		291	333
		2,726	2,625
Operating expenses			
Wages, salaries and benefits		496	698
Aircraft fuel		715	585
Aircraft rent		63	104
Airport and navigation fees		241	243
Aircraft maintenance, materials and supplies		203	136
Communications and information technology		73	76
Food, beverages and supplies		77	83
Depreciation, amortization and obsolesence		169	146
Commissions		53	59
Capacity purchase with Jazz	Note 13	235	-
Special charge for labour restructuring		-	9
Other		428	515
		2,753	2,654
Operating loss before under-noted item		**(27)**	**(29)**
Provision for cargo investigations	Note 11	(125)	-
Operating loss		**(152)**	**(29)**
Non-operating income (expense)			
Interest income		25	33
Interest expense		(96)	(123)
Interest capitalized		17	36
Gain on disposal of assets	Note 1	46	7
Gain (loss) on financial instruments recorded at fair value	Note 5	(23)	34
Equity and other investment income	Note 1	12	3
Other		(1)	-
		(20)	(10)
Loss before the following items		**(172)**	**(39)**
Non-controlling interest		64	(23)
Foreign exchange gain (loss)		(89)	33
Recovery of (provision for) income taxes	Note 6		
Current		-	(6)
Future		15	(37)
Loss for the period		**$ (182)**	**$ (72)**
Loss per share			
Basic and Diluted		$ (2.96)	$ (0.70)

The accompanying notes are an integral part of the interim consolidated financial statements.

**Effective March 14, 2007, the results and financial position of Aeroplan and effective May 24, 2007, the results and financial position of Jazz are not consolidated with ACE (Note 1). Effective October 16, 2007, the results and financial position of ACTS are not consolidated with ACE (Note 1).*

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		March 31 2008	December 31 2007*
ASSETS			
Current			
Cash and cash equivalents		$ 1,254	$ 2,300
Short-term investments		679	839
	Note 8	1,933	3,139
Restricted cash		55	124
Accounts receivable	Note 9	841	793
Aircraft fuel inventory		72	98
Fuel derivatives	Note 5	135	68
Prepaid expenses and other current assets		153	199
Future income taxes	Note 6	164	200
		3,353	4,621
Property and equipment	Note 2	7,743	7,925
Deferred charges		51	51
Intangible assets		650	647
Deposits and other assets		624	527
		$ 12,421	**$ 13,771**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	Note 9	$ 1,179	$ 1,266
Advance ticket sales		1,437	1,245
Current portion of Aeroplan Miles obligation		55	55
Current portion of long-term debt and capital leases		701	686
		3,372	3,252
Long-term debt and capital leases	Note 2	4,035	4,006
Convertible preferred shares		188	182
Future income taxes	Note 6	50	50
Pension and other benefit liabilities		1,773	1,824
Other long-term liabilities		624	483
		10,042	9,797
Non-controlling interest		692	757
SHAREHOLDERS' EQUITY	Note 7		
Share capital and other equity		336	450
Contributed surplus		277	504
Retained earnings		872	2,209
Accumulated other comprehensive income		202	54
		1,687	3,217
		$ 12,421	**$ 13,771**

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Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2008	Year Ended December 31 2007*	Three Months Ended March 31 2007*
Share capital				
Common shares, beginning of period		$ 243	$ 533	$ 533
Repurchase and cancellation of common shares	Note 7	(115)	-	-
Distributions of Aeroplan units	Note 1	-	(306)	(274)
Distributions of Jazz units	Note 1	-	(70)	(51)
Issue of shares through stock options exercised		1	86	19
Total share capital		129	243	227
Other equity				
Convertible preferred shares		117	117	117
Convertible senior notes	Note 2	90	90	92
Total share capital and other equity		336	450	436
Contributed surplus				
Balance, beginning of period		504	25	25
Repurchase and cancellation of common shares	Note 7	(228)	-	-
Fair value of stock options issued to Corporation employees recognized as compensation expense		1	25	5
Fair value of exercised stock options to share capital		-	(29)	-
Aeroplan negative investment	Note 1	-	483	426
Total contributed surplus		277	504	456
Retained earnings				
Balance, beginning of period		2,209	810	810
Repurchase and cancellation of common shares	Note 7	(1,155)	-	-
Cumulative effect of adopting new accounting policies		-	5	10
Repair Schemes and Non-compete agreement		-	(4)	-
		1,054	811	820
Net income (loss) for the period		(182)	1,398	(72)
Total retained earnings		872	2,209	748
Accumulated other comprehensive income				
Balance, beginning of period		54	-	-
Cumulative effect of adopting new accounting policies		-	(7)	(7)
Other comprehensive income		148	61	10
Total accumulated other comprehensive income		202	54	3
Total shareholders' equity		**$ 1,687**	**$ 3,217**	**$ 1,643**

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Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2008	Three Months Ended March 31 2007*
Comprehensive income (loss)			
Net loss for the period		$ (182)	$ (72)
Other comprehensive income, net of taxes:			
Net change in unrealized loss on US Airways securities (net of tax of $1)		-	(4)
Net change in unrealized gain on Jazz Air Income Fund (net of tax of ($15))	Note 5	71	-
Net gains on fuel derivatives under hedge accounting (net of taxes of 2008 - ($46), 2007 - ($3))	Note 5	100	6
Reclassification of net realized (gains) losses on fuel derivatives to income (net of taxes of 2008 - $11, 2007 - nil))	Note 5	(23)	8
		148	10
Total comprehensive loss		**$ (34)**	**$ (62)**

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Consolidated Statement of Cash Flows

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2008	Three Months Ended March 31 2007*
Cash flows from (used for)			
Operating			
Net loss for the period		$ (182)	$ (72)
Adjustments to reconcile to net cash from operations			
Depreciation, amortization and obsolescence		169	146
Gain on disposal of assets	Note 1	(46)	(7)
Foreign exchange (gain) loss		65	(33)
Future income taxes		(15)	37
Excess of employee future benefit funding over expense		(51)	(69)
Decrease in Aeroplan miles obligation		(16)	(27)
Provision for cargo investigation		125	-
Non-controlling interest		(68)	18
Other		(13)	(25)
Changes in non-cash working capital balances		261	351
		229	**319**
Financing			
Issue of common shares		1	19
Repurchase and cancellation of common shares	Note 7	(1,498)	-
Aircraft and facility related borrowings	Note 2	187	112
Distributions paid to non-controlling interest		-	(53)
Reduction of long-term debt and capital lease obligations		(323)	(78)
Other		-	(1)
		(1,633)	**(1)**
Investing			
Short-term investments		161	(155)
Proceeds from sale of Jazz units	Note 5	97	-
Proceeds from escrow related to sale of ACTS	Note 1	40	-
Proceeds from sale of other assets	Note 2	27	45
Proceeds from sale leaseback transactions	Note 2	411	-
Additions to capital assets		(403)	(437)
Deconsolidation of Aeroplan cash	Note 1	-	(231)
Acquisition of Aeroman, net of cash		-	(53)
Other		25	12
		358	**(819)**
Decrease in cash and cash equivalents		**(1,046)**	**(501)**
Cash and cash equivalents, beginning of period		2,300	1,854
Cash and cash equivalents, end of period		**$ 1,254**	**$ 1,353**
Cash payments of interest		$ 68	$ 60
Cash payments of income taxes		$ 2	$ 6

Cash and cash equivalents exclude Short-term investments of $679 as at March 31, 2008 ($1,077 as at March 31, 2007).
The accompanying notes are an integral part of the interim consolidated financial statements.
**Effective March 14, 2007, the results and financial position of Aeroplan and effective May 24, 2007, the results and financial position of Jazz are not consolidated with ACE (Note 1). Effective October 16, 2007, the results and financial position of ACTS are not consolidated with ACE (Note 1).*

(currencies in millions – Canadian dollars)

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES

ACE Aviation Holdings Inc. ("ACE") which was incorporated on June 29, 2004, is a holding company of various aviation interests. Reference to the "Corporation" in the following notes to the consolidated financial statements refers to, as the context may require, ACE and its aviation interests collectively, ACE and one or more of its aviation interests, one or more of ACE's aviation interests, or ACE itself.

ACE has two reportable segments: Air Canada and Corporate Items and Eliminations ("CIE"). During 2007 ACE had the following reportable segments: Air Canada, Aeroplan Limited Partnership ("Aeroplan") up to March 14, 2007, Jazz Air LP ("Jazz") up to May 24, 2007, ACTS LP ("ACTS") up to October 16, 2007, and CIE.

As at March 31, 2008, ACE holds:

- a 75.0% direct ownership interest in Air Canada;
- a 20.1% indirect ownership interest in Aeroplan through its holding of Aeroplan Income Fund ("AIF") units. ACE further reduced its ownership interest to 9.9% as of April 21, 2008. Refer to Note 14;
- a 9.5% indirect ownership interest in Jazz through its holdings of Jazz Air Income Fund ("JAIF") units; and
- a 22.8% direct interest in Aero Technical Support & Services Holdings ("ACTS Aero").

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2007 annual consolidated financial statements of the Corporation, with the exception of the changes in accounting policies described below in Changes in Accounting Policy.

In accordance with Canadian generally accepted accounting principles ("GAAP"), these interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the 2007 annual consolidated financial statements of ACE. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

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

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

The notes to the financial statements describe various transactions completed during the quarters ended March 31, 2008 and 2007 where gains on disposal of assets have been realized. A summary of the transactions follows:

		Three Months Ended March 31 2008	Three Months Ended March 31 2007
Sale of 13 million JAIF units	Note 5	$ 89	$ -
Boeing 767 impairment provision	Note 2	(38)	-
Sale of commercial real estate	Note 2	-	5
Other		(5)	2
Gains on assets		**$ 46**	**$ 7**

ACCOUNTING FOR AEROPLAN

Effective March 14, 2007 as a result of the special distribution of AIF units, and the conversion of ACE's remaining Aeroplan LP units into units of AIF, the Corporation's results in these interim consolidated financial statements include the consolidation of Aeroplan operations only up to the date of distribution. From that day on ACE's investment in Aeroplan is accounted for using the equity method. As at March 31, 2008 ACE's negative investment in Aeroplan is $140 and is included in Other long-term liabilities.

Immediately prior to the distribution on March 14, 2007, ACE's net investment in Aeroplan was negative $710, which was negative due to accumulated distributions to ACE in excess of income and capital invested, net of fair value adjustments recorded upon the application of fresh start reporting. Subsequent to the distribution on March 14, 2007, ACE's 40.1% proportionate interest in the accumulated deficit of Aeroplan LP was $284. ACE retained this negative investment of $284 and reflected the amount in other long term liabilities. As a result, the difference between the net investment prior to and after the distribution was recorded as a credit to Contributed surplus in the amount of $426. The cash flow impact to ACE of deconsolidating Aeroplan of $231 reflects the Aeroplan cash removed from the consolidated statement of financial position of ACE is classified as a cash outflow from investing activities.

Distributions to common and preferred shareholders in Quarter 1, 2007, resulted in:

- a $274 reduction to share capital due to the use of future income tax assets;
- interest expense of $12; and
- a proportionate reduction to intangible assets of $12 related to the fair value adjustments to Aeroplan intangibles recorded on consolidation as a result of the dilution of interests.

Refer to Note 4 in the notes of the 2007 annual consolidated financial statements of the Corporation for complete disclosure of 2007 Aeroplan transactions.

The Corporation has various related party transactions after deconsolidation of Aeroplan from ACE and these transactions are recorded at the exchange amount. Related party trade balances arise from the provision of services, and the allocation of employee related costs. Refer to Note 9 Related Party Transactions for transactions between the Corporation and Aeroplan.

ACCOUNTING FOR JAZZ

Prior to the distribution of units on May 24, 2007 Air Canada consolidated Jazz under ACG-15 Consolidation of Variable Interest Entities ("AcG 15"). As a result of the Corporation's distribution of units of JAIF on May 24, 2007, ACE's ownership interest in JAIF was reduced from 58.8% to 49.0%. This ownership interest was further reduced to 20.1% on October 22, 2007 and to 9.5% on January 24, 2008. JAIF holds all of the outstanding units of Jazz. Effective May 24, 2007 JAIF was deemed to be the primary beneficiary of Jazz under AcG-15 *Consolidation of Variable Interest Entities,* and accordingly it consolidates Jazz from that date. Prior to May 24, 2007 inter-company transactions were eliminated in these consolidated financial statements.

These consolidated financial statements include the consolidation of Jazz operations up to the date of the May 24, 2007 distribution and from that date ACE's investment in Jazz was accounted for using the equity method. Subsequent to the sale on January 24, 2008 and termination of the Securityholders' Agreement on February 7, 2008, ACE no longer equity accounts for Jazz and ACE's investment in Jazz is classified as an available-for-sale investment (Note 5). As at March 31, 2008 ACE's investment in Jazz has a carrying value and fair value of $93 and is included in Deposits and other assets.

Refer to Note 13 for a summary of the transactions between Air Canada and Jazz under the Jazz Capacity Purchase Agreement (the "Jazz CPA") for the period ended March 31, 2008.

Distributions to common and preferred shareholders in Quarter 1, 2007, resulted in:

- a $51 reduction to share capital;
- interest expense of $2; and
- a proportionate reduction to intangible assets of $2 related to the fair value adjustments to Jazz intangibles recorded on consolidation as a result of the dilution of interests.

Refer to Note 5 in the notes of the 2007 annual consolidated financial statements of the Corporation for complete disclosure of 2007 Jazz transactions.

ACCOUNTING FOR ACTS

On October 16, 2007 ACE sold substantially all of the assets and liabilities of ACTS LP ("ACTS") to ACTS Aero for cash and equity. ACE holds a 22.8% equity interest in ACTS Aero which purchased the assets and conducts the business previously operated by ACTS. On January 14, 2008, the full balance of $40 of funds held in escrow on the closing of the monetization of ACTS were received by ACE.

These consolidated financial statements include the consolidation of ACTS operations up to October 16, 2007. From that date ACE's investment in ACTS Aero is accounted for using the equity method. ACE's ownership interest in ACTS Aero decreased from 23% to 22.8%, during Quarter 1, 2008, due to the issue of additional ACTS Aero shares. As at March 31, 2008 ACE's investment in ACTS Aero has a carrying value of $67 and is included in Deposits and other assets.

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments – Presentation and Disclosure

Effective January 1, 2008, the Corporation adopted three new CICA accounting standards: section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Refer to Note 12 for the Corporation's Section 1535 disclosures.

Sections 3862 and 3863 replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements in certain areas, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Refer to Note 5 for the Corporation's financial instruments disclosures. Where the disclosure requirements of the new standards did not change from the previous standard and where there have been no significant updates from the disclosures in Note 20 of the 2007 annual consolidated financial statements of the Corporation, no additional disclosure has been provided.

Inventories

Effective January 1, 2008, the Corporation adopted CICA section 3031, *Inventories*, which replaced section 3030, *Inventories*. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Corporation's accounting policy for aircraft fuel inventory is consistent with measurement requirements in the new standard and as a result, no adjustment was recorded on transition; however, additional disclosures are required. The additional disclosure requirements will be applied as described below.

The main features of the new standard, which impact the Corporation, include:

- Measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of costs.
- Consistent use of either a first-in first-out or weighted average formula to measure the cost of other inventories. The Corporation uses a weighted average formula to measure cost.
- Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.
- Disclosure of the accounting polices used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses.

Future Accounting Standard Changes

In February 2008, the CICA issued section 3064, *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Corporation is in the process of evaluating the impact of this new standard for adoption on January 1, 2009.

2. FINANCING AND INVESTING ACTIVITIES

ACE CONVERTIBLE SENIOR NOTES

During Quarter 1, 2008, Convertible Senior Notes with a face value of $1 were converted at the option of the holder and ACE settled for cash of $1, reducing the liability and equity portions of the notes. The gain realized on conversion was negligible.

In connection with the share purchase and cancellation by ACE described in Note 7, the conversion rate of ACE's 4.25% Convertible Senior Notes Due 2035 was adjusted from 37.6879 to 39.0341 Class A variable voting shares or Class B voting shares per $1,000 principal amount of Convertible Senior Notes. The adjustment is effective January 11, 2008 and has been determined in accordance with the terms of the indenture governing the Convertible Senior Notes.

AIR CANADA AIRCRAFT FINANCING

Boeing

Sale Leaseback

During Quarter 1 2008 Air Canada took delivery of four Boeing 777 aircraft. One aircraft was financed with guarantee support from the Export-Import Bank of the United States ("EXIM"), as outlined below. Three of the aircraft were financed under sale and leaseback transactions with proceeds of $411. The resulting gain on sale of $47 has been deferred and will be recognized in Aircraft rent expense over the term of the leases. The leases are accounted for as operating leases with 12 year terms, paid monthly. The operating lease commitments for these deliveries were included in Note 19 - Commitments in the 2007 annual consolidated financial statements of the Corporation.

Borrowings

The following table summarizes the Japanese Yen (JPY) denominated loan, secured by the delivered aircraft, that Air Canada drew during the three month period ended March 31, 2008 to finance the acquisition of one Boeing aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original JPY Loan Amount	Original CDN$ Loan Amount
Quarter 1 2008					
Boeing 777 - 200	1	1.03%	2020	10,387	$ 98

The following table summarizes the principal repayment requirements (in CDN$) of the Boeing aircraft financing obtained during the three month period ended March 31, 2008, based upon the foreign exchange rate as at March 31, 2008:

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Boeing aircraft financing	$ 6	$ 9	$ 9	$ 9	$ 9	$ 65	$ 107

Embraer

The following table summarizes the loans, secured by the delivered aircraft, that Air Canada drew during the three month period ended March 31, 2008 to finance the acquisition of Embraer aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 1 2008					
Embraer 190	3	4.97 - 6.39%	2020	$ 68	$ 67

The following table summarizes the principal repayment requirements (in CDN$) of the Embraer aircraft financing obtained during the three month period ended March 31, 2008, based upon the foreign exchange rate as at March 31, 2008:

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Embraer aircraft financing	$ 2	$ 3	$ 3	$ 4	$ 4	$ 53	$ 69

Disposals of and Provisions for Assets

During the first quarter of 2008:

- Air Canada recorded an impairment charge of $38 ($26 net of tax) on its fleet of B767-200 aircraft due to the revised retirement date of the aircraft.
- Air Canada sold an A319 aircraft for proceeds of $23 with a book value of $21, resulting in a gain on sale of $2 ($1 net of tax).

During the first quarter of 2007:

- Air Canada sold one of its commercial real estate properties for net proceeds of $42 with a carrying value of $37. The gain on sale of $5 ($4 net of tax) was recorded in the Air Canada segment.
- Air Canada sold 18 parked aircraft for proceeds of $2 with a nil book value. The gain on sale of $2 ($1 net of tax) was recorded in the Air Canada segment.

Predelivery Financing

During Quarter 1 2008, Air Canada drew an additional amount of $26 and made repayments of $238 on the predelivery financing as described in Note 11 to the 2007 annual consolidated financial statements of the Corporation.

3. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS EXPENSE

Air Canada maintains several defined benefit and defined contribution plans providing pension, other post-retirement and post-employment benefits to its employees, including those employees of Air Canada who are contractually assigned to work at Aeroplan and ACTS Aero.

The Corporation has recorded pension and other employee future benefits expense as follows:

	Three Months Ended	
	March 31 2008	**March 31 2007***
Pension benefit expense	$ 17	$ 38
Other employee future benefits expense	26	30
	43	**68**
Amount charged to affiliates	(9)	-
Net pension benefit and other employee future benefits expense	**$ 34**	**$ 68**

**Effective March 14, 2007, the results and financial position of Aeroplan, effective May 24, 2007, the results and financial position of Jazz and effective October 16, 2007, the results and financial position of ACTS are not consolidated with ACE (Note 1).*

4. LABOUR RELATED PROVISIONS

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities (current portion included in Accounts payable and accrued liabilities):

	Three Months Ended March 31 2008	Three Months Ended March 31 2007*
Beginning of period	$ 66	$ 109
Interest accretion	1	1
Special charge for labour restructuring:		
2007 ACTS workforce reduction	-	9
Charges recorded in wages, salaries and benefits	-	2
Amounts disbursed	(9)	(15)
End of period	58	106
Current portion	(26)	(59)
	$ 32	**$ 47**

**Effective May 24, 2007, the results and financial position of Jazz are not consolidated with ACE (Note 1). Effective October 16, 2007, the results and financial position of ACTS are not consolidated with ACE (Note 1).*

The Corporation offers severance programs to certain employees from time to time. The cost of these programs is recorded within operating expenses.

During Quarter 1, 2007, a charge of $9 was recorded in the ACTS segment for the workforce reduction announced as a result of the termination of a heavy maintenance contract at ACTS.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As described in Note 1, the Corporation adopted CICA Section 3862 and 3863 effective January 1, 2008. These new standards enhance disclosure with respect to financial instruments.

Summary of Financial Instruments

	March 31, 2008					December 31, 2007
	Financial instruments classification					
Carrying Amounts	Held for trading	Available for sale	Held to maturity	Loans and receivables	Liabilities at amortized cost	
Financial assets						
Cash and cash equivalents	$ 1,254	$ -	$ -	$ -	$ -	$ 2,300
Short-term investments	679	-	-	-	-	839
Restricted cash	55	-	-	-	-	124
Accounts receivable	-	-	-	841	-	793
Deposits and other assets						
Restricted cash	75	-	-	-	-	84
Asset backed commercial paper	29	-	-	-	-	29
Aircraft related and other deposits	-	-	326	-	-	307
Other investments (Jazz)	-	93	-	-	-	-
Derivative instruments						
Fuel derivatives	156	-	-	-	-	77
Cross-currency interest rate swaps	6	-	-	-	-	-
Interest rate swaps	12	-	-	-	-	7
	$ 2,266	**$ 93**	**$ 326**	**$ 841**	**$ -**	**$ 4,560**
Financial Liabilities						
Accounts Payable	$ -	$ -	$ -	$ -	$ 1,179	$ 1,266
Current portion of long-term debt and capital leases	-	-	-	-	701	686
Long-term debt and capital leases	-	-	-	-	4,035	4,006
Convertible preferred shares	-	-	-	-	188	182
Derivative instruments						
Foreign exchange derivatives	22	-	-	-	-	124
Interest rate swaps	-	-	-	-	-	2
	$ 22	**$ -**	**$ -**	**$ -**	**$ 6,103**	**$ 6,266**

In Quarter 1, 2008, Jazz was classified as an available-for-sale investment with a fair value of $93 at March 31, 2008. Other than the change in classification to the Jazz investment from an equity investment to available-for-sale investment, there have been no changes in classification of financial instruments since December 31, 2007.

For cash flow purposes, the Corporation may settle, from time to time, certain short-term investments prior to their original maturity. For this reason, these financial instruments do not meet the criteria of held to maturity and are therefore designated as held for trading. They are recorded at fair value with changes in fair value recorded in interest income.

Collateral held in leasing arrangements

Air Canada holds security deposits with a carrying value of $9, which approximates fair value, as security for certain aircraft leased and sub-leased to third parties. Of these deposits, $5 has been assigned as collateral to secure Air Canada's obligations to the lessors of the aircraft. Any collateral held by Air Canada is returned to the lessee or sub-lessee, as the case may be at the end of the lease or sub-lease term provided there have been no events of default under the leases or sub-leases.

Summary of Gains and Losses on Financial Instruments Recorded at Fair Value

	Three Months Ended	
	March 31 2008	**March 31 2007**
Ineffective portion of fuel hedges	$ (38)	$ 30
Fuel derivatives not under hedge accounting	6	2
Interest rate swaps	3	2
Cross currency interest rate swaps	6	-
Gain (loss) on financial instruments recorded at fair value	**$ (23)**	**$ 34**

Risk Management

The Corporation is exposed to the following risks as a result of holding financial instruments: interest rate risk, foreign exchange risk, liquidity risk, market risk, and fuel price risk. The following is a description of these risks and how they are managed.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation enters into both fixed and floating rate debt and also leases certain assets where the rental amount fluctuates based on changes in short term interest rates. The Corporation manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Corporation. The temporary investment portfolio which earns a floating rate of return is an economic hedge for a portion of the floating rate debt.

The ratio of fixed to floating rate debt outstanding is designed to maintain flexibility in the Air Canada's capital structure and is based upon a long term objective of 60% fixed and 40% floating. Air Canada's current ratio is 66% fixed and 34% floating, including the effects of interest rate swap positions.

The following are the current derivatives employed in interest rate risk management activities and the adjustments recorded during the first quarter of 2008:

- Air Canada's one remaining Embraer 190 aircraft interest rate swap contract matured, with a fair value of $2 in favour of the counterparty. No gain or loss was recorded during the period.

- Air Canada recorded a gain of $5 on its interest rate swaps related to two B767 aircraft. These interest rate swaps convert the lease payments on the two aircraft leases from fixed to floating rates.

- Air Canada entered into two cross-currency interest rate swap agreements with terms of March 2019 and May 2019 respectively, relating to Boeing 777 financing with an aggregate notional value of $202 (US$197). These swaps convert US denominated debt principal and interest payments into Canadian denominated debt at a foreign exchange rate of par (US$1/CAD$1) and convert from a fixed rate of 5.208% to a floating rate. These derivative instruments have not been designated as hedges for accounting purposes and are fair valued on a quarterly basis. As at March 31, 2008, the fair value of these contracts was $6 in favour of Air Canada.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The majority of the Corporation's outstanding debt is denominated in US dollars. The US dollar debt acts as an economic hedge against the related aircraft, which is routinely purchased and sold by Air Canada in US dollars.

The Corporation is also exposed to foreign exchange risk on foreign currency denominated trade receivables and foreign currency denominated net cash flows.

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation enters into certain foreign exchange forward contracts or currency swaps to manage the risks associated with foreign currency exchange rates. As at March 31, 2008, the Corporation had entered into foreign currency forward contracts and option agreements converting US dollars and Euros into Canadian dollars on $1,632 (US$1,588) and $24 (EUR 15) which mature in 2008 and 2009. The fair value of these foreign currency contracts as at March 31, 2008 is $22 in favour of third parties (December 31, 2007 - $124 in favour of third parties on $2,132 (US $2,158) and $26 (EUR 18) which mature in 2008 and 2009). During Quarter 1 2008, a gain of $79 was recorded in foreign exchange gain (loss) related to these derivatives. These derivative instruments have not been designated as hedges for accounting purposes.

The cross-currency swap as described above under interest rate risk management acts as an economic hedge of the foreign exchange risk on the financing related to two Boeing 777 aircraft with a principal amount of $202 (US$197) as at March 31, 2008.

Air Canada had also entered into currency swap agreements for 11 CRJ aircraft. These agreements matured in January 2008 with a nominal fair value. No gain or loss was recorded during the period.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The long-term debt issued by the Corporation generally has fixed principal and interest repayment requirements over the term of the instrument.

The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts, maintaining flexibility in financing arrangements and having available its $400 revolving credit facility. Refer to the Maturity Analysis below for additional information.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk, which includes commodity price risk. Refer to the asset-backed commercial paper, and the Jazz investment sections below for information regarding these instruments held by the Corporation and the associated market risks.

The Corporation is exposed to market risks through the derivative instruments entered into. The Corporation uses derivative instruments only for risk management purposes and not for generating trading profit. As such, any change in cash flows associated with derivative instruments due to their exposure to market risks is designed to be offset by changes in cash flows related to the risk being hedged.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by the Corporation. The sensitivity analysis is based on a reasonably possible movement within the forecast period, being one year. These assumptions may not be representative of actual movements in these risks and should not be relied upon.

	Interest rate risk(1)	Foreign exchange rate risk		Other price risk (2)	
	Income	Income		Income	OCI, net
	1% change	5% increase	5% decrease	10% change	
Cash and cash equivalents	$ 12	$ -	$ -	$ -	$ -
Short-term investments	$ 7	$ -	$ -	$ -	$ -
Aircraft related deposits	$ -	$ (8)	$ 8	$ -	$ -
Other investments (Jazz)	$ -	$ -	$ -	$ -	$ 8
Long-term debt and capital leases	$ 16	$ 195	$ (195)	$ -	$ -
Foreign exchange derivatives	$ -	$ (131)	$ 87	$ -	$ -
Fuel derivatives	$ -	$ -	$ -	$ 90	$ 19
Interest rate swaps	$ 10	$ (10)	$ 10	$ -	$ -

(1) Changes in interest rates and other price risk will impact income favourably or unfavourably by approximately the same amount, based on current price levels and assumptions.

(2) Other price risk relates to the Air Canada's fuel derivatives and ACE's investment in Jazz. The sensitivity analysis for fuel derivatives is based upon the assumption that hedge accounting is 100% effective for the period and that changes in the fair value for derivatives that mature within one year are recorded in income whereas derivatives maturing beyond one year are recorded in OCI. The sensitivity analysis for Jazz is based upon the JAIF share value, and any changes to fair value would be recorded in OCI.

Fuel Price Risk

The following information summarizes the financial statement impact of derivatives designated under fuel hedge accounting, before the impact of tax:

- The fair value of outstanding fuel derivatives under hedge accounting at March 31, 2008 was $147 in favour of the Corporation.
- The change in fair value of derivatives during the period was $112:
    - The unrealized effective change in the fair value of derivatives recorded in OCI during the first quarter of 2008 was $134 before tax expense of $42. The realized effective change in the fair value of derivatives recorded in OCI during the first quarter of 2008 was $12 before tax expense of $4. OCI amounts for the three months ended March 31, 2008 are presented net of this tax expense on the Consolidated Statement of Comprehensive Income.
    - The ineffective change in the fair value of derivatives recorded in non-operating income (expense) for the first quarter of 2008 was $(38). The ineffective portion is calculated as the difference between the intrinsic value and fair market value of the derivatives as well as the difference between the Air Canada proxy derivative and the counterparty derivative. The increasing amount being recorded in non-operating income (expense) is due to the intrinsic

value of the derivatives being higher than the fair market value caused by the rising market price of fuel in comparison to the exercise prices of Air Canada derivatives.

- The depreciation of the Canadian dollar during the first quarter of 2008 resulted in a foreign exchange gain of $4 on USD denominated fuel derivative contracts, which was recorded in Foreign exchange gain (loss) on the Consolidated Statement of Operations.

- During Quarter 1 2008, hedge accounting was discontinued for certain fuel hedge contracts, with a fair value of $8, where the hedging relationship ceased to satisfy the conditions for hedge accounting. The fair value of the contracts that have not settled are now included in derivatives not under hedge accounting. Air Canada still continues to hold these derivatives as it believes they continue to be good economic hedges in managing its exposure to jet fuel prices. The value of the AOCI balance recognized in connection with these derivatives will be taken into fuel expense upon the maturity of the contracts.

- During Quarter 1 2008, fuel derivative contracts matured with fair values in favour of Air Canada for $32. This maturity amount includes $8 for dedesignated contracts.

- During Quarter 1 2008, the benefit to fuel expense was $34 before tax expenses of $11. This benefit was recognized through the removal of the amount from AOCI. Included in this amount is $7 related to de-designated contracts.

- During Quarter 1 2008, the net impact to AOCI was an increase of $112 before tax expense of $35. As at March 31, 2008, the balance in AOCI was $196 before tax. The estimated net amount of existing gain and losses reported in AOCI that is expected to be reclassified to net income (loss) during the following 12 months is $172 before tax.

The following information summarizes the financial statement impact of derivatives not designated under fuel hedge accounting, but held as economic hedges, before the impact of tax:

- During Quarter 1 2008, fuel derivative contracts matured in favour of Air Canada for $7.

- The fair value of outstanding fuel derivatives not under hedge accounting at March 31, 2008 was $9 in favour of Air Canada.

- The change in fair value of the derivative contracts for the period was $6 and was recorded in non-operating income (expense).

Asset-Backed Commercial Paper (“ABCP”)

Air Canada holds $37 ($29 net of a fair value adjustment) in non-bank sponsored ABCP which has been recorded in Deposits and other assets. These investments were scheduled to mature during the third quarter 2007. An agreement in principle to restructure the ABCP investments was approved by the Pan-Canadian Committee for Third Party Structured ABCP (“Committee”) on December 23, 2007 and approved by vote, which occurred on April 25, 2008. The process is subject to a court hearing as to whether the plan is fair, which is expected in early May 2008. Under the terms of the restructuring, all of the ABCP would be exchanged for longer-term notes that will match the maturity of the underlying assets in the proposed structure. Air Canada is not accruing interest on these investments at this time.

The carrying value as at March 31, 2008 is based on a number of assumptions as to the fair value of the investments including factors such as estimated cash flow scenarios and risk adjusted discount rates. The assumptions used in estimating the fair value of the investments are subject to change, which may result in further adjustments to non-operating results in the future. No adjustment to the carrying value was recorded during the first quarter of 2008.

Maturity Analysis

The following is a maturity analysis, based on contractual undiscounted cash flows, for selected financial liabilities. The analysis includes both the principal and interest component of the payment obligations on long-term debt and is based on interest rates and the applicable foreign exchange rate effective as at March 31, 2008.

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Convertible senior notes	$ 330	$ -	$ -	$ -	$ -	$ -	$ 330
Long-term debt obligations	228	293	272	278	281	2,155	3,507
Debt consolidated under AcG-15	122	105	153	340	93	193	1,006
Capital lease obligations	204	152	147	142	184	588	1,417
Foreign exchange derivatives	22	-	-	-	-	-	22
	$ 906	**$ 550**	**$ 572**	**$ 760**	**$ 558**	**$ 2,936**	**$ 6,282**

At any time on or after June 6, 2008, ACE may redeem all or a portion of the Convertible Senior Notes at a redemption price equal to 100% of the principal amount of the Convertible Senior Notes, plus accrued interest, as described in Note 11 of the annual consolidated financial statements. The amount shown in the table above represents the outstanding principal and interest of the Convertible Senior Notes. As at March 31, 2008, the fair value of the liability component included in Current portion of long-term debt and capital leases is $277.

Jazz Investment

On January 24, 2008 ACE sold a total of 13 million trust units of JAIF at a price of $7.45 per unit representing total net proceeds to ACE of approximately $97 and realized a gain on sale of $89 ($71 net of taxes). Following the sale, ACE holds 9.5% of the issued and outstanding units of JAIF.

With the reduction of the ownership interest below 20% and the termination of the Securityholders' Agreement on February 7, 2008, ACE no longer has significant influence over Jazz. The equity investment ACE has in Jazz is now classified as available-for-sale and unrealized period changes in fair value are recorded in OCI. The adjustment to fair value recorded in OCI amounted to $71, net of tax of $15 during Quarter 1, 2008.

6. INCOME TAXES

The following income tax related amounts appear in the Corporation's consolidated statement of financial position.

Asset	March 31 2008	December 31 2007
Future income tax asset recorded in current assets (a)	**$ 164**	**$ 200**

Liability	March 31 2008	December 31 2007
Long-term tax payable (b)	$ (10)	$ (10)
Future income tax liability (b)	(50)	(50)
	$ (60)	**$ (60)**

a) Future Income Tax Assets

During Quarter 1 2008, future income tax assets declined by $36 as a result of the following:

- a $18 reduction through the realization of future income tax assets on the disposal of JAIF units (Note 5);
- a $15 reduction for future income taxes recorded in other comprehensive income for the fair value adjustment to ACE's investment in Jazz classified as available for sale (Note 5);
- a $12 increase for future income tax assets recorded in Air Canada; and
- a $15 reduction for valuation allowance recorded on certain future income tax assets of ACE.

As at March 31, 2008, the Corporation has determined that it is more likely than not that certain future income tax assets of $164 will be realized in 2008.

b) Taxes Payable and Future Income Tax Liability

In 2007, Air Canada recorded a current income tax expense of $10 resulting from the Federal and Ontario harmonization of corporate taxes. Air Canada has a cash tax payable of $10 that is payable over a five year period beginning in 2009. This amount is included in Other long-term liabilities.

It has been assumed that certain intangibles and other assets with nominal tax cost and a carrying value of approximately $381, have indefinite lives and accordingly, the associated future income tax liability is not expected to reverse until the assets are disposed of or become amortizable, resulting in the reporting of a future income tax liability of $50.

c) Provision For Income Taxes

Components of the provision for income taxes are as follows:

	Three Months Ended	
	March 31 2008	March 31 2007
Recovery of income taxes before under noted items	$ 48	$ 3
Disposal of Jazz units	(18)	-
Valuation allowance on tax assets of ACE	(15)	-
Provision for cargo investigations	-	-
Special distribution of Aeroplan and Jazz units	-	(33)
Interest expense	-	(6)
Other	-	(7)
Recovery of (provision for) income taxes	**$ 15**	**$ (43)**

Refer to Note 5 for future income taxes recorded in other comprehensive income related to fuel derivatives designated under hedge accounting and the Corporation's investment in Jazz, now classified as available-for-sale.

7. SHARE INFORMATION

The issued and outstanding common shares of ACE as at March 31, 2008, along with potential common shares, are as follows:

Outstanding shares (000)	March 31 2008	December 31 2007
Issued and outstanding		
Class A variable voting shares	40,067	82,229
Class B voting shares	16,067	23,709
Total issued and outstanding	**56,134**	**105,938**
Potential common shares		
Convertible preferred shares	11,429	11,291
Convertible senior notes	12,600	12,210
Stock options	1,568	1,682
Total potential common shares	**25,597**	**25,183**

Substantial Issuer Bid

On January 10, 2008, ACE accepted for purchase and cancellation a total of 40,023,427 Class A Variable Voting Shares and 9,894,166 Class B Voting Shares at $30.00 per share for an aggregate purchase price of $1,498 in accordance with the terms of a substantial issuer bid launched in December 2007. No Convertible Preferred Shares of ACE were deposited on an as converted basis under the offer.

Upon purchase and cancellation by ACE of the Class A Variable Voting Shares and Class B Voting Shares, Share capital decreased by $115, Contributed surplus decreased by $228, and Retained earnings decreased by $1,155.

In connection with the share purchase and cancellation by ACE, the conversion rate of ACE's 4.25% Convertible Senior Notes Due 2035 was adjusted from 37.6879 to 39.0341 Class A variable voting shares or Class B voting shares per $1,000 principal amount of Convertible Senior Notes. The adjustment is effective January 11, 2008 and was determined in accordance with the terms of the indenture governing the Convertible Senior Notes.

8. SEGMENT INFORMATION

Composition of Business Segments

ACE has two reportable segments: Air Canada and Corporate Items and Eliminations ("CIE"). During 2007 ACE had the following reportable segments: Air Canada, Aeroplan Limited Partnership ("Aeroplan") up to March 14, 2007, Jazz Air LP ("Jazz") up to May 24, 2007, ACTS LP ("ACTS") up to October 16, 2007, and CIE.

CIE includes the corporate, financing and investing activities of ACE. ACE's investments in Aeroplan, Jazz and ACTS Aero were changed in 2007 from the consolidation to equity method of accounting reported under the CIE segment. As of February 7, 2008, ACE no longer equity accounts for Jazz (Note 5), but distributions from Jazz are recorded in the CIE segment. 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 (up to March 14, 2007) and the timing of revenue recognition related to maintenance services provided by ACTS (completed contract basis of accounting for engine and component maintenance services, up to October 16, 2007) versus the expense recognition in Air Canada and Jazz, which is as the work is completed. In addition, consolidation adjustments were made related to the timing of revenue and expense recognition pertaining to power-by-the-hour contracts. Subsequent to the change in accounting for ACE's investments in Aeroplan and ACTS, these consolidation adjustments are no longer recorded in CIE. Future income taxes are recorded within the applicable taxable entities and are not allocated to non-taxable entities.

The Aeroplan consolidation adjustments recorded within CIE for the period when Aeroplan was consolidated related mainly to the revenue recognition timing difference from when Aeroplan records revenues, which is at the time a Mile is redeemed for travel, to the consolidated accounting policy of revenue recognition at the time reward transportation is provided. In addition, within the Aeroplan segment of the ACE consolidated financial statements, Aeroplan revenue from the redemption of Miles is recorded in Other revenue, whereas on the consolidated financial statements, Miles redeemed for travel on Air Canada and Jazz are recorded in Passenger revenue. This results in an elimination of certain Aeroplan Other revenue amounts within CIE to reflect the consolidated recognition of Aeroplan Miles redeemed for travel on Air Canada and Jazz within Passenger revenue. This also results in an adjustment to passenger revenue recorded within CIE. In the Aeroplan segment information, the cost to Aeroplan of purchasing rewards is recorded in other operating expenses.

Segment financial information has been prepared consistent with how financial information is produced internally for the purposes of making operating decisions. Segments negotiate transactions between each other as if they were unrelated parties.

A reconciliation of the total amounts reported by each business segment to the applicable amounts in the consolidated financial statements follows:

	Three Months Ended March 31								
	2008			2007*					
	Air Canada	CIE	Total ACE	Air Canada	Aeroplan	Jazz	ACTS	CIE	Total ACE
Passenger revenue	$ 2,311	$ -	$ 2,311	$ 2,137	$ -	$ -	$ -	$ 15	$ 2,152
Cargo revenue	124	-	124	140	-	-	-	-	140
Other revenue	291	-	291	209	198	2	57	(133)	333
External revenue	2,726	-	2,726	2,486	198	2	57	(118)	2,625
Inter-segment revenue	1	(1)	-	54	3	362	196	(615)	-
Total revenues	**2,727**	**(1)**	**2,726**	**2,540**	**201**	**364**	**253**	**(733)**	**2,625**
Wages, salaries and benefits	481	15	496	499	17	83	86	13	698
Aircraft fuel	715	-	715	585	-	71	-	(71)	585
Aircraft rent	63	-	63	79	-	35	-	(10)	104
Airport and navigation fees	241	-	241	243	-	47	-	(47)	243
Aircraft maintenance, materials and supplies	203	-	203	224	-	30	79	(197)	136
Communications and information technology	73	-	73	71	7	1	4	(7)	76
Food, beverages and supplies	77	-	77	80	-	4	-	(1)	83
Depreciation, amortization and obsolesence	171	(2)	169	128	3	5	9	1	146
Commissions	53	-	53	59	-	-	-	-	59
Capacity purchase with Jazz	235	-	235	230	-	-	-	(230)	-
Special charge for labour restructuring	-	-	-	-	-	-	9	-	9
Other	427	1	428	420	134	52	63	(154)	515
Total operating expenses	**2,739**	**14**	**2,753**	**2,618**	**161**	**328**	**250**	**(703)**	**2,654**
Operating income (loss) before under noted item	**(12)**	**(15)**	**(27)**	**(78)**	**40**	**36**	**3**	**(30)**	**(29)**
Provision for cargo investigation	(125)	-	(125)	-	-	-	-	-	-
Operating income (loss)	**(137)**	**(15)**	**(152)**	**(78)**	**40**	**36**	**3**	**(30)**	**(29)**
Interest income	18	7	25	26	3	1	-	3	33
Interest expense	(81)	(15)	(96)	(91)	(3)	(2)	(5)	(22)	(123)
Interest capitalized	17	-	17	36	-	-	-	-	36
Gain on disposal of assets	(36)	82	46	7	-	-	-	-	7
Gain (loss) on financial instruments recorded at fair value	(23)	-	(23)	34	-	-	-	-	34
Equity and other investment income	-	12	12	-	-	-	-	3	3
Other non-operating income (expense)	(2)	1	(1)	(4)	(1)	-	-	5	-
Non-controlling interest	(3)	67	64	(2)	-	-	-	(21)	(23)
Foreign exchange gain (loss)	(89)	-	(89)	33	-	-	-	-	33
Recovery of (provision for) income taxes	48	(33)	15	5	-	-	-	(48)	(43)
Segment income (loss)	**$ (288)**	**$ 106**	**$ (182)**	**$ (34)**	**$ 39**	**$ 35**	**$ (2)**	**$ (110)**	**$ (72)**

**Effective March 14, 2007 the results and financial position of Aeroplan and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1). Effective October 16, 2007, the results and financial position of ACTS Aero are not consolidated with ACE (Note 1). Aeroplan and ACTS Aero equity investment income is recorded within CIE prospectively from March 14, 2007, and October 16, 2007 respectively. Jazz equity investment income is recorded within CIE from May 24, 2007 to February 7, 2008, subsequent to February 7, 2008, distribution income from JAIF is recorded within CIE. As of March 31, 2008, equity income of $10 relating to ACE's equity investments is included in Equity and other investment income ($3 for the period ended March 31, 2007).*

Included within Depreciation, amortization and obsolescence is depreciation of property and equipment for Quarter 1, 2008 of $159 (2007 - $125). This is broken down by segment as follows; Air Canada $159 (2007 - $118), Aeroplan nil (2007 - nil), Jazz nil (2007 - $5), ACTS $nil (2007 - $1), and CIE (nil) (2007 - $1).

Geographic Information

Passenger revenues	Three Months Ended March 31 2008	Three Months Ended March 31 2007*
Canada	$ 922	$ 854
US Transborder	530	492
Atlantic	370	361
Pacific	205	213
Other	284	232
	$ 2,311	**$ 2,152**

Cargo revenues	Three Months Ended March 31 2008	Three Months Ended March 31 2007*
Canada	$ 23	$ 25
US Transborder	5	7
Atlantic	58	57
Pacific	28	40
Other	10	11
	$ 124	**$ 140**

**Effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1).*

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia. Other passenger and cargo revenues refer to flights with origins and destinations principally in South America, South Pacific, and the Caribbean. Other operating revenues are principally derived from customers located in Canada.

Segment Asset Information

	March 31, 2008		
	Air Canada	CIE	Total
Cash and cash equivalents	$ 781	$ 473	$ 1,254
Short-term investments	613	66	679
	$ 1,394	**$ 539**	**$ 1,933**
Equity investments (Aeroplan, ACTS Aero)	$ -	$ (73)	$ (73)
Additions to capital assets (a)	$ 403	$ -	$ 403
Total assets	**$ 11,861**	**$ 560**	**$ 12,421**

	December 31, 2007		
	Air Canada	CIE	Total
Cash and cash equivalents	$ 527	$ 1,773	$ 2,300
Short-term investments	712	127	839
	$ 1,239	**$ 1,900**	**$ 3,139**
Equity investments (Aeroplan, Jazz, ACTS Aero)	$ -	$ (56)	$ (56)
Additions to capital assets (a)	$ 2,596	$ -	$ 2,622
Total assets	**$ 11,837**	**$ 1,934**	**$ 13,771**

(a) The consolidated total includes additions to capital assets of $10 for Jazz and $16 for ACTS, that were segments up to May 24, 2007 and October 16, 2007 respectively.

The total assets of CIE is net of the inter-company eliminations between segments and ACE.

9. RELATED PARTY TRANSACTIONS

At March 31, 2008 ACE holds a 75% ownership interest in Air Canada. Air Canada has various related party transactions with other ACE related entities, including Aeroplan, Jazz (up to February 7, 2008), and ACTS Aero. Subsequent to the sale of Jazz units on January 24, 2008 and the termination of the Securityholders' Agreement on February 7, 2008, ACE no longer exercised significant influence over Jazz. Refer to Note 13 – Capacity Purchase Agreement for a summary of transactions under the Jazz CPA.

Related party trade balances, as outlined below, mainly arise from the provision of services, including the allocation of employee related costs. Trade balances between the related parties have trade terms which generally require payment 30 days after receipt of invoice.

The related party balances resulting from the application of the related party agreements were as follows:

	March 31 2008	December 31 2007
Accounts receivable		
Aeroplan (Air Canada)	$ 43	$ 20
Aeroplan - distribution receivable (ACE)	3	3
ACTS Aero (Air Canada)	119	99
	$ 165	**$ 122**
Accounts payable and accrued liabilities		
ACTS Aero (Air Canada)	$ 94	$ 88
	$ 94	**$ 88**

The Quarter 1 2008 related party revenues and expenses include Aeroplan and ACTS Aero. Refer to Note 13 – Capacity Purchase Agreement for transactions with Jazz. The Quarter 1 2007 related party revenues and expenses included Aeroplan (period from March 14 to March 31, 2007) and are summarized as follows:

	Three Months Ended	
	March 31 2008	March 31 2007
Revenues		
Revenues from Aeroplan related to Aeroplan rewards net of purchase of Aeroplan miles	$ 40	$ 16
Property rental revenues from related parties	9	1
Revenues from corporate services and other	19	-
	$ 68	**$ 17**
Expenses		
Maintenance expense for services from ACTS / ACTS Aero	$ 140	$ -
Other expenses	4	1
Recovery of wages, salary and benefit expense for employees assigned to related parties	(81)	(4)
	$ 63	**$ (3)**

10. COMMITMENTS

Boeing 787

Boeing has notified Air Canada that its first Boeing 787 aircraft originally scheduled for delivery in February 2010 is now scheduled for delivery in 2012, with additional deliveries, originally scheduled for completion between 2010 and 2014, being delayed by approximately two to two and a half years. Air Canada's capital expenditure projections, including the predelivery payments, have been amended to reflect this delay.

Contractual Obligations

The table below provides Air Canada's current contractual obligations as at March 31, 2008 for the remainder of 2008 and for the next four years and after 2012.

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Operating lease obligations	$ 220	$ 290	$ 278	$ 214	$ 196	$ 624	$ 1,822
Committed capital expenditures	291	29	53	84	457	3,779	4,693
	$ 511	**$ 319**	**$ 331**	**$ 298**	**$ 653**	**$ 4,403**	**$ 6,515**

11. CONTINGENCIES

Investigations by Competition Authorities Relating to Cargo

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, a number of whom, including Air Canada, have received a statement of objections from the European Commission that sets out the European Commission's preliminary assessment in relation to such matter. Air Canada has provided its reply to the statement of objections. Competition authorities have sought or requested information from Air Canada as part of their investigations. Air Canada is cooperating with these investigations, which are likely to lead to proceedings against Air Canada and a number of airlines and other cargo operators in certain jurisdictions. Air Canada is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations.

During Quarter 1 2008, Air Canada recorded a provision of $125 as a preliminary estimate. This estimate is based upon the current status of the investigations and proceedings and Air Canada's assessment as to the potential outcome for certain of them. This provision does not address the proceedings in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings. Additional material provisions may be required.

12. CAPITAL MANAGEMENT

ACE is an investment holding company of various aviation interests which include, as at March 31, 2008, a controlling interest in Air Canada, and non-controlling interests in Aeroplan, Jazz, and ACTS. ACE manages its capital at the parent company level separately from the capital of its subsidiary, Air Canada. Each of the ACE and Air Canada Boards of Directors approves, the ACE or Air Canada objectives and policies for managing capital as the case may be. For purposes of disclosure of capital management, the Corporation has provided separate information about ACE and Air Canada. The ACE information is provided at the parent company level as if its investments were not consolidated and for Air Canada information is provided based on its consolidated financial statements.

ACE

ACE views capital as the sum of parent company debt consisting of convertible notes, convertible preferred shares, non-controlling interest and shareholders' equity. This definition of capital is used by management and may not be comparable to measures presented by other public companies. Capital managed by ACE, summarized from the consolidated statement of financial position, follows:

	March 31 2008	December 31 2007
Convertible senior notes*	$ 277	$ 273
Convertible preferred shares*	188	182
Non-controlling interest	692	757
Shareholders' equity*	1,687	3,217
Capital	**$ 2,844**	**$ 4,429**

** For accounting purposes, the convertible senior notes and convertible preferred shares are presented as compound instruments. The carrying values ascribed to the holders' conversion options within the senior notes and preferred shares, included in shareholders' equity as at March 31, 2008, amount to $90 ($90 as at December 31, 2007) and $117 ($117 as at December 31, 2007), respectively.*

ACE's business strategy, to surface shareholder value and to return capital to its shareholders, has influenced its capital management objectives.

Consistent with ACE's strategy to surface shareholder value, in Quarter 1 2008, ACE sold 13 million trust units of Jazz Air Income Fund for net proceeds of $97 and realized a gain on disposal of $89 ($71 after tax). As at March 31, 2008, ACE has retained ownership interests in Air Canada (75.0%), Aeroplan (20.1%), Jazz (9.5%) and ACTS (22.8%).

On April 21, 2008, ACE completed the sale of 20.4 million trust units of Aeroplan Income Fund for net proceeds of $343, retaining a 9.9% ownership interest, in Aeroplan Income Fund.

During Quarter 1 2008, ACE returned capital to its shareholders by way of a substantial issuer bid, wherein ACE completed the purchase and cancellation of 49.9 million common shares for an aggregate purchase price of $1,498.

As at March 31, 2008, ACE's capital amounted to $2,844, a decline of $1,585 during the quarter ($4,429 as at December 31, 2007) mainly due to the substantial issuer bid. Cash, cash equivalents and short-term investments amounted to $539 ($1,900 as at December 31, 2007).

AIR CANADA

Air Canada views capital as the sum of long-term debt, non-controlling interest, capitalized operating leases and shareholders' equity. Air Canada currently has predelivery financing arranged, and as the aircraft have not yet been delivered, this debt is excluded from the capital base. Air Canada includes capitalized operating leases, which is a measure commonly used in the industry ascribing a value to obligations under operating leases. The value is based on annualized aircraft rent expense multiplied by 7.5 as an estimate of the present value of operating lease obligations, which is a factor commonly used in the airline industry. The measure used may not necessarily reflect the fair value or net present value related to the future minimum lease payments as the measure is not based on the remaining contractual payments and the factor may not recognize discount rates implicit in the actual leases or current rates for similar obligations with similar terms and risks. This definition of capital is used by management and may not be comparable to measures presented by other public companies.

Air Canada also monitors its ratio of adjusted net debt to net debt plus shareholders' equity. Adjusted net debt is calculated as the sum of long-term debt, non-controlling interest and capitalized operating leases less cash, cash equivalents and short-term investments.

Air Canada's main objectives when managing capital are:

- to structure repayment obligations in line with the expected life of Air Canada's principal revenue generating assets;
- to ensure Air Canada has access to capital to fund Air Canada's fleet renewal and refurbishment program and to ensure adequate cash levels to withstand deteriorating economic conditions that may arise;
- to maintain an appropriate balance between debt supplied capital versus investor supplied capital as measured by the adjusted net debt to net debt plus equity ratio; and
- to maintain Air Canada's credit ratings to facilitate access to capital markets at competitive interest rates.

In order to maintain or adjust the capital structure, Air Canada may adjust the type of aircraft financing utilized, including purchase versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling current aircraft options, drawing upon the available revolving credit facility to meet liquidity requirements and issuing debt or equity securities, all subject to market conditions and the terms of the underlying third party agreements.

AIR CANADA

Air Canada's total capital as at March 31, 2008 and December 31, 2007 is calculated as follows:

	March 31 2008	December 31 2007
Long-term debt and capital lease obligations	$ 4,035	$ 4,006
Current portion of long-term debt and capital lease obligations	424	413
	4,459	4,419
Non-controlling interest	187	184
Capitalized operating leases	1,995	2,115
Less Predelivery financing included in long-term debt	(324)	(521)
Adjusted debt and non-controlling interest	6,317	6,197
Shareholders' equity	2,233	2,443
Total Capital	**$ 8,550**	**$ 8,640**
Adjusted debt and non-controlling interest	6,317	6,197
Less cash, cash equivalents and short-term investments	(1,394)	(1,239)
Adjusted net debt and non-controlling interest	**$ 4,923**	**$ 4,958**
Adjusted net debt to adjusted net debt plus shareholders' equity ratio	**68.8%**	**67.0%**

There was no significant change in the amount of total capital or the ratio of adjusted net debt to net debt plus shareholders' equity during the period. The deterioration from December 31, 2007 in the ratio is attributable, in part, to the net loss recorded during the first quarter, 2008.

13. JAZZ CAPACITY PURCHASE AGREEMENT

Air Canada and Jazz are parties to the Jazz CPA pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates, in addition to reimbursing Jazz, without mark-up, for certain pass-through costs as defined in the Jazz CPA which include fuel, airport and user fees and other. The fees include both a variable component that is dependent on Jazz aircraft utilization and a fixed component and are recorded in the applicable category within the operating expenses in the results of Air Canada. Refer to Note 22 – Related Party Transactions in the 2007 annual consolidated financial statements of the Corporation for further details regarding the Jazz CPA. Up until May 24, 2007, the results of Jazz are consolidated within ACE (Note 1).

The following table outlines CPA and pass-through costs for the period:

	Three Months Ended	
	March 31 2008	**March 31 2007**
Expenses from CPA with Jazz	$ 235	$ 230
Pass through fuel expense from Jazz	93	71
Pass through airport expense from Jazz	50	47
Pass through other expense from Jazz	15	13
Total Jazz CPA and pass through costs	**$ 393**	**$ 361**

14. SUBSEQUENT EVENTS

Disposal of Aeroplan Income Fund units

On April 21, 2008 ACE completed the sale of 20.4 million trust units of AIF at a price of $17.50 per unit representing total net proceeds to ACE of approximately $343. Immediately following the sale, ACE holds 9.9% of the issued and outstanding units of AIF.