ACE AVIATION

First Quarter 2009
Interim Unaudited
Consolidated Financial Statements and Notes

These interim unaudited consolidated financial statements, which are prepared on a going concern basis, replace ACE Aviation's Interim Unaudited Financial Statements filed on May 8, 2009. The Interim Unaudited Financial Statements filed on May 8, 2009 were prepared on a liquidation basis of presentation.

August 7, 2009

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2009	2008
Operating revenues			
Passenger		$ 2,011	$ 2,311
Cargo		80	124
Other		300	291
		2,391	2,726
Operating expenses			
Aircraft fuel		593	715
Wages, salaries and benefits		460	496
Airport and navigation fees		230	241
Capacity purchase with Jazz	Note 9	246	235
Aircraft maintenance		189	203
Depreciation and amortization	Note 2	157	169
Food, beverages and supplies		67	77
Communications and information technology		79	73
Aircraft rent		86	63
Commissions		49	53
Other		427	428
		2,583	2,753
Operating loss before under-noted item		**(192)**	**(27)**
Provision for cargo investigations		-	(125)
Operating loss		**(192)**	**(152)**
Non-operating income (expense)			
Interest income		8	25
Interest expense	Note 2	(108)	(96)
Interest capitalized		1	17
Gain on assets	Note 1	-	46
Loss on repurchase of ACE convertible senior notes and preferred shares	Note 2	(33)	-
Loss on financial instruments recorded at fair value	Note 6	(10)	(23)
Equity and other investment income		-	12
Other		(1)	(1)
		(143)	(20)
Loss before the following items		**(335)**	**(172)**
Non-controlling interest		96	64
Foreign exchange loss		(101)	(89)
Recovery of (provision for) income taxes	Note 7		
Current		3	-
Future		(7)	15
Loss for the period		**$ (344)**	**$ (182)**
Loss per share			
Basic and diluted		$ (9.87)	$ (2.96)

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

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		**March 31 2009**	**December 31 2008**
ASSETS			
Current			
Cash and cash equivalents		$ 977	$ 1,307
Short-term investments		487	506
		1,464	1,813
Restricted cash		30	45
Accounts receivable		714	700
Aircraft fuel inventory		53	97
Spare parts and supplies	Note 2	95	20
Collateral deposits for fuel derivatives	Note 6	181	328
Prepaid expenses and other current assets		187	206
		2,724	3,209
Property and equipment	Note 2	7,394	7,469
Intangible assets		698	698
Deposits and other assets		507	495
		$ 11,323	**$ 11,871**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,423	$ 1,288
Fuel derivatives	Note 6	212	420
Advance ticket sales		1,507	1,333
Current portion of long-term debt and capital leases		617	663
		3,759	3,704
Long-term debt and capital leases		4,947	4,980
Convertible preferred shares		54	206
Future income taxes		50	50
Pension and other benefit liabilities		1,474	1,585
Other long-term liabilities		377	370
		10,661	10,895
Non-controlling interest		414	512
SHAREHOLDERS' EQUITY			
Share capital and other equity		148	307
Contributed surplus		322	163
Retained earnings		256	600
Accumulated other comprehensive loss		(478)	(606)
		248	464
		$ 11,323	**$ 11,871**

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

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2009	Year Ended December 31 2008	Three Months Ended March 31 2008
Share capital				
Common shares, beginning of period		$ 100	$ 243	$ 243
Repurchase and cancellation of common shares		-	(180)	(115)
Issue of shares through stock options exercised		-	37	1
Total share capital		100	100	129
Other equity				
Convertible senior notes	Note 2	18	90	90
Convertible preferred shares	Note 2	30	117	117
Total share capital and other equity		148	307	336
Contributed surplus				
Balance, beginning of period		163	504	504
Repurchase and cancellation of common shares		-	(329)	(228)
Repurchase and cancellation of ACE convertible senior notes and preferred shares	Note 2	159	-	-
Fair value of stock options recognized as compensation (recovery) expense		-	(5)	1
Fair value of exercised stock options to share capital		-	(7)	-
Total contributed surplus		322	163	277
Retained earnings				
Balance, beginning of period		600	2,209	2,209
Repurchase and cancellation of common shares		-	(1,489)	(1,155)
		600	720	1,054
Loss for the period		(344)	(120)	(182)
Total retained earnings		256	600	872
Accumulated other comprehensive income (loss)				
Balance, beginning of period		(606)	54	54
Other comprehensive income (loss)		128	(660)	148
Total accumulated other comprehensive income (loss)		(478)	(606)	202
Total shareholders' equity		**$ 248**	**$ 464**	**$ 1,687**

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

Consolidated Statement of Comprehensive Loss

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2009	Three Months Ended March 31 2008
Comprehensive loss			
Loss for the period		$ (344)	$ (182)
Other comprehensive income (loss), net of taxes:			
Net change in unrealized gain on Jazz Air Income Fund (2008 - net of taxes of ($15))		-	71
Net gains (losses) on fuel derivatives under hedge accounting (net of taxes of nil, 2008 - ($46))	Note 6	(1)	100
Reclassification of net realized losses (gains) on fuel derivatives to income (net of taxes of $2, 2008 - $11)	Note 6	129	(23)
		128	148
Total comprehensive loss		**$ (216)**	**$ (34)**

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

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2009		Three Months Ended March 31 2008	
Cash flows from (used for)					
Operating					
Loss for the period		$	(344)	$	(182)
Adjustments to reconcile to net cash from operations					
Depreciation and amortization			157		169
Gain on assets			-		(46)
Loss on repurchase of ACE convertible senior notes and preferred shares	Note 2		33		-
Foreign exchange loss			143		65
Future income taxes			7		(15)
Excess of employee future benefit funding over expense			(103)		(51)
Provision for cargo investigations	Note 1D		-		125
Non-controlling interest			(96)		(68)
Fuel and other derivatives	Note 6		(82)		19
Fuel hedge collateral deposits, net	Note 6		147		-
Equity investment income			-		(10)
Other			13		(22)
Changes in non-cash working capital balances			281		245
			156		**229**
Financing					
Issue of common shares			-		1
Repurchase and cancellation of common shares			-		(1,498)
Borrowings	Note 2		267		187
Repurchase of ACE convertible senior notes	Note 2		(233)		-
Repurchase of ACE preferred shares	Note 2		(186)		-
Reduction of other long-term debt and capital lease obligations			(423)		(323)
			(575)		**(1,633)**
Investing					
Short-term investments			19		161
Proceeds from sale of Jazz units			-		97
Proceeds from escrow related to sale of ACTS			-		40
Proceeds from sale of other assets	Note 2		-		27
Proceeds from sale lease-back transactions	Note 2		172		411
Additions to capital assets			(107)		(403)
Other			5		25
			89		**358**
Increase in cash and cash equivalents			**(330)**		**(1,046)**
Cash and cash equivalents, beginning of period			1,307		2,300
Cash and cash equivalents, end of period		**$**	**977**	**$**	**1,254**
Cash payments of interest		$	94	$	73
Cash payments (recoveries) of income taxes		$	(2)	$	2

Cash and cash equivalents exclude Short-term investments of $487 as at March 31, 2009 (as at March 31, 2008 - $679).

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

Notes to the Interim Consolidated Financial Statements (unaudited)
(currencies in millions – Canadian dollars)

1. BASIS OF PRESENTATION, CHANGES IN ACCOUNTING POLICIES, AND LIQUIDITY RISK

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is a holding company of aviation interests. Reference to the "Corporation" in the following notes to the 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.

As at March 31, 2009, ACE holds:

- a 75.0% direct ownership interest in Air Canada; and
- a 27.8% direct interest in Aero Technical Support & Services Holdings sarl ("ACTS Aero"), which owns 100% of Aveos Fleet Performance Inc. ACTS Aero Technical Support and Services Inc. changed its legal name to Aveos Fleet Performance Inc. ("Aveos") on September 23, 2008.

A) BASIS OF PRESENTATION

On July 29, 2009, ACE announced that its participation in the Air Canada credit facility of up to $700, announced on the same day by Air Canada, amounts to $150. Given ACE's participation in the facility, it is not management's intention to liquidate at this time.

Therefore, these financial statements have been prepared on a going concern basis of presentation and replace the previously issued financial statements for the period ended March 31, 2009 prepared on a liquidation basis. Under a going concern basis of presentation, Air Canada is consolidated within ACE's financial statements under accounting policies applicable to a going concern which previously existed. The going concern basis of presentation assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2008 annual consolidated financial statements of the Corporation, with the exception of the changes in accounting policies described below in part B) Changes in Accounting Policies.

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 2008 annual consolidated financial statements of the Corporation. 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.

Air Canada 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.

B) CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009 the Corporation adopted the new Canadian Institute of Charted Accountants ("CICA") accounting standard 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 Corporation does not have acquired goodwill reported on its balance sheet. The Corporation's accounting policy for intangible assets is consistent with the new standard and as a result, no adjustment was recorded on transition.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Corporation adopted the recommendations of the Emerging Issues Committee ("EIC") of the CICA relating to Abstract EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This Abstract confirms that an entity's own credit risk and the credit risk of the counterparty should be taken into consideration in determining the fair value of financial assets and liabilities, including derivative instruments. The adoption of this guidance had no significant effect on the Corporation's consolidated financial statements as collateral deposits with fuel derivative counterparties and master netting arrangements were considered in determining that no credit risk adjustment was required on the valuation of the derivatives.

The following is an overview of accounting standard changes that the Corporation will be required to adopt in future years:

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

The CICA issued three new accounting standards in January 2009: section 1582, *Business Combinations*, section 1601, *Consolidated Financial Statements*, and section 1602, *Non-controlling interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace section 1600 – *Consolidated Financial Statements.* Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - *Consolidated and Separate Financial Statements* and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

C) SIGNIFICANT EVENTS

Air Canada has entered into the following transactions in 2009, in an effort to mitigate Air Canada's liquidity risks as described in D below and in Note 1D to the 2008 annual consolidated financial statements of the Corporation:

During July 2009

- A secured term credit facility (the "Credit Facility") for financing proceeds of $600, less fees of approximately $20. ACE's participation in the Air Canada Credit Facility amounted to $150. The Credit Facility is a five-year facility with the first principal repayment due in August 2010, and currently bears interest at 12.75%. The Credit Facility also provides for warrants entitling the debt holders to acquire up to 5% of the shares in the Corporation or up to 10% if certain conditions are not met. Refer to Note 10 for a detailed description of the Credit Facility. As part of the transactions related to the closing of the Credit Facility, existing financing arrangements of $166 were repaid as follows:
    - The revolving credit facility, as further described in Note 9 (j) of the 2008 annual consolidated financial statements of the Corporation, was repaid in the amount of $49. The rights of the lender under this facility were assigned to the lenders under the Credit Facility;
    - The spare engine financing agreement, as further described in Note 2, was partially repaid in the amount of $38. This represented the repayment related to 22 engines under the spare engine financing agreement, with 10 engines remaining under the agreement with a loan value of $81 as at July 31, 2009;

- o The Aeroplan Canada Inc. ("Aeroplan") loan, as further described below, was repaid in the amount of $79. Aeroplan is a participating lender under the Credit Facility.

- Extended or renewed labour agreements for 21 months with all of Air Canada's Canadian-based unions became effective. The agreements provide for no increases to wage rates, no changes to group insurance coverage or benefits, or pension benefit levels during the contract extension periods;

- Pension funding agreements with all of Air Canada's Canadian-based unions (the "Pension MOUs") and the adoption of the *Air Canada Pension Funding Regulations, 2009* (the "Air Canada 2009 Pension Regulations"). The Air Canada 2009 Pension Regulations relieve Air Canada from making any special (past service cost) payments for the period beginning April 1, 2009 and ending December 31, 2010. Thereafter, in respect of the period from January 1, 2011 to December 31, 2013, the aggregate annual past service contributions shall equal the lesser of (i) $150, $175, and $225 in respect of 2011, 2012, and 2013, respectively and (ii) the maximum past service contributions permitted under the Income Tax Act. The Pension MOUs also provide for Air Canada to issue a fully diluted 15% equity ownership of Air Canada, established as of the date of the Pension MOUs, to a trust with all net proceeds of the eventual sale of the shares held by the trust to be contributed to the pension plans;

  As a result of the above, ACE's 75.0% direct ownership interest in Air Canada will be diluted.

- An agreement with a supplier for non-refundable proceeds of approximately $220 in consideration of various contractual commitments;

- Amendments to credit card processing agreements (initiated in the second quarter and completed in July 2009) with one of its principal credit card processors to revise the levels of unrestricted cash required to be maintained as described further below;

- An extension to a short-term loan of $82 (US$75) entered into in 2008, which was originally due in 2009, to 2013. This loan is described in Note 9 (l) of the 2008 annual consolidated financial statements of the Corporation, except for the amendment to extend the repayment to 2013;

- A memorandum of understanding (the "GECAS MOU") with GE Capital Aviation Services for the sale and leaseback of three Boeing 777 aircraft, which is expected to close prior to September 30, 2009, subject to completion of final documents and third party consents, and to provide net cash proceeds of approximately $122; and;

- A memorandum of understanding for amended terms related to the capacity purchase agreement with Jazz Air LP ("Jazz"), effective August 1, 2009 subject to formal documentation, which would provide for a reduction to rates paid under the agreement.

During the second quarter of 2009

- A secured loan with Aeroplan for net proceeds of $79. This loan, as described above, was terminated in July 2009 pursuant to the transactions relating to the Credit Facility; and;

- Net return of collateral deposits on fuel derivatives in the amount of $72 partially offset by the settlement of fuel derivative contracts in favour of counterparties in the amount of $17.

During the first quarter of 2009

- Financing arrangements secured by spare parts, spare engines and a Boeing 777 aircraft for aggregate proceeds of $267, net of fees of $5. The spare engine financing was partially repaid in July 2009, as described above;

- Sale leaseback of a Boeing 777 aircraft for aggregate proceeds of $172 and the required repayment of a debt obligation related to the aircraft of $128, which included a prepayment fee of $14;

- Inventory financing arrangement under which Air Canada acquired certain spare parts inventories expected to be consumed over the next 12 months for a cash payment of $12 and final payment of $115 in 2010, based on the foreign exchange rate as at March 31, 2009;

- Repayment of pre-delivery financing of $83 on the Boeing 777 aircraft received during the first quarter; and;
- Net return of collateral deposits on fuel derivatives in the amount of $147 offset by the settlement of fuel derivative contracts in favour of counterparties in the amount of $217.

Taking into account the above transactions (excluding the GECAS MOU), at July 31, 2009, Air Canada had Cash and cash equivalents and Short-term investments of $1,320 ($1,005 as at December 31, 2008 and $1,087 as at March 31, 2009 and $907 as at June 30, 2009).

D) AIR CANADA LIQUIDITY RISK

Liquidity risk is the risk that Air Canada will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts, monitoring the condition and value of assets available to be used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. Air Canada's principal objective in managing liquidity risk is to maintain a minimum unrestricted cash balance in excess of a target liquidity level of 15% of annual operating revenues. As at July 31, Cash and cash equivalents and Short-term investments were 13% of 2008 annual operating revenues.

Air Canada management believes that the significant events as described above improve Air Canada's current liquidity position however certain risks remain related to the current economic environment, including risks related to market volatility in the price of fuel, foreign exchange and interest rates as well as increased competitive pressures and restrictive terms under Air Canada's financing and other arrangements. During the first half of 2009, demand for Air Canada's air travel and cargo services continued to weaken in both domestic and international markets. Air Canada expects demand to continue to be a challenge for the remainder of the year. The H1N1 influenza virus may also continue to impact demand for air travel. Air Canada is monitoring the H1N1 influenza virus risk, however it is unable to predict if the impact on its operations will be significant. While Air Canada has raised financing proceeds, as described above, and it does not intend on raising further financing of any significance over the course of the next year, the credit markets continue to be constrained. In addition, given the terms and undertakings in the currently outstanding financing arrangements, Air Canada has limited assets which would be available to support additional financings or similar transactions, if required. These factors have had and may continue to have an impact on the liquidity risk of Air Canada.

To date in 2009 including the significant events as described above, Air Canada management continued to undertake various initiatives and develop plans to manage its operating and liquidity risks, taking into account the prevailing economic conditions, including the financing arrangements described above, cost containment initiatives and capacity adjustments with the objective of matching capacity to passenger demand. However, the nature of Air Canada's cost structure is such that fixed costs may not fluctuate proportionately with changes in capacity in the short term.

Pension Funding Obligations

Air Canada maintains several defined benefit pension plans as described in Note 11 to the 2008 annual consolidated financial statements of the Corporation. Air Canada has reported that the solvency deficit as at January 1, 2009 in the registered pension plans, which is used to determine funding requirements, is $2,835.

As described above, in July 2009 the Federal Government of Canada adopted the Air Canada 2009 Pension Regulations. The Air Canada 2009 Pension Regulations relieve Air Canada from making any special (past service cost) payments in respect of the period beginning April 1, 2009 and ending December 31, 2010. Thereafter, in respect of the period from January 1, 2011 to December 31, 2013, the aggregate annual past service contribution shall equal the lesser of (i) $150, $175, and $225 in respect of 2011, 2012, and 2013, respectively and (ii) the maximum past service contribution permitted under the Income Tax Act.

The Air Canada 2009 Pension Regulations were adopted in coordination with pension funding agreements reached with Air Canada's Canadian-based unions (the "Pension MOUs") and a consultation process with its retirees and non-unionized workforce. The Pension MOUs also provide for Air Canada to issue a fully diluted 15 per cent equity ownership of Air Canada to a trust with all net proceeds of sale to be contributed to the pension plans. A seat on the Board of Directors of Air Canada will be allocated for designation by a trustee representing Air Canada's unions while ownership exceeds 2%. Current service payments will continue to be made in the normal course and there will be no change to the defined benefit plans nor a reduction in benefits while these regulations are in effect.

Based upon the effect of the Air Canada 2009 Pension Regulations, pension funding payments during 2009 will be approximately $407, a decrease of $49 versus 2008.

Covenants in Credit Card Agreements

Air Canada has various agreements for the processing of customer credit card transactions. During the second quarter of 2009 and further amended in July 2009, Air Canada entered into amendments with one of its principal credit card processors to amend certain credit card processing agreements under which the levels of unrestricted cash (as defined per the agreement and generally based on the balances as reported in Cash and cash equivalents and Short-term investments) required to be maintained by Air Canada is reduced to $800 (versus $1,300 prior to the amendments) and Air Canada provides the processor with deposits, to be accumulated over time, and security. The triggering event based on a debt service coverage ratio is no longer applicable under the amended agreement. Should Air Canada maintain unrestricted cash of more than $1,200 for two consecutive months, the unrestricted cash requirement increases to $1,100 at which time the processor will return to Air Canada all deposits and security previously provided by Air Canada. As long as unrestricted cash remains at or above $1,100, Air Canada will have no obligation to provide deposits or security to the processor. Pursuant to the amendments entered into in July 2009, should Air Canada's unrestricted cash be less than $1,100, its obligation to provide deposits to the processor would be capped at an amount not in excess of $75, provided unrestricted cash is not less than $800. As at June 30, 2009 a deposit in the amount of $27 had accumulated under these processing agreements, which has further increased to the above-referenced cap of $75 as at July 31, 2009. Deposits under these processing agreements are reported in Prepaid expenses and other current assets.

Cargo Investigations and Proceedings

Air Canada is exposed to potential liabilities related to the proceedings and investigations of alleged anti-competitive cargo pricing activities, as described in Note 20 to the 2008 annual consolidated financial statements of the Corporation. This preliminary estimate recorded by Air Canada during 2008 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. Air Canada 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. Amounts could become payable within the year and may be materially different than management's preliminary estimate.

E) DISPOSITION OF AVIATION INTERESTS

Gain (loss) on assets realized during the three months ended March 31, 2008 as a result of disposition by way of sale of Jazz Air Income Fund units and impairment of investments and assets were as follows:

		Three Months Ended March 31	
		2009	**2008**
Sale of 13 million Jazz Air Income Fund units		$ -	$ 89
Boeing 767 impairment provision	Note 2	-	(38)
Other		-	(5)
Gain on assets		**$ -**	**$ 46**

2. FINANCING AND INVESTING ACTIVITIES

ACE Convertible Senior Notes and Convertible Preferred Shares

In January, 2009, the Corporation completed a substantial issuer bid to purchase for cancellation 80% of its convertible senior notes outstanding as at December 31, 2008, at a purchase price of $900 dollars in cash for each $1,000 dollars principal amount of notes. The aggregate principal amount of the repurchased Convertible senior notes was $259. On January 21, 2009, the Corporation paid an aggregate purchase price of $233 for the notes tendered.

In January 2009 and March 2009, the Corporation completed two substantial issuer bids to purchase for cancellation 9.3 million of its convertible preferred shares at a purchase price of $20 dollars per preferred share. In Quarter 1 2009, the Corporation paid an aggregate purchase price of $186 for the shares tendered.

A Loss on repurchase of the convertible senior notes and preferred shares has been recorded within Non-operating expense in the amount of $33. The repurchase prices of these instruments, allocated to the liability components of these compound instruments, exceeded the respective carrying values resulting in a loss of $33 being recorded. The residual equity components of the instruments amounting to $159 have been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity.

AIR CANADA FINANCING

Revolving Credit Facility

As at March 31, 2009, Air Canada had $47 outstanding under the revolving credit facility (December 31, 2008 - $50) drawn at a rate of prime plus 13.00% (March 31, 2009 – 15.50%), which is further described in Note 9 of the 2008 annual consolidated financial statements of the Corporation.

As discussed in Note 1C, as a result of receiving the Credit Facility the revolving credit facility was repaid in full subsequent to June 30, 2009.

Spare Parts Financing

During the first quarter of 2009, Air Canada received an additional $92 (US$75) principal under the original secured spare parts financing agreement, which is further described in Note 9 (g) of the 2008 annual consolidated financial statements of the Corporation. This financing bears interest at a rate of three month LIBOR plus the lenders incremental cost of funds rate and a margin of 3.00% (March 31, 2009 - 6.62%) and matures in 2014. The balance of the loan at March 31, 2009 of $189 is secured by spare parts and other assets with a carrying value of $296. Financing fees totaling $6 were recorded for these borrowings.

The following table summarizes the principal and interest repayment requirements (in CDN$), based upon the foreign exchange rate and interest rate as at March 31, 2009:

	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Spare parts financing							
Principal	$ 14	$ 19	$ 19	$ 19	$ 19	$ 5	$ 95
Interest	5	5	3	2	1	-	16
	$ 19	**$ 24**	**$ 22**	**$ 21**	**$ 20**	**$ 5**	**$ 111**

Spare Engine Financing

During the first quarter of 2009, Air Canada obtained an additional $46 (US$37) principal and included an additional 22 engines under the original secured financing agreement, which is further described in Note 9 (f) of the 2008 annual consolidated financial statements of the Corporation. This financing bears interest at a rate of three month LIBOR plus 3.40% (March 31, 2009 – 4.63%) and matures in 2013. The balance of the loan at March 31, 2009 of $139 is secured by 32 engines with a carrying value of $163. Financing fees totaling $2 were recorded for these borrowings.

As discussed in Note 1C, as a result of receiving the Credit Facility the spare engine financing was partially repaid in the amount of $38. There are now 10 engines remaining in the agreement with a loan value of $81 as at July 31, 2009.

The following table summarizes the principal and interest repayment requirements (in CDN$), based upon the foreign exchange rate and interest rate as at March 31, 2009:

	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Spare engine financing							
Principal	$ 3	$ 5	$ 5	$ 5	$ 27	$ -	$ 45
Interest	2	2	2	1	1	-	8
	$ 5	**$ 7**	**$ 7**	**$ 6**	**$ 28**	**$ -**	**$ 53**

Pre-delivery Financing

During the first quarter of 2009, as a result of the delivery of a Boeing 777 aircraft, Air Canada made repayments of $83 (US$66) on the pre-delivery financing as described in Note 9 to the 2008 annual consolidated financial statements of the Corporation. This was the final repayment on the pre-delivery financing.

Boeing Aircraft

During the first quarter of 2009, Air Canada took delivery of a Boeing 777 aircraft. The aircraft was financed with guarantee support from the Export-Import Bank of the United States ("EXIM"). The principal of $136 (US$109) bears interest at a rate of three month LIBOR (March 31, 2009 – 1.24%) and matures in 2021. The loan is secured by the delivered aircraft with a carrying value of $142. Financing fees of $4 were recorded for this borrowing.

The following table summarizes the principal and interest repayment requirements (in CDN$), based upon the foreign exchange rate and interest rate as at March 31, 2009:

	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Boeing 777 financing							
Principal	$ 9	$ 11	$ 11	$ 12	$ 12	$ 83	$ 138
Interest	1	2	1	1	1	4	10
	$ 10	**$ 13**	**$ 12**	**$ 13**	**$ 13**	**$ 87**	**$ 148**

Sale Lease-back

During the first quarter of 2009, Air Canada entered into a sale lease-back transaction for a Boeing 777 aircraft, which was originally delivered in 2007 and debt financed. The proceeds from the transaction of $172 were used to repay the outstanding loan of $114. The Corporation recorded a charge of $17 in interest expense for this transaction including a prepayment fee of $14 and $3 for the write off of deferred financing charges. The gain on sale of the aircraft of $26 has been deferred and will be recognized in Depreciation and amortization over the term of the lease. The lease is accounted for as a capital lease with a 12 year term, with monthly lease payments.

Spare Parts Inventory

During the first quarter of 2009, Air Canada purchased $103 of spare parts inventory. Consideration for the purchase was in the form of the issuance of bills of exchange due in February 2010. The bills of exchange, which are recorded in Accounts payable and accrued liabilities as an other financial liability at amortized cost, are non-interest bearing and were initially recorded at estimated fair value based upon market rates of interest. Subsequent to this transaction, Air Canada repurchased two bills of exchange with a book value of $21 (US$17) recognizing a decrease to the carrying value of the related inventory of $8 (US$6).

Disposals of and Provisions for Assets

There were no significant disposals or provisions during the first quarter of 2009.

During the first quarter of 2008:

- Air Canada recorded an impairment charge of $38 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.

Refer to Note 10 for a description of subsequent events.

3. PENSION AND OTHER BENEFITS

Pension and Other Benefit Expense

Air Canada maintains several defined benefit and defined contribution plans providing pension, other postretirement 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			
	2009		**2008**	
Pension benefit expense	$	3	$	17
Other employee future benefits expense		20		26
		23		**43**
Amount charged to Aveos and Aeroplan		(7)		(9)
Net pension benefit and other employee future benefits expense	**$**	**16**	**$**	**34**

4. LABOUR RELATED PROVISIONS

Air Canada offers certain severance programs to certain employees from time to time. The cost of these programs is recorded within Operating expenses.

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities:

	Three Months Ended March 31	
	2009	**2008**
Beginning of period	$ 54	$ 66
Interest accretion	1	1
Charges recorded in wages, salaries, and benefits	11	-
Amounts disbursed	(5)	(9)
End of period	61	58
Current portion in Accounts payable and accrued liabilities	(27)	(26)
	$ 34	**$ 32**

5. SHARE INFORMATION

The issued and outstanding common shares of ACE as at March 31, 2009, along with potential common shares, are as follows:

Outstanding shares (000)	**March 31 2009**	**December 31 2008**
Issued and outstanding		
Class A variable voting shares	25,332	25,614
Class B voting shares	9,575	9,293
Total issued and outstanding	**34,907**	**34,907**
Potential common shares		
Convertible preferred shares (1)	3,074	11,863
Convertible senior notes (2)	2,600	13,133
Stock options (3)	58	61
Total potential common shares	**5,732**	**25,057**

(1) Refer to Note 2 for details relating to the January 2009 and March 2009 substantial issuer bids resulting in the purchase for cancellation of 74% or 9.3 million of the 12.5 million Convertible preferred shares outstanding as at December 31, 2008.

(2) Refer to Note 2 for details relating to the January 2009 substantial issuer bid resulting in the purchase for cancellation of 80% of the Convertible senior notes outstanding as at December 31, 2008. The aggregate principal amount of the repurchased Convertible senior notes was $259.

(3) The Corporation's stock option plan is described in Note 13 to the 2008 annual financial statements. At March 31, 2009, a total of 58,063 stock options with a weighted exercise of $14.28 were outstanding (61,230 stock options with a weighted exercise of $14.11 outstanding as at December 31, 2008). The decrease of 3,167 stock options since December 31, 2008 is due to forfeitures experienced in Quarter 1 2009.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Jazz

On January 24, 2008 ACE sold a total of 13 million trust units of Jazz Air Income Fund ("JAIF") at a price of $7.45 per unit representing total net proceeds to ACE of $97 and realized a gain on sale of $89 ($71 net of taxes). Following the sale, ACE held 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 had significant influence over Jazz. The equity investment ACE had in Jazz was classified as available-for-sale and unrealized period changes in fair value were recorded in OCI. The adjustment to fair value recorded in OCI amounted to $71, net of tax of ($15) during Quarter 1, 2008.

Summary of Losses on Financial Instruments Recorded at Fair Value

	Three Months Ended March 31			
	2009		2008	
Ineffective portion of fuel hedges	$	-	$	(38)
Fuel derivatives not under hedge accounting		(9)		6
Cross currency interest rate swaps		-		6
Other		(1)		3
Loss on financial instruments recorded at fair value (1)	**$**	**(10)**	**$**	**(23)**

(1) See Fuel Price Risk for a discussion of losses on fuel derivatives recorded in Other comprehensive income ("OCI").

Risk Management

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations.

Refer to Note 1 above and Note 1D of the 2008 annual consolidated financial statements for a further discussion on liquidity risk.

Fuel Price Risk

In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada enters into derivative contracts with financial intermediaries. Air Canada uses derivative contracts on jet fuel and other crude oil-based commodities, heating oil and crude oil. Heating oil and crude oil commodities are used due to the relative limited liquidity of jet fuel derivative instruments on a medium to long-term horizon since jet fuel is not traded on an organized futures exchange. Air Canada does not purchase or hold any derivative financial instrument for speculative purposes. Air Canada designates certain of its fuel derivatives as cash flow hedges and applies hedge accounting as prescribed under CICA section 3865, Hedges. There were no derivative contracts entered into during the first quarter of 2009.

The types of derivative instruments used by Air Canada within its hedging program, such as swaps and the put options within collar structures, expose Air Canada to the potential to have to make collateral deposits. When fuel prices decrease causing Air Canada's derivative position to be in a liability position below the set credit thresholds with counterparties, Air Canada is responsible for extending collateral to the counterparties. As at March 31, 2009 Air Canada had extended $181 of collateral to counterparties (December 31, 2008 – $328).

As of March 31, 2009, approximately 31% of Air Canada's anticipated purchases of jet fuel for the remainder of 2009 are hedged at an average West Texas Intermediate ("WTI")-equivalent capped price of US$104 per barrel, of which 46% is subject to an average WTI-equivalent floor price of US$82 per barrel. Air Canada has also hedged approximately 13% of its 2010 anticipated jet fuel purchases in crude oil-based contracts hedged at an average capped price of US$110 per barrel, of which 87% is subject to an average floor price of US$101 per barrel.

The following table outlines the notional volumes per barrel along with the weighted average floor and capped price for each year currently hedged by type of derivative instruments. These average contract prices represent the equivalent price in WTI using the forward prices for WTI, heating oil, and jet fuel as at March 31, 2009.

Derivative Instruments	Term	Volume (BBLs)	WTI-equivalent Average Floor Price (US$/bbl)	WTI-equivalent Average Capped Price (US$/bbl)
Call options (a)	2009	2,830,000	n/a	$ 116
	2010	400,000	n/a	$ 134
Swaps (a)	2009	855,000	$ 99	$ 99
	2010	1,070,000	$ 99	$ 99
Collars (a)	2009	1,600,000	$ 73	$ 84
	2010	1,560,000	$ 102	$ 112
Put options (b)	2009	600,000	$ 40	n/a

(a) Air Canada is expected to generate fuel hedging gains if oil prices increase above the average capped price and is exposed to fuel hedging losses if prices decrease below the average floor price.

(b) The significant decrease in oil price during the last quarter of 2008 led Air Canada to purchase crude-oil put options in 2008. Air Canada is expected to generate fuel hedging gains if oil prices decrease below the average floor price. Their objective is to protect against potential additional collateral requirements caused from further price decreases. The fair value of these derivative instruments increases as crude oil price decreases, therefore offsetting in part the exposure on the total portfolio and limiting the collateral requirements.

The following information summarizes the financial statement impact of fuel derivatives:

		Three Months Ended March 31 2009	2008
Consolidated Statement of Operations			
Operating expenses			
Aircraft fuel	Realized effective gain (loss) derivatives designated under hedge accounting	$ (127)	$ 34
Non-operating income (expense)			
Gain (loss) on financial instruments recorded at fair value	Ineffective gain (loss) derivatives designated under hedge accounting	$ -	$ (38)
	Fair market value gain (loss) economic hedges	$ (9)	$ 6
Consolidated Statement of Comprehensive Loss			
	Effective gain (loss) derivatives designated under hedge accounting	$ (1)	$ 146
	Tax expense on effective gain	$ -	$ (46)
	Reclassification of net realized (gain) loss on fuel derivatives designated under hedge accounting to Aircraft fuel expense	$ 127	$ (34)
	Tax on reclassification	$ 2	$ 11

		March 31 2009	December 31 2008
Consolidated Statement of Financial Position			
Current assets	Collateral deposits for fuel derivatives	$ 181	$ 328
Current liabilities*	Fair market value of fuel derivatives designated under hedge accounting	$ 1	$ (405)
	Fair market value of fuel derivatives economic hedges	$ (213)	$ (15)
Shareholders' equity (AOCI)	Net loss from fuel derivatives designated under hedge accounting	$ (478)	$ (606)

* The balance is reflected within Current liabilities on the Consolidated Statement of Financial Position due to the counterparty's ability to terminate the derivatives at fair value at any time prior to maturity.

The Fuel and other derivatives line on the Consolidated Statement of Cash Flow includes adjustments for non-cash items impacting fuel expense as well as adjustments for cash items not affecting net income during the period arising because of timing differences.

During the first quarter of 2009, fuel derivative contracts cash settled with a fair value of $45 in favour of the counterparties ($39 in favour of Air Canada in the first quarter of 2008). Of the $45, $1 relates to derivatives designated under hedge accounting and $44 for economic hedges (first quarter of 2008 - $32 and $7, respectively).

During the first quarter of 2009 hedge accounting was discontinued for certain fuel hedge contracts, where the hedging relationship ceased to satisfy the conditions for 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 Accumulated other comprehensive loss ("AOCI") balance recognized in connection with these derivatives will be reclassified to fuel expense upon the maturity of the contracts.

During the first quarter of 2009, Air Canada modified its fuel hedge portfolio with the termination of swap and put option contracts for $172, in favour of the counterparties (first quarter of 2008 – nil). The collateral held by the counterparties covered the majority of the settlement amount therefore minimal additional cash outflows resulted. Certain of these contracts were previously designated under hedge accounting. The value of the AOCI balance recognized in connection with these derivatives while designated under hedge accounting will be taken into fuel expense in the period where the derivative was scheduled to mature.

The estimated net amount of existing losses reported in AOCI that are expected to be reclassified to net income (loss) during the following 12 months is $350 before tax.

7. INCOME TAXES

Components of the provision for income taxes in the Corporation's consolidated statement of operations are as follows:

	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Recovery of (provision for) income taxes before under noted items	$ 4	$ 48
Repurchase of ACE convertible senior notes	(8)	-
Disposal of Jazz units	-	(18)
Valuation allowance on tax assets of ACE	-	(15)
Recovery of (provision for) income taxes	**$ (4)**	**$ 15**

Refer to Note 6 for future income taxes recorded in other comprehensive income related to fuel derivatives designated under hedge accounting.

8. SEGMENT INFORMATION

Composition of Business Segments

ACE has two reportable segments: Air Canada and Corporate Items and Eliminations ("CIE").

CIE includes the corporate, financing and investing activities of ACE. ACE's investments in Aeroplan, Jazz and ACTS were changed in 2007 from the consolidation to equity method of accounting reported under the CIE segment. As of May 9, 2008 and February 7, 2008, ACE no longer equity accounts for Aeroplan and Jazz, respectively, but distributions from Aeroplan and Jazz are recorded in the CIE segment. Since June 2, 2008, subsequent to the sale of all remaining AIF and JAIF units, ACE has no ownership interest in Aeroplan or Jazz. Future income taxes are recorded within the applicable taxable entities and are not allocated to non-taxable entities.

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					
	Air Canada	CIE	2009 Total ACE	Air Canada	CIE	2008 Total ACE
Passenger revenue	$ 2,011	$ -	$ 2,011	$ 2,311	$ -	$ 2,311
Cargo revenue	80	-	80	124	-	124
Other revenue	300	-	300	291	-	291
External revenue	2,391	-	2,391	2,726	-	2,726
Inter-segment revenue	-	-	-	1	(1)	-
Total revenues	**2,391**	**-**	**2,391**	**2,727**	**(1)**	**2,726**
Aircraft fuel	593	-	593	715	-	715
Wages, salaries and benefits	458	2	460	481	15	496
Airport and navigation fees	230	-	230	241	-	241
Capacity purchase with Jazz	246	-	246	235	-	235
Aircraft maintenance	189	-	189	203	-	203
Depreciation and amortization	159	(2)	157	171	(2)	169
Food, beverages and supplies	67	-	67	77	-	77
Communications and information technology	79	-	79	73	-	73
Aircraft rent	86	-	86	63	-	63
Commissions	49	-	49	53	-	53
Other	423	4	427	427	1	428
Total operating expenses	**2,579**	**4**	**2,583**	**2,739**	**14**	**2,753**
Operating loss before under noted item	**(188)**	**(4)**	**(192)**	**(12)**	**(15)**	**(27)**
Provision for cargo investigation	-	-	-	(125)	-	(125)
Operating loss	**(188)**	**(4)**	**(192)**	**(137)**	**(15)**	**(152)**
Interest income	6	2	8	18	7	25
Interest expense	(105)	(3)	(108)	(81)	(15)	(96)
Interest capitalized	1	-	1	17	-	17
Gain (loss) on assets	-	-	-	(36)	82	46
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(33)	(33)	-	-	-
Loss on financial instruments recorded at fair value	(10)	-	(10)	(23)	-	(23)
Equity and other investment income *	-	-	-	-	12	12
Other non-operating income (expense)	(1)	-	(1)	(2)	1	(1)
Non-controlling interest	(4)	100	96	(3)	67	64
Foreign exchange loss	(101)	-	(101)	(89)	-	(89)
Recovery of (provision for) income taxes	2	(6)	(4)	48	(33)	15
Segment income (loss)	**$ (400)**	**$ 56**	**$ (344)**	**$ (288)**	**$ 106**	**$ (182)**

** Aeroplan and Jazz equity investment income is recorded up to May 9, 2008 and February 7, 2008 respectively. Subsequent to these effective dates, distribution income from Aeroplan and Jazz is recorded within CIE until June 2, 2008. Equity income of nil relating to ACE's equity investments is included in Equity and other investment income (loss) ($10 for the period ended March 31, 2008).*

Included within Depreciation and amortization is depreciation of property and equipment for Quarter 1 2009 of $144 (2008 - $159) related to the Air Canada segment.

Geographic Information

A reconciliation of the total amounts reported for Passenger revenue and Cargo revenue on the Consolidated Statement of Operations is as follows:

Passenger revenues	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Canada	$ 817	$ 922
US Transborder	439	530
Atlantic	323	370
Pacific	180	205
Other	252	284
	$ 2,011	**$ 2,311**

Cargo revenues	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Canada	$ 15	$ 23
US Transborder	4	5
Atlantic	32	58
Pacific	20	28
Other	9	10
	$ 80	**$ 124**

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, 2009		
	Air Canada	CIE	Total
Cash and cash equivalents	$ 600	$ 377	$ 977
Short-term investments	487	-	487
	$ 1,087	**$ 377**	**$ 1,464**
Additions to capital assets for the three months	$ 107	$ -	$ 107
Total assets	**$ 11,242**	**$ 81**	**$ 11,323**

	December 31, 2008		
	Air Canada	CIE	Total
Cash and cash equivalents	$ 499	$ 808	$ 1,307
Short-term investments	506	-	506
	$ 1,005	**$ 808**	**$ 1,813**
Additions to capital assets for the twelve months	$ 883	$ -	$ 883
Total assets	**$ 11,364**	**$ 507**	**$ 11,871**

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

9. JAZZ CAPACITY PURCHASE AGREEMENT

Air Canada and Jazz Air LP ("Jazz") are parties to a capacity purchase agreement ("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 costs. 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.

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

	Three Months Ended March 31	
	2009	**2008**
Expenses from Jazz CPA	$ 246	$ 235
Pass through fuel expense from Jazz CPA	57	93
Pass through airport expense from Jazz CPA	47	50
Pass through other expense from Jazz CPA	15	15
	$ 365	**$ 393**

Refer to Note 1C for a discussion of the memorandum of understanding relating to amended terms to the Jazz CPA concluded subsequent to March 31, 2009.

10. SUBSEQUENT EVENTS

Term Credit Facility

As described in Note 1C, in July 2009, Air Canada received financing proceeds of $600, less fees of approximately $20 under a secured term credit facility (the "Credit Facility"). On or before the first anniversary and subject to satisfaction of certain conditions, Air Canada may request the increase of the facility by up to an additional $100 by obtaining new commitments from either the existing or new lenders. The Credit Facility is repayable in sixteen (16) consecutive quarterly installments commencing in August 2010 of $30 with the final installment of $120 due in July 2014. Any increase to the facility would increase, on a pro rata basis, the scheduled repayments, including the final payment.

The Credit Facility bears interest at a rate based upon the greater of the bankers' acceptance rate (minimum 3.00%) plus 9.75% (12.75% as at July 31, 2009). The Credit Facility can be repaid at any time, in whole or in part subject to a minimum repayment of $10 and the payment of a repayment fee, which is applicable if the repayment occurs on or prior to the third anniversary of the Credit Facility.

Air Canada's obligations under the Credit Facility are secured by a first priority security interest and hypothec over substantially all the present and after-acquired property of Air Canada and its subsidiaries, subject to certain exclusions and permitted liens. The Credit Facility contains customary representations and warranties and is subject to customary terms and conditions (including negative covenants, financial covenants and events of default). Financial covenants require Air Canada to maintain, as of the last business day of each month, a minimum liquidity level (as defined per the Credit Facility and generally based upon the balances as reported in Cash and cash equivalents and Short-term investments) of $800 and a minimum EBITDAR (earnings before interest, income taxes, depreciation, amortization, aircraft rentals, certain non-operating income (expense) and special items) and an interest coverage ratio test determined as at the end of each fiscal quarter

A requirement of the Credit Facility is that Air Canada maintain securities of $800 in accounts subject to securities control agreements. The securities in such accounts would become restricted if Air Canada defaults on certain terms of the agreement.

Under the Credit Facility, Air Canada issued to the lenders, concurrently with the first drawdown, 5 million warrants for the purchase of Air Canada's Class A variable voting shares or Class B voting shares representing an aggregate of 5% of the total issued and outstanding shares as at the closing date of the Credit Facility, allocated among the lenders based on their pro rata lending commitments under the Credit Facility. ACE's share is 1.25 million warrants. These initial 5% warrants have an exercise price of $1.51 per share, will be exercisable at any time and will expire four years after the date of issuance. Subject to the terms of the Credit Facility, in the event that Air Canada does not grant additional security over certain assets within 90 days of closing, Air Canada would be required to issue to the lenders additional warrants representing up to an additional 5% of the total issued and outstanding shares (determined at the time of issuance of such additional warrants) with an average exercise price established based on a volume weighted average price 5 days before issuance, exercisable at any time and expiring four years after the date of issuance.

As a result of the above, ACE's 75.0% direct ownership interest in Air Canada may be diluted in the future.

Related Party Transactions

Air Canada and Aveos entered into an agreement dated October 28, 2008 pursuant to which Air Canada has agreed to temporarily extend payment terms to Aveos under certain related party agreements. In exchange for the extended payment terms, certain letters of credit related to the Pension and Benefits Agreement, as described in Note 21 of the 2008 annual consolidated financial statements of the Corporation, were cancelled. The extended payment terms to Aveos were originally scheduled to begin reducing in May 2009 with a corresponding return of the letters of credit to Aveos.

During the second quarter of 2009 the payment terms were further extended with the first reduction expected to begin in August 2009 with the expiration of the extended payment terms over the following six months. By January 2010 the letters of credit would be reinstated to the levels then required under the Pension and Benefits Agreement between the two parties.

ACE is a participant lender in the Credit Facility as described above. ACE's participation in the Credit Facility represents $150 of the outstanding loan of $600 as at July 31, 2009. The participant lenders participate on a pro-rata basis with respect to any warrants and principal and interest payments.

POLARIS

In Quarter 2 2009, Air Canada recorded an impairment charge of $67 related to previously capitalized costs incurred pertaining to the development of a new reservation system, referred to as POLARIS. Air Canada is currently working towards the implementation of certain components of the solution such as web and fare technology but has suspended activity relating to the implementation of the reservation system.