QUARTER 1 2009

Management's Discussion and Analysis of Results of Operations and Financial Condition

This Management Discussion and Analysis ("MD&A"), which is prepared based on interim unaudited consolidated financial statements on a going concern basis, replaces ACE Aviation's MD&A filed on May 8, 2009. The MD&A filed on May 8, 2009 was prepared based on interim unaudited financial statements on a liquidation basis of presentation.

August 7, 2009

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1. Preface

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is a holding company of aviation interests. ACE is listed on the Toronto Stock Exchange ("TSX") where its Class A variable voting shares and Class B voting shares are traded under the symbols ACE.A and ACE.B, respectively.

On December 10, 2008, ACE announced its intention to seek court and shareholder approvals for a plan of arrangement pursuant to which it would proceed with a liquidation and its net assets would be distributed, in an orderly fashion, after providing for outstanding liabilities and costs of the transaction.

In accordance with Section 1400 of the Canadian Institute of Chartered Accountants Handbook, General standards of financial statement presentation ("CICA 1400"), effective December 31, 2008, the Corporation changed the basis of preparing its financial statements from going concern to liquidation.

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

Therefore, the 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.

This MD&A should be read in conjunction with ACE's interim unaudited consolidated financial statements and notes for Quarter 1 2009 and its annual audited consolidated financial statements and notes and its annual MD&A for 2008. Reference to "Corporation" in this MD&A 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. Except as otherwise noted, all monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 16 "Glossary of Terms". Except as otherwise noted, this MD&A is current as of August 7, 2009. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" in section 2 of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to ACE, see section 14 "Risk Factors" of ACE's 2008 MD&A dated August 7, 2009 which can be found on SEDAR at www.sedar.com.

The ACE Audit, Finance & Risk Committee has reviewed this MD&A and the Quarter 1 2009 interim unaudited consolidated financial statements and notes and ACE's Board of Directors approved these documents prior to their release. For further information on ACE's public disclosure file, including ACE's Annual Information Form, please consult SEDAR at www.sedar.com, or ACE's website at www.aceaviation.com.

2. Caution Regarding Forward-Looking Information

ACE's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this MD&A and may be included in other filings with regulatory authorities and securities regulators. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 14 "Risk Factors" of ACE's 2008 MD&A dated August 7, 2009. The forward-looking statements contained in this MD&A represent ACE's expectations as of the date of this MD&A, and are subject to change after such date. However, ACE disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

3. Industry Interests

The following is a listing of ACE's aviation interests as at August 7, 2009.

	Aviation Interests	Ownership
Air Canada (TSX: AC.A, AC.B)	Air Canada is Canada's largest domestic and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada - US transborder market and in the international market to and from Canada. Wholly-owned subsidiaries of Air Canada include: • AC Cargo Limited Partnership ("Air Canada Cargo") which, together with Air Canada, are Canada's largest provider of air cargo services. • ACGHS Limited Partnership ("Air Canada Ground Handling Services") which is a passenger and ground handling service provider. • Touram Limited Partnership ("Air Canada Vacations") which is a major Canadian tour operator offering leisure travel packages. * ACE's ownership interest in Air Canada is subject to dilution as a result of certain agreements between Air Canada and its unions and as a result of warrants issued and that may be issued in connection with the Air Canada credit facility (see section 4 of this MD&A).	75.0 %*
ACTS Aero	Aero Technical Support and Services Holdings sarl ("ACTS Aero"), which holds a 100% interest in Aveos Fleet Performance Inc. ("Aveos"), is a global player in the aircraft maintenance, repair and overhaul marketplace. ACTS Aero Technical Support and Services Inc. changed its legal name to Aveos on September 23, 2008.	28.4 %

4. Significant Events

ACE

The following significant events occurred during the period January 1, 2009 to August 7, 2009:

On January 19, 2009, ACE announced that $259 million principal amount of 4.25% convertible senior notes due 2035 were deposited and taken up under a substantial issuer bid, at a purchase price of $900 for each $1,000 principal amount of notes, for an aggregate purchase price of $233 million. ACE also announced on January 19, 2009 that 8.3 million convertible preferred shares, at a purchase price of $20.00 per preferred share, were deposited and taken up under a substantial issuer bid, for an aggregate purchase price of $166 million.

On March 19, 2009, ACE announced that it had taken up and accepted for purchase and cancellation 1.0 million of its convertible preferred shares, at a purchase price of $20.00 per preferred share, for an aggregate purchase price of $20 million.

On July 29, 2009, ACE announced that its participation in the Air Canada credit facility of up to $700 million described below amounts to $150 million. ACE's $150 million share is repayable in equal consecutive quarterly installments of $7.5 million starting August 1, 2010, with a final payment of $30 million due by the fifth anniversary of the initial drawdown.

Air Canada

Air Canada has entered into the following transactions in 2009 in an effort to mitigate Air Canada's liquidity risks as described in section 9.2 of ACE's 2008 MD&A dated August 7, 2009 and section 7.2 of this MD&A.

During July 2009

- A secured term credit facility (the "Credit Facility") for financing proceeds of $600 million, less fees of approximately $20 million. 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 million by obtaining new commitments from either the existing or new lenders. ACE's participation in the Air Canada credit facility amounted to $150 million. The Credit Facility is a five-year facility with the first principal repayment due in August 2010, and bears interest at 12.75%. 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. 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.

  As part of the transactions under the Credit Agreement, Air Canada issued to the lenders, concurrently with the first drawdown, five million warrants at an exercise price of $1.51 with a term of four years to July 2013, for the purchase of Air Canada's Class A variable voting shares or Class B voting shares representing an aggregate of five percent of the total issued and outstanding shares. These warrants have been allocated among the lenders based on their pro rata lending commitments under the Credit Agreement, ACE's share is 1.25 million warrants. Subject to the terms of the Credit Agreement, 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 five percent of the total issued and outstanding shares (determined at the time of issuance of such additional warrants).

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

  As part of the transactions related to the closing of the Credit Facility, existing financing arrangements of $166 million were repaid as follows:

  - The revolving credit facility was repaid in full in the amount of $49 million. The rights of the lender under this facility were assigned to the lenders under the Credit Facility;

  - The spare engine financing was partially repaid in the amount of $38 million. 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 million as at July 31, 2009;

  - The Aeroplan Canada Inc. ("Aeroplan") loan was repaid in the amount of $79 million, which was the maximum available amount at that time. 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 in respect of the period beginning April 1, 2009 and ending December 31, 2010. Thereafter, for the period from January 1, 2011 to December 31, 2013, the aggregate annual past service contributions shall equal the lesser of (i) $150 million, $175 million, and $225 million 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 million 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 (as defined per the agreement and generally based on the balances as reported in cash, cash equivalents and short-term investments) required to be maintained as further described in section 7.2 of this MD&A;

- An extension to a short-term loan of $82 million (US$75 million) entered into in 2008, which was originally due in 2009, to 2013;

- A memorandum of understanding with GE Capital Aviation Services (the "GECAS MOU") 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 million; and

- A memorandum of understanding for amended terms related to the capacity purchase agreement with 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 million. 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 million partially offset by the settlement of fuel derivative contracts in favour of counterparties in the amount of $17 million.

- In Quarter 2 2009, Air Canada recorded an impairment charge of $67 million relating to previously capitalized costs incurred towards 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.

During the first quarter of 2009

- Financing arrangements secured by spare parts, spare engines and a Boeing 777 aircraft for aggregate proceeds of $267 million, net of fees of $5 million. 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 million and the required repayment of a debt obligation related to the aircraft of $128 million, which included a prepayment fee of $14 million;
- 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 million and final payment of $115 million in 2010, based on the foreign exchange rate as at March 31, 2009;
- Repayment of pre-delivery financing of $83 million on the Boeing 777 aircraft received during the first quarter; and
- Net return of collateral deposits on fuel derivatives in the amount of $147 million offset by the settlement of fuel derivative contracts in favour of counterparties in the amount of $217 million.

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

For a discussion on Air Canada's liquidity risks, refer to section 9.2 of ACE's 2008 MD&A dated August 7, 2009 and section 7.2 of this MD&A.

5. Accounting Policies

This MD&A should be read in conjunction with ACE's interim unaudited consolidated financial statements and notes for the first quarter of 2009 and its annual audited consolidated financial and notes and its annual MD&A for 2008. ACE prepares its financial statements, on a going concern basis of presentation, in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

ACE's interim unaudited financial statements for Quarter 1 2009 are based on accounting policies consistent with those disclosed in Note 2 to ACE's audited consolidated financial statements for 2008.

The preparation of ACE's financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent liabilities and reported amounts of revenues and expenses for the period of the financial statements. ACE evaluates these estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual amounts could differ materially from those estimates and assumptions. Refer to section 13 of ACE's 2008 MD&A dated August 7, 2009 for a discussion of ACE's critical accounting estimates. There have been no material changes to ACE's critical accounting estimates from those disclosed at that time.

Changes in Accounting Policies

Goodwill and intangible assets

Effective January 1, 2009, the Corporation adopted 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's accounting policy for goodwill and intangibles 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.

Future Accounting Standard Changes

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.

Update on the Progress of the International Financial Reporting Standards Conversion Plan

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

As a result, the Corporation has developed a plan to convert its consolidated financial statements to IFRS establishing a cross-functional IFRS team represented by managers in the areas of Accounting, Taxation, IT and Data Systems, Internal Control and Processes, Planning, Compensation, Treasury, Investor Relations and Legal. Updates regarding the progress of the conversion plan are provided to the Corporation's Audit, Finance and Risk Committee on a quarterly basis.

The plan addresses the impact of IFRS on Accounting policies and implementation decisions, Infrastructure, Business activities and Control activities. A summary status of the key elements of the changeover plan is included in section 6 "Accounting Policies" of ACE's 2008 MD&A dated August 7, 2009. The IFRS changeover plan is progressing as outlined and no significant changes to the plan have been made.

6. Results of Operations – Quarter 1 2009

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for Quarter 1 2009. Segment information has been prepared consistent with how financial information is produced internally for the purposes of making business decisions.

	Quarter 1 2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE Total**
Operating revenue			
Passenger revenue	$ 2,011	$ -	$ 2,011
Cargo revenue	80	-	80
Other revenue	300	-	300
	2,391	-	2,391
Operating expenses			
Aircraft fuel	593	-	593
Wages, salaries and benefits	458	2	460
Airport and navigation fees	230	-	230
Capacity purchase with Jazz	246	-	246
Aircraft maintenance	189	-	189
Depreciation and amortization	159	(2)	157
Food, beverages and supplies	67	-	67
Communications and information technology	79	-	79
Aircraft rent	86	-	86
Commissions	49	-	49
Other operating expenses	423	4	427
	2,579	4	2,583
Operating loss	**(188)**	**(4)**	**(192)**
Non-operating income (expense)			
Interest income	6	2	8
Interest expense	(105)	(3)	(108)
Interest capitalized	1	-	1
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(33)	(33)
Loss on financial instruments recorded at fair value	(10)	-	(10)
Other	(1)	-	(1)
	(109)	(34)	(143)
Loss before the following items	**(297)**	**(38)**	**(335)**
Non-controlling interest	(4)	100	96
Foreign exchange loss	(101)	-	(101)
Recovery of (provision for) income taxes	2	(6)	(4)
Income (loss) for the period	**$ (400)**	**$ 56**	**$ (344)**
EBITDAR [(1)]	**$ 57**	**$ (6)**	**$ 51**

(1) Refer to section 15 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR to operating income (loss).

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for Quarter 1 2008.

Unaudited (Canadian dollars in millions)	Quarter 1 2008 Air Canada	CIE	ACE Total
Operating revenue			
Passenger revenue	$ 2,311	$ -	$ 2,311
Cargo revenue	124	-	124
Other revenue	291	-	291
External revenue	2,726	-	2,726
Inter-segment revenue	1	(1)	-
	2,727	(1)	2,726
Operating expenses			
Aircraft fuel	715	-	715
Wages, salaries and benefits	481	15	496
Airport and navigation fees	241	-	241
Capacity purchase with Jazz	235	-	235
Aircraft maintenance	203	-	203
Depreciation and amortization	171	(2)	169
Food, beverages and supplies	77	-	77
Communications and information technology	73	-	73
Aircraft rent	63	-	63
Commissions	53	-	53
Other operating expenses	427	1	428
	2,739	14	2,753
Operating loss before under-noted item	**(12)**	**(15)**	**(27)**
Provision for cargo investigations	(125)	-	(125)
Operating loss	**(137)**	**(15)**	**(152)**
Non-operating income (expense)			
Interest income	18	7	25
Interest expense	(81)	(15)	(96)
Interest capitalized	17	-	17
Gain (loss) on disposal of assets	(36)	82	46
Loss on financial instruments recorded at fair value	(23)	-	(23)
Equity and other investment income (1)	-	12	12
Other non-operating income (expense)	(2)	1	(1)
	(107)	87	(20)
Income (loss) before the following items	**(244)**	**72**	**(172)**
Non-controlling interest	(3)	67	64
Foreign exchange loss	(89)	-	(89)
Recovery of (provision for) income taxes	48	(33)	15
Income (loss) for the period	**$ (288)**	**$ 106**	**$ (182)**
EBITDAR before the provision for cargo investigations (2)	**$ 222**	**$ (17)**	**$ 205**
EBITDAR (2)	**$ 97**	**$ (17)**	**$ 80**

(1) *ACE is accounting for its investments in Aeroplan, ACTS Aero and Jazz (up to February 7, 2008) under the equity method and, for Quarter 1 2008, has recorded equity income from these investments in non-operating income (expense) under "equity and other investment income" within the CIE segment. Effective February 7, 2008, distributions from Jazz Air Income Fund are recorded in "equity and other investment income" within CIE.*

(2) *Refer to section 15 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR before the provision for cargo investigations to operating income (loss) and EBITDAR to operating income (loss).*

ACE recorded an operating loss of $192 million in Quarter 1 2009 compared to an operating loss (before the provision for cargo investigations) of $27 million in Quarter 1 2008. Air Canada reported an operating loss of $188 million in Quarter 1 2009 compared to an operating loss (before the provision for cargo investigations) of $12 million in Quarter 1 2008, a deterioration of $176 million from Quarter 1 2008. ACE recorded EBITDAR of $51 million in Quarter 1 2009 compared to EBITDAR (before the provision for cargo investigations) of $205 million in the same period in 2008. In Quarter 1 2009, Air Canada reported EBITDAR of $57 million compared to EBITDAR (before the provision for cargo investigations) of $222 million in the same period in 2008, a decrease of $165 million.

ACE recorded operating revenues of $2,391 million and operating expenses of $2,583 million in Quarter 1 2009. In the same period in 2008, ACE recorded operating revenues of $2,726 million and operating expenses of $2,753 million. Air Canada's operating revenues of $2,391 million decreased $336 million from the same period in 2008. An increase of $8 million in other revenues was more than offset by decreases in passenger and cargo revenues of $300 million and $44 million, respectively. The decrease in passenger and cargo revenues was due to both reduced traffic and lower yield. Air Canada's operating expenses of $2,579 million decreased $160 million from the same period in 2008. Reduced fuel expense of $122 million versus the same period in 2008 was the main factor in the decrease in operating expenses.

Non-operating expense amounted to $143 million in Quarter 1 2009 compared to non-operating expense of $20 million in Quarter 1 2008.

Factors contributing to the year-over-year change in Quarter 1 2009 non-operating expense included:

- In Quarter 1 2009, ACE recorded a Loss on repurchase of the convertible senior notes and preferred shares within Non-operating expense in the amount of $33 million related 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 and 80% of the Convertible senior notes outstanding as at December 31, 2008. The aggregate principal amount of the repurchased Convertible senior notes was $259 million. 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 million being recorded. The residual equity components of the instruments amounting to $159 million have been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Refer to section 7.7 of this MD&A for additional information.

- Included in Quarter 1 2008, gains on disposal of assets amounted to $46 million, comprised mainly of a gain on ACE's sale of Jazz Air Income Fund units of $89 million and an impairment charge of $38 million recorded by Air Canada related to its fleet of Boeing 767-200 aircraft due to the revised retirement date of the aircraft.

- Losses related to fair value adjustments on derivatives instruments amounted to $10 million in Quarter 1 2009 versus losses of $23 million in the same quarter of 2008. The non-cash mark-to-market loss on financial instruments recorded in the first quarter of 2009 was mainly related to the fair value of fuel derivatives. Refer to section 12 of ACE's 2008 MD&A dated August 7, 2009 and section 9 of this MD&A for additional information on Air Canada's derivative instruments.

Net interest expense increased $45 million from the first quarter of 2008 due to:

- A lower amount of capitalized interest of $16 million reflecting a reduction in the number of aircraft remaining to be delivered;

- A decrease in interest income of $17 million due to both lower cash balances and lower rates of return;

- An increase in interest expense of $12 million, in part due to new financing transactions completed since the first quarter of 2008 and the unfavourable impact of foreign exchange on interest expense. In addition, the Corporation recorded a charge of $17 million related to a sale-leaseback transaction completed in the first quarter of 2009. These increases were partly offset by a reduction of interest expense on aircraft pre-delivery payments related to Boeing 777 aircraft versus the same period in 2008 and the Quarter 1 2009 significant issuer bids described above. Interest expense related to the convertible senior notes and convertible preferred shares decreased by $12 million versus the same period in 2008.

In Quarter 1 2009, $96 million of the net loss was allocated to non-controlling interest compared to $64 million of net loss being allocated to non-controlling interest in Quarter 1 2008. Quarter 1 2009 reflected the deterioration in Air Canada's net results compared to Quarter 1 2008.

Net losses on foreign exchange amounted to $101 million in Quarter 1 2009 compared to losses of $89 million in Quarter 1 2008. The losses in Quarter 1 2009 were attributable to a weaker Canadian dollar at March 31, 2009 compared to December 31, 2008, partially offset by gains of $25 million related to foreign currency derivatives. The March 31, 2009 noon day exchange rate was US$1 = C$1.2602 while the December 31, 2008 noon day exchange rate was US$1 = C$1.2246.

The net loss in Quarter 1 2009 amounted to $344 million or $9.87 per diluted share. In Quarter 1 2008, ACE recorded a net loss of $182 million or $2.96 per diluted share.

6.1 Air Canada

In the first quarter of 2009, Air Canada recorded an operating loss of $188 million, a deterioration of $176 million from the operating loss (before the provision for cargo investigations) of $12 million recorded in the first quarter of 2008. EBITDAR amounted to $57 million in the first quarter of 2009 compared to EBITDAR (before the provision for cargo investigations) of $222 million in the same period in 2008, a decrease of $165 million.

Operating revenues decreased $336 million or 12% from the first quarter of 2008 to $2,391 million, mainly due to a 13% decline in passenger revenues. Passenger traffic and yield declined 10.9% and 2.3%, respectively from the first quarter of 2008. RASM decreased 3.0% mainly due to the yield decline but also to a slight deterioration in passenger load factor.

Operating expenses decreased $160 million or 6% from the first quarter of 2008 to $2,579 million, largely due to reduced fuel expense of $122 million. CASM, excluding fuel expense, increased 9.4% from the first quarter of 2008. The capacity reduction of 10.3% over the first quarter of 2008 was a major factor in the year-over-year growth in CASM as Air Canada's cost structure is such that its fixed costs do not fluctuate proportionately with changes in capacity in the short term. Other factors include the higher unit cost of ownership which reflected Air Canada's investment in new aircraft and the aircraft interior refurbishment program and the unfavorable impact of a weaker Canadian dollar versus the US dollar in the first quarter of 2009.

Air Canada recorded a net of loss of $400 million or $4.00 per diluted share in the first quarter of 2009 compared to a net loss of $288 million or $2.88 per diluted share in the first quarter of 2008. The net loss in the first quarter of 2009 included foreign exchange losses of $101 million while the net loss in the first quarter of 2008 included a provision related to investigations of alleged anti-competitive cargo pricing activities of $125 million and net losses on foreign exchange of $89 million.

6.2 Corporate Items and Eliminations ("CIE")

CIE includes the corporate, financing and investing activities of ACE.

CIE recorded an operating loss of $4 million in Quarter 1 2009 compared to an operating loss of $15 million in Quarter 1 2008. Non-operating expense of $34 million was recorded in Quarter 1 2009 compared to non-operating income of $87 million in Quarter 1 2008.

Factors contributing to the year-over-year change in Quarter 1 2009 included:

- In Quarter 1 2009, ACE recorded a Loss on repurchase of the convertible senior notes and preferred shares within Non-operating expense in the amount of $33 million related 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 and 80% of the Convertible senior notes outstanding as at December 31, 2008. The aggregate principal amount of the repurchased Convertible senior notes was $259 million. 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 million being recorded. The residual equity components of the instruments amounting to $159 million have been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Refer to section 7.7 of this MD&A for additional information.

- ACE's consolidated statement of operations for Quarter 1 2008 reflected $12 million of equity and other investment income from ACE's investment in Aeroplan, Jazz and ACTS Aero.

- In Quarter 1 2008, the sale by ACE of 13,000,000 units of Jazz Air Income Fund resulted in a gain on sale of $89 million ($71 million after tax).

In Quarter 1 2009, $100 million of the net loss was allocated to non-controlling interest compared to $67 million of the net loss being allocated to non-controlling interest in Quarter 1 2008. Quarter 1 2009 reflected the deterioration in Air Canada's net results compared to Quarter 1 2008.

7. Financial and Capital Management

The following table summarizes ACE's consolidated statement of financial position as at March 31, 2009 and as at December 31, 2008.

Condensed Consolidated Statement of Financial Position (Canadian dollars in millions)	**March 31, 2009**	**December 31, 2008**
Assets		
Cash, cash equivalents and short-term investments	$ 1,464	$ 1,813
Other current assets	1,260	1,396
Current assets	2,724	3,209
Property and equipment	7,394	7,469
Intangible assets	698	698
Deposits and other assets	507	495
	$ 11,323	**$ 11,871**
Liabilities		
Current liabilities	$ 3,759	$ 3,704
Long-term debt and capital leases	4,947	4,980
Convertible preferred shares	54	206
Pension and other benefits liabilities	1,474	1,585
Other long-term liabilities	427	420
	10,661	**10,895**
Non-controlling interest	**414**	**512**
Shareholders' equity	**248**	**464**
	$ 11,323	**$ 11,871**

7.1 Analysis of Financial Position

ACE

Cash, cash equivalents and short-term investments

Refer to section 7.3 of this MD&A for a discussion of the change in unconsolidated Cash, cash equivalents and short-term investments.

Long-term debt and capital leases

Refer to section 7.7 of this MD&A for a discussion of the January 2009 substantial issuer bid resulting in the purchase for cancellation of 80% of ACE's 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 million. On January 21, 2009, the Corporation paid an aggregate purchase price of $233 million for the notes tendered.

Convertible preferred shares

Refer to section 7.7 of this MD&A for a discussion of the January 2009 and March 2009 substantial issuer bids resulting in the purchase for cancellation of 9.3 million of ACE's 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 million for the shares tendered.

Non-controlling interest

ACE's non-controlling interest amounted to $414 million as at March 31, 2009, a reduction of $98 million from December 31, 2008. The change in non-controlling interest was mainly due to the non-controlling interests' share of the loss experienced by Air Canada in Quarter 1 2009. Refer to section 6.1 of this MD&A for a discussion of the Quarter 1 2009 Air Canada results of operations.

Shareholders' equity
ACE's shareholders' equity amounted to $248 million as at March 31, 2009, a reduction of $216 million from December 31, 2008 mainly due to the loss recorded in Quarter 1 2009.

Air Canada
Property and equipment amounted to $7,394 million at March 31, 2009, a reduction of $75 million from December 31, 2008. The reduction was mainly due to the impact of depreciation expense of $145 million recorded in the first quarter of 2009 offset by additions to capital assets.

Long-term debt and capital leases, including the current portion, amounted to $5,506 million at March 31, 2009, an increase of $152 million from December 31, 2008. The increase was mainly due to a depreciation of the Canadian dollar and the resulting impact on Air Canada's foreign denominated debt and capital leases, which amounted to $121 million. In the first quarter of 2009, the impact of additional borrowings of $267 million was more than offset by long-term debt and capital lease repayments of $423 million. The sale-leaseback transaction completed in the first quarter of 2009 was accounted for as a capital lease, resulting in an increase to long-term debt of $158 million.

The decline in pension and other benefits liabilities of $111 million from December 31, 2008 was primarily due to pension funding of $103 million in excess of pension expense. Refer to section 9.4 of ACE's 2008 MD&A dated August 7, 2009 and section 7.5 of this MD&A for a discussion on Air Canada's pension funding obligations.

7.2 Air Canada Liquidity

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. At July 31, 2009, cash, cash equivalents and short-term investments were $1.32 billion, or 13% of 2008 annual operating revenues.

Air Canada management believes that the significant events as described in section 4 of this MD&A 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 in section 4 of this MD&A, 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. Refer to section 7.4 of this MD&A for information on Air Canada's contractual obligations.

To date in 2009, including the significant events as discussed in section 4 of this MD&A, 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 in section 4 of this MD&A, 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

Refer to section 9.4 of ACE's 2008 MD&A dated August 7, 2009 and section 7.5 of this MD&A for a discussion on Air Canada's pension funding obligations.

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 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, cash equivalents and short-term investments) required to be maintained by Air Canada is reduced to $800 million (versus $1,300 million 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 million for two consecutive months, the unrestricted cash requirement increases to $1,100 million 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 million, 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 million, its obligation to provide deposits to the processor would be capped at an amount not in excess of $75 million, provided unrestricted cash is not less than $800 million. As at June 30, 2009, a deposit in the amount of $27 million had accumulated under these processing agreements, which has further increased to the above-referenced cap of $75 million as at July 31, 2009. Deposits under these processing agreements are reported in prepaid expenses and other current assets on ACE's consolidated statement of financial position.

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 section 14 of ACE's 2008 MD&A dated August 7, 2009. 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 Air Canada management's preliminary estimate.

Collateral deposits for fuel derivatives

The types of derivative instruments used by Air Canada within its hedging program, such as swaps and put options within collar structures, expose Air Canada to the potential of posting cash collateral deposits. The drastic decrease in fuel prices observed in the fourth quarter of 2008 resulted in a significant negative fair value for Air Canada's portfolio of fuel hedges. Once the fair value in favour of the counterparty of certain fuel derivatives exceeds Air Canada's credit thresholds with those counterparties, Air Canada is responsible for extending collateral to the counterparties. As at July 31, 2009, the total cash collateral deposits held by counterparties amounted to $99 million ($109 million at June 30, 2009, $181 million at March 31, 2009 and $328 million at December 31, 2008). Refer to section 12 of ACE's 2008 MD&A dated August 7, 2009 and section 9 of this MD&A for a discussion on fuel price risk.

7.3 Consolidated Cash Flows

The following table summarizes ACE's consolidated statement of cash flows for the indicated periods.

	Quarter 1		
(Canadian dollars in millions)	2009	2008	$ Change
Cash from (used for) operating activities	$ 156	$ 229	$ (73)
Cash from (used for) financing activities	(575)	(1,633)	1,058
Cash from (used for) investing activities	89	358	(269)
Net change in cash and cash equivalents during the period	**(330)**	**(1,046)**	**716**
Cash and cash equivalents - Beginning of period	**1,307**	**2,300**	**(993)**
Cash and cash equivalents - End of period	**$ 977**	**$ 1,254**	**$ (277)**

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

ACE
The following summarizes significant transactions or factors which impacted ACE's unconsolidated cash and cash equivalents in Quarter 1 2009:

- 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 million. On January 21, 2009, the Corporation paid an aggregate purchase price of $233 million for the notes tendered.

- In January 2009, the Corporation completed a substantial issuer bid to purchase for cancellation 8.3 million of its convertible preferred shares at a purchase price of $20 dollars per preferred share. On January 21, 2009, the Corporation paid an aggregate purchase price of $166 million for the shares tendered.

- In March 2009, the Corporation completed a substantial issuer bid to purchase for cancellation 1.0 million of its convertible preferred shares at a purchase price of $20 dollars per preferred share. On March 23, 2009, the Corporation paid an aggregate purchase price of $20 million for the shares tendered.

The following summarizes significant transactions or factors which impacted ACE's unconsolidated cash, cash equivalents and short-term investments in Quarter 1 2008:

- 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 million, in accordance with the terms of a substantial issuer bid.

- ACE received cash proceeds of $40 million representing the full balance of funds held in escrow on closing of the monetization of ACTS on October 16, 2007.

- ACE received net proceeds of $97 million related to the sale of Jazz Air Income Fund units on January 24, 2008.

Air Canada

The following summarizes significant transactions or factors which impacted Air Canada's consolidated cash, cash equivalents and short-term investments in Quarter 1 2009:

Cash flows from operating activities decreased $62 million from Quarter 1 2008. The decrease in operating cash flows versus the same period in 2008 was primarily driven by the impact of higher past service cost contributions under the Corporation's pension plans and the settlement of fuel derivatives in favour of counterparties of $217 million partly offset by a net return of collateral deposits on fuel derivatives of $147 million.

Cash used for financing activities amounted to $156 million in Quarter 1 2009. In Quarter 1 2009, Air Canada had new aircraft borrowings of $267 million related to financing arrangements secured by spare parts, spare engines and a Boeing 777 aircraft for aggregate proceeds of $267 million, net of fees of $5 million which were more than offset by a reduction of long-term debt and capital lease obligations of $423 million.

Cash flows from investing activities in Quarter 1 2009 amounted to $89 million and included proceeds of $172 million relating to the sale-leaseback of a Boeing 777 aircraft for aggregate proceeds of $172 million and the required repayment of a debt obligation related to the aircraft of $128 million, which included a prepayment fee of $14 million. Additions to capital assets at Air Canada amounted to $107 million.

7.4 Contractual Obligations

ACE

Information on the Corporation's contractual obligations is disclosed in section 9.3 of ACE's 2008 MD&A dated August 7, 2009.

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 million. On January 21, 2009, the Corporation paid an aggregate purchase price of $233 million for the notes tendered.

Following the substantial issuer bid described above, ACE's contractual obligation consists of its Convertible Senior Notes repayable on June 1, 2010 in the amount of $64 million. Reference to June 1, 2010 represents the first date the holders may require ACE to purchase all or a portion of the Convertible Senior Notes at a purchase price equal to 100% of the principal amount of the notes to be purchased. As at June 30, 2009, interest repayment obligations associated with the Convertible Senior Notes amount to $1 million for the remainder of 2009 and $1 million in 2010.

Air Canada

The table below provides Air Canada's current contractual obligations, including the effects of the financing transactions which occurred subsequent to June 30, 2009, for the remainder of 2009, for the next four years and after 2013.

(Canadian dollars in millions)	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt, capital leases and interest repayment obligations [1]	$ 290	$ 834	$ 1,079	$ 802	$ 846	$ 2,930	$ 6,781
Operating lease obligations [2]	159	365	324	304	269	804	2,225
Committed capital expenditures [3]	26	53	49	115	733	3,864	4,840
Total contractual obligations [4]	**$ 475**	**$ 1,252**	**$ 1,452**	**$ 1,221**	**$ 1,848**	**$ 7,598**	**$ 13,846**

(1) The interest repayment obligations relate to long-term debt, debt consolidated under AcG-15 and capital leases.
(2) The operating lease obligations above mainly relate to US dollar aircraft operating leases.
(3) The committed capital expenditures above mainly relate to US dollar aircraft-related expenditures. These expenditures also include purchases relating to system development costs, facilities and leasehold improvements.
(4) Total contractual obligations exclude commitments for goods and services required in the ordinary course of business. Also excluded are other long-term liabilities mainly due to reasons of uncertainty of timing of cash flows and items which are non-cash in nature.

7.5 Air Canada Pension Funding Obligations

Information on the Corporation's pension funding obligations is disclosed in section 9.4 of ACE's 2008 MD&A dated August 7, 2009.

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 million.

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 million, $175 million, and $225 million 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 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% 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 million, a decrease of $49 million versus 2008.

The following table provides Air Canada's pension funding obligations, on a cash basis, based on the Air Canada 2009 Pension Regulations as described above, for the remainder of 2009 as at June 30, 2009, for the full year 2009, for the next four years.

(Canadian dollars in millions)	Remainder of 2009	Full Year 2009	2010	2011	2012	2013
Past service domestic registered plans	$ 29	$ 140	$ -	$ 138	$ 173	$ 221
Current service domestic registered plans	108	188	161	165	170	175
Other pension arrangements (1)	49	79	78	79	81	83
Projected pension funding obligations	**$ 186**	**$ 407**	**$ 239**	**$ 382**	**$ 424**	**$ 479**

(1) Includes retirement compensation arrangements, supplemental plans and international plans.

In May 2009, Air Canada and Aeroplan reached an agreement with the Canadian Auto Workers (CAW) Local 2002, providing for a process for the approximately 750 Air Canada employees then working in the Aeroplan contact centres to choose to transition to employment at Aeroplan, effective June 1, 2009, or to remain employees of Air Canada. Employees at Air Canada work locations who become surplus to Air Canada's needs, due to employees then working at Aeroplan contact centres who are senior to them, choosing to remain employees of Air Canada, were given the option to transition to employment at Aeroplan. Certain employees at Air Canada work locations transitioning to Aeroplan will continue to work for Air Canada until, at the latest, October 4, 2009, due to Air Canada's operational needs. The date these employees become Aeroplan employees depends on the date they are released from employment with Air Canada. For those employees transitioning to Aeroplan, their service, which largely determines benefit levels under the Air Canada pension and other employee benefit plans, will cease to accrue as of the date of employment with Aeroplan.

Refer to section 4 of this MD&A for additional information.

7.6 Air Canada Capital Expenditures and Related Financing Arrangements

As at June 30, 2009, Air Canada had outstanding purchase commitments with The Boeing Company ("Boeing") for the acquisition of 37 Boeing 787 aircraft. Subsequent to June 30, 2009, Air Canada and Boeing agreed to amend the purchase agreement for the Boeing 787 aircraft to reduce the number of options for Boeing 787 aircraft by ten, from 23 to 13, and to provide for purchase rights for ten Boeing 787 aircraft. Air Canada continues to have 37 firm orders for Boeing 787 aircraft. Air Canada and Boeing also agreed to amend certain commercial terms, including to revise delivery dates and to provide for certain financial adjustments. Air Canada's first Boeing 787 aircraft is now scheduled for delivery in the second half of 2013. Air Canada continues to hold purchase rights for 18 Boeing 777 aircraft.

The table below provides Air Canada's current projected, planned and committed capital expenditures, including the effects of the financing transactions which occurred subsequent to June 30, 2009, for the remainder of 2009, for the next four years and after 2013.

(Canadian dollars in millions)	Remainder of 2009	2010	2011	2012	2013	Thereafter
Projected committed expenditures	$ 26	$ 53	$ 49	$ 115	$ 733	$ 3,864
Projected planned but uncommitted expenditures	51	77	80	132	112	
Total projected expenditures (1) (2)	77	130	129	247	845	
Projected financing on committed expenditures	-	-	-	-	(584)	
Total projected expenditures, net of financing	**$ 77**	**$ 130**	**$ 129**	**$ 247**	**$ 261**	

(1) US dollar amounts are converted using the July 31, 2009 noon day exchange rate of US$1 = C$1.0790 Final aircraft delivery prices include estimated escalation and interest on deferred delivery payments.
(2) The dollar amounts reflected above do not include obligations pertaining to day-to-day operations.

7.7 Share Information

At July 31, 2009, the issued and outstanding common shares of ACE, along with common shares potentially issuable, pursuant to convertible preferred shares, convertible senior notes and stock options were as follows:

Number of shares (000)	July 31, 2009	December 31, 2008
Issued and outstanding common shares		
Class A variable voting shares	25,680	25,614
Class B voting shares	10,011	9,293
Total issued and outstanding common shares	**35,691**	**34,907**
Common shares potentially issuable		
Convertible preferred shares	3,125	11,863
Convertible senior notes	2,600	13,133
Stock options	58	61
Total common shares potentially issuable	**5,783**	**25,057**
Total outstanding and potentially issuable common shares	**41,474**	**59,964**

(1) In May 2009, the Chairman, President and Chief Executive Officer of ACE requested that the after-tax amount of severance and benefits of $4.2 million be paid to him in the form of shares of ACE. As a result, on May 22, 2009, the Chairman, President and Chief Executive Officer's after-tax amount was used to acquire and retain 784,350 Class B voting shares of ACE. Such subscription was effected through a grant of options that were exercised immediately upon the grant at an exercise price of $5.34, which is equal to the market price determined under the terms of the Stock Option Plan.

(2) 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 million for the shares tendered.

(3) 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 million. On January 21, 2009, the Corporation paid an aggregate purchase price of $233 million for the notes tendered.

(4) The Corporation's stock option plan is described in Note 13 to the 2008 annual financial statements. At June 30, 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.

8. Quarterly Financial Information

The quarterly information presented below may not be directly comparable as a result of changes in ACE's accounting policies relating to its investments in Jazz and ACTS.

($ millions, except per share amounts)	Q2 2007[(1)]	Q3 2007	Q4 2007[(2)]	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Operating revenues	$ 2,659	$ 3,022	$ 2,520	$ 2,726	$ 2,783	$ 3,075	$ 2,496	$ 2,391
Operating expenses	(2,563)	(2,682)	(2,474)	(2,753)	(2,785)	(2,970)	(2,646)	(2,583)
Operating income (loss) before under-noted item[(3)]	**96**	**340**	**46**	**(27)**	**(2)**	**105**	**(150)**	**(192)**
Provision for cargo investigations[(4)]	-	-	-	(125)	-	-	-	-
Operating income (loss)	**96**	**340**	**46**	**(152)**	**(2)**	**105**	**(150)**	**(192)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax[(5)]	22	(116)	1,082	(30)	832	(240)	(483)	(152)
Net income (loss)	**$ 118**	**$ 224**	**$ 1,128**	**$ (182)**	**$ 830**	**$ (135)**	**$ (633)**	**$ (344)**
Earnings (loss)[(6)]								
Per share – basic	**$ 1.14**	**$ 2.17**	**$ 10.81**	**$ (2.96)**	**$ 15.46**	**$ (3.86)**	**$ (18.12)**	**$ (9.87)**
Per share – diluted	**$ 0.98**	**$ 1.84**	**$ 8.88**	**$ (2.96)**	**$ 10.76**	**$ (3.86)**	**$ (18.12)**	**$ (9.87)**

(1) *ACE ceased consolidating Jazz's results effective May 24, 2007.*
(2) *ACE ceased consolidating ACTS' results effective October 16, 2007.*
(3) *Quarter 2 2007 include special charges for labour restructuring of $6 million.*
(4) *Air Canada recorded a provision for cargo investigations of $125 million in Quarter 1 2008.*
(5) *Quarter 2 2007 includes a gain of $4 million and a tax provision of $1 million relating to the sale of 0.249 million shares of its holdings in US Airways. Quarter 3 2007 includes a gain of $4 million and a tax provision of $1 million relating to the sale of 0.251 million shares of its holdings in US Airways. Quarter 4 2007 includes an aggregate gain on disposal of $1,339 million and a tax provision of $214 million mainly comprised of a gain on disposal of $565 million and a tax provision of $82 million related to the monetization of ACTS which was completed on October 16, 2007, a gain on disposal of $539 million and a tax provision of $91 million related to the secondary offering of 22,000,000 trust units of Aeroplan Income Fund and a gain on disposal of $233 million and a tax provision of $41 million related to the secondary offering of 35,500,000 trust units of Jazz Air Income Fund. Quarter 1 2008 includes a gain of $89 million ($71 million, net of tax) on ACE's sale of 13,000,000 units of Jazz Air Income Fund and an impairment provision of $38 million recorded by Air Canada related to its fleet of Boeing 767-200 aircraft. Quarter 2 2008 includes a gain of $413 million ($340 million, net of tax) on ACE's sale of 20,400,000 units of Aeroplan Income fund, a gain of $417 million ($344 million, net of tax) on ACE's sale of 19,892,088 units of Aeroplan Income Fund and a gain on of $78 million ($62 million, net of tax) on ACE's sale of 11,726,920 units of Jazz Air Income Fund. Quarter 1 2009 includes a loss on repurchase of the convertible senior notes and preferred shares of $33 million relating to the substantial issuer bids completed in January 2009 and March 2009.*
(6) *Earnings (loss) per share includes the impact of a substantial issuer bid completed by ACE on January 10, 2008 whereby 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 and a substantial issuer bid completed by ACE on June 18, 2008 whereby ACE accepted for purchase and cancellation a total of 12,537,084 Class A variable voting shares and 10,190,187 Class B voting shares.*

9. Financial Instruments and Risk Management

Summary of losses on Financial Instruments Recorded at Fair Value

The following is a summary of losses on financial instruments recorded at fair value included in non-operating income (expense) on the consolidated statement of operations for the periods indicated:

	Quarter 1	
(Canadian dollars in millions)	**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	**$ (10)**	**$ (23)**

Fuel Price Risk

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 outstanding at March 31, 2009, 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.

Outstanding at March 31, 2009				
Derivative Instruments	**Term**	**Volume (BBLs)**	**WTI-equivalent Average Floor Price (US$ per barrel)**	**WTI-equivalent Average Capped Price (US$ per barrel)**
Call Options [1]	2009	2,830,000	n/a	116
	2010	400,000	n/a	134
Swaps [1]	2009	855,000	99	99
	2010	1,070,000	99	99
Collars [1]	2009	1,600,000	73	84
	2010	1,560,000	102	112
Put options [2]	2009	600,000	40	n/a

(1) 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 oil prices decrease below the average floor price.

(2) The significant decrease in oil prices in the last quarter of 2008 led Air Canada to purchase crude oil put options in late 2008. Air Canada is expected to generate fuel hedging gains if oil prices decrease below the average floor prices. 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.

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

In 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 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.

In the first quarter of 2009, in order to further reduce its exposure to declining oil prices, Air Canada terminated fuel derivative contracts with a fair market value of $172 million (US$146 million) in favour of the counterparties. The collateral held by the counterparties covered the majority of the settlement amount, therefore minimal additional cash outflows resulted.

As fuel hedging contracts with unfavourable fair values are settled, Air Canada can recall excess cash collateral deposits from counterparties. The fuel hedging losses recorded under fuel expense was $127 million in the first quarter of 2009 (fuel hedging gains of $34 million in the first quarter of 2008), mainly due to the reallocation to fuel expense of the hedging losses accumulated in Other Comprehensive Income ("OCI") in previous periods, upon consumption of the hedged fuel.

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 million (before tax).

As of June 30, 2009, approximately 28% 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$106 per barrel, of which 52% is subject to an average WTI-equivalent floor price of US$83 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 outstanding at June 30, 2009, 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 June 30, 2009.

Outstanding at June 30, 2009				
Derivative Instruments	**Term**	**Volume (BBLs)**	**WTI-equivalent Average Floor Price (US$ per barrel)**	**WTI-equivalent Average Capped Price (US$ per barrel)**
Call Options (1)	2009	1,600,000	n/a	121
	2010	400,000	n/a	134
Swaps (1)	2009	570,000	99	99
	2010	1,070,000	99	99
Collars (1)	2009	1,140,000	75	87
	2010	1,560,000	102	112

(1) 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 oil prices decrease below the average floor price.

Below is a table summarizing the impact of fuel derivatives on the consolidated statement of operations, consolidated statement of comprehensive loss and consolidated statement of financial position.

(Canadian dollars in millions)		Quarter 1 2009	Quarter 1 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 counterparties' ability to terminate the derivatives at fair value at any time prior to maturity.

Fuel and other derivatives 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 as a result of timing differences.

10. Off-Balance Sheet Arrangements

Information on the Corporation's off-balance sheet arrangements is disclosed in section 11 of ACE's 2008 MD&A dated August 7, 2009. There have been no material changes to the Corporation's off-balance sheet arrangements from what was disclosed at that time.

11. Related Party Transactions

At August 7, 2009, ACE held a 75% ownership interest in Air Canada and a 28.4% interest in Aero Technical Support and Services Holdings sarl ("ACTS Aero"). ACTS Aero owns 100% of Aveos Fleet Performance Inc. ("Aveos").

ACE is a participant lender in the Credit Facility as described in section 4 of this MD&A. ACE's participation in the Credit Facility amounts to $150 million of the outstanding loan of $600 million as at July 31, 2009. The participant lenders participate on a pro-rata basis with respect to any warrants and principal and interest payments.

Air Canada has various related party transactions with Aveos Fleet Performance Inc. ("Aveos") and ACE. The agreements between Air Canada and Aveos and between Air Canada and ACE are summarized in section 10 of ACE's 2008 MD&A dated August 7, 2009. There have been no material changes to the Corporation's related party agreements from what was disclosed at that time with the exception of ACE's participation in the Credit Facility and changes in payment terms related to related party agreements dated October 28, 2008 between Air Canada and Aveos.

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 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.

In 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.

12. Critical Accounting Estimates

Information on ACE's critical accounting estimates is disclosed in section 13 of ACE's 2008 MD&A dated August 7, 2009. There have been no material changes to ACE's critical accounting estimates from what was disclosed at that time.

13. Risk Factors

For a detailed description of the risk factors associated with the Corporation, refer to section 14 "Risk Factors" of ACE's 2008 MD&A dated August 7, 2009. There have been no material changes to the Corporation's risk factors from what was disclosed at that time.

14. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Corporation's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

In the Corporation's 2008 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporation's Quarter 1 2009 filings, the Corporation's CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporation's Audit, Finance & Risk Committee reviewed this MD&A, and the interim consolidated financial statements, and the Corporation's Board of Directors approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures

Management, with the participation of the Corporation's CEO and CFO, concluded, as at March 31, 2009, that such disclosure controls and processes were designed to provide reasonable assurance that:

(i) material information relating to the Corporation was made known to its Disclosure Policy Committee by others; and

(ii) information required to be disclosed by the Corporation in its annual filings, interim filings and other reports filed or submitted by the Corporation under securities legislation was recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management's Report on Internal Controls over Financial Reporting

Management, with the participation of the Corporation's CEO and CFO, concluded, as at March 31, 2009, that the Corporation's internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

Management and the CEO and CFO use the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework to design the Corporation's control framework.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporation's internal controls over financial reporting during Quarter 1 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

15. Non-GAAP Financial Measures

EBITDAR (earnings before interest, taxes, depreciation, amortization and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. The Corporation presents EBITDAR before and after the Provision for cargo investigations as this item could potentially distort the analysis of trends in business performance. EBITDAR is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

EBITDAR before the Provision for cargo investigations and EBITDAR for Air Canada are reconciled to operating loss as follows:

	Quarter 1		
(Canadian dollars in millions)	**2009**	**2008**	**$ Change**
Air Canada			
GAAP operating loss before the provision for cargo investigations	$ (188)	$ (12)	$ (176)
Add back:			
Aircraft rent	86	63	23
Depreciation and amortization	159	171	(12)
EBITDAR before the provision for cargo investigations	**57**	**222**	**(165)**
Provision for cargo investigations	-	(125)	125
EBITDAR	**$ 57**	**$ 97**	**$ (40)**
ACE Consolidated			
GAAP operating loss before the provision for cargo investigations	$ (192)	$ (27)	$ (165)
Add back:			
Aircraft rent	86	63	23
Depreciation and amortization	157	169	(12)
EBITDAR before the provision for cargo investigations	**51**	**205**	**(154)**
Provision for cargo investigations	-	(125)	125
EBITDAR	**$ 51**	**$ 80**	**$ (29)**

16. Glossary of Terms

Available Seat Miles or ASMs — A measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown.

CASM — Operating expense per ASM.

EBITDAR — EBITDAR is earnings before interest, taxes, depreciation, amortization, obsolescence and aircraft rent and is a non-GAAP financial measure.

Passenger Load Factor — A measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles.

Passenger Revenue per Available Seat Mile or RASM — Average passenger revenue per ASM.

Revenue Passenger Miles or RPMs — A measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried.

Yield — Average passenger revenue per RPM.