QUARTER 3 2009

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

November 6, 2009

Table of Contents

1. Preface **1**

2. Caution Regarding Forward-Looking Information **2**

3. ACE's Assets, Obligations and Net Assets at Fair Value **3**

4. Significant Events **4**

5. Accounting Policies **8**

5.1 Changes in Accounting Policies 8
5.2 Future Accounting Standard Changes 9
5.3 Update on the Progress of the International Financial Reporting Standards Conversion Plan 9

6. Results of Operations – Quarter 3 2009 .... **10**

6.1 Air Canada 13
6.2 Corporate Items and Eliminations ("CIE") 13

7. Results of Operations – First Nine Months of 2009 .... **14**

7.1 Air Canada 17
7.2 Corporate Items and Eliminations ("CIE") 18

8. Financial and Capital Management **19**

8.1 Analysis of Financial Position 19
8.2 Air Canada Liquidity 20
8.3 Consolidated Cash Flows 22
8.4 Contractual Obligations 25
8.5 Air Canada Pension Funding Obligations 26
8.6 Air Canada Capital Expenditures and Related Financing Arrangements 27
8.7 Share Information 28

9. Quarterly Financial Information **29**

10. Financial Instruments and Risk Management **30**

11. Off-Balance Sheet Arrangements **33**

12. Related Party Transactions **33**

13. Critical Accounting Estimates **33**

14. Risk Factors **33**

15. Controls and Procedures **43**

16. Non-GAAP Financial Measures **44**

17. Glossary of Terms **45**

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 $600 million Air Canada credit facility amounted 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. 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 3 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 17 "Glossary of Terms". Except as otherwise noted, this MD&A is current as of November 6, 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 this MD&A.

The ACE Audit, Finance & Risk Committee has reviewed this MD&A and the Quarter 3 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 this MD&A. 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. ACE's Assets, Obligations and Net Assets at Fair Value

The following table presents the non-consolidated assets and liabilities of ACE at fair value as at October 31, 2009 and September 30, 2009. The objective of this information is to present information on the assets and liabilities of ACE as certain of ACE's shareholders use this information to assess ACE's financial position. This non-GAAP information including net assets at fair value is not determined in accordance with any standards as prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to other similar information provided by other companies. This is not presented as a substitute for the balance sheet of ACE which has been prepared in accordance with Canadian GAAP and has been prepared on a going concern basis. Further, this presentation is not intended to reflect ACE's net asset value on a liquidation basis and does not purport to represent the fair value of ACE as a whole or per share. As disclosed in section 1 of this MD&A it is not management's intention to liquidate at this time.

(Canadian dollars in millions)	October 31 2009	September 30 2009
Cash and cash equivalents	$ 137	$ 134
Air Canada shares [1]	77	140
Air Canada secured loan [1]	150	150
Interest receivable on Air Canada loan	-	3
ACTS Aero [2]	-	-
	364	427
Convertible notes [3] [6]	(64)	(64)
Convertible preferred shares [4]	-	-
Current obligations	(1)	(1)
Contingencies [5]	-	-
	(65)	(65)
Net assets at fair value [6]	**$ 299**	**$ 362**
Net assets at fair value per share – Basic [6]	**$ 8.38**	**$ 10.14**

(1) As at October 31, 2009, ACE's holds a 27% ownership interest in Air Canada consisting of 75 million Class B Voting Shares and holds a secured loan of $150 million to Air Canada as part of the Air Canada Credit Facility. Under the Credit Facility, ACE received 1,250,000 warrants on July 30, 2009, for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.51 per share, exercisable at any time, and expiring four years after the date of issuance. An additional 1,250,000 warrants were issued to ACE on October 19, 2009 with an exercise price of $1.44 per share. The Air Canada shares of $77 million as at October 31, 2009 and $140 million as at September 30, 2009 are based on the market prices of $1.03 per Air Canada Class B share as at October 31, 2009 and $1.86 per Air Canada Class B share as at September 30, 2009, as quoted on the TSX. The Air Canada secured loan is included in the table above at its principal amount of $150 million. Refer to sections 7.1 and 8.2 for a discussion of Air Canada's results and liquidity risk.

(2) As at October 31, 2009, ACE's holds a 28.4% direct interest in Aero Technical Support & Services Holdings sarl ("ACTS Aero"), which owns 100% of Aveos Fleet Performance Inc. Since December 31, 2008, the carrying value of the Corporation's investment in ACTS Aero is nil.

(3) The principal amount of convertible notes outstanding as of October 31, 2009 is $64 million. Information on the Corporation's contractual obligations is disclosed in section 9.3 of ACE's 2008 MD&A dated August 7, 2009.

(4) As detailed in section 8.7 of this MD&A, ACE purchased its remaining convertible preferred shares in September 2009.

(5) ACE is subject to ongoing audits by Canadian tax authorities for the years 2005 to 2009 and no liabilities that may arise have been included above. In addition, should ACE proceed to a liquidation in the future, additional costs and other liabilities may arise.

(6) On November 5, 2009, the Board of Directors authorized the redemption for cash of its convertible senior notes. The notes will be repurchased by December 14, 2009. In addition, consistent with the overall objective of returning excess cash to shareholders, ACE intends, subject to regulatory compliance, to launch a substantial issuer bid to repurchase $20 million of its Shares. Further details will be announced prior to the launch of the Offer.

4. Significant Events

ACE

The following significant events occurred during the period January 1, 2009 to November 6, 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 amounted 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. Under the Credit Facility, ACE received 1,250,000 warrants on July 30, 2009 for the purchase of Air Canada's Class B Voting Shares with an exercise price of $1.51 per share, exercisable at any time, and expiring four years after the date of issuance. An additional 1,250,000 million warrants were issued to ACE under the credit facility on October 19, 2009 and have an exercise price of $1.44 per share, exercisable at any time, and expiring four years after the date of issuance.

On September 21, 2009, ACE announced it had entered into an agreement with Morgan Stanley Canada Limited pursuant to which ACE indirectly acquired for cancellation all of its remaining 3.2 million preferred shares at a price of $23.00 per preferred share for an aggregate purchase price of $74 million.

In October 2009, Air Canada completed an offering of 160,500,000 units with each unit comprised of one share and one-half of a warrant. In the same month Air Canada issued 17.6 million shares under the pension funding agreements, announced in July 2009. As a result of these share issuances by Air Canada, ACE's ownership in Air Canada was reduced from 75% to 27%. As at October 31, 2009, there were 90.25 million warrants outstanding to acquire Air Canada shares at exercise prices between $1.44 and $2.20.

Effective October 27, 2009, ACE will no longer consolidate Air Canada's financial position, operating results and cash flows. ACE's investment in Air Canada will be accounted for using the equity method whereby the Air Canada investment carrying value is adjusted to include the Corporation's pro rata share of post-dilution earnings.

Over the past few months, the ACE Board has continued to consider alternatives to maximize the return to shareholders. On November 5, 2009, the Board authorized the redemption for cash of the convertible senior notes and the required notice is being sent to the Trustee. The notes will be repurchased by December 14, 2009. In addition, consistent with the overall objective of returning excess cash to shareholders, ACE intends, subject to regulatory compliance, to launch a substantial issuer bid (the "Offer") to repurchase $20 million of its Class A Variable Voting Shares and Class B Voting Shares. Further details will be announced prior to the launch of the Offer. Going forward, the Board will continue to review alternatives to maximize the return to shareholders, including alternatives for its debt and equity interests in Air Canada.

Air Canada

Air Canada 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 8.2 of this MD&A.

In October 2009

On October 27, 2009, Air Canada completed a public offering for 160,500,000 units at a price of $1.62 per unit with each unit comprised of one Class B voting share or Class A variable voting share and one-half of a warrant for gross proceeds of $260 million (net proceeds of $248 million after expenses and underwriter fees of $12 million).

In addition, the underwriters have been granted an over-allotment option to purchase up to an additional 24,075,000 shares and/or 12,037,500 warrants at a price of $1.50 per share and $0.12 per each half warrant and otherwise on the same terms and conditions as the offering, exercisable in whole or in part at any time until November 27, 2009.

During the third quarter of 2009

- A secured term credit facility (the "Credit Facility") for financing proceeds of $600 million, less fees of $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. 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 10% of the shares of Air Canada, which at the time of the issuance of the warrants represented 10 million shares in Air Canada. 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 $76 million as at September 30, 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 or renewal 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 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. Pursuant to the Pension MOUs, on October 26, 2009, Air Canada issued, to a trust, 17,647,059 Class B voting shares. This number of shares represented 15% of the

shares of Air Canada issued and outstanding as at the date of the Pension MOUs and the date of issuance (after taking into account such issuance). All net proceeds of sale of such shares by the trust are to be contributed to the pension plans;

- An agreement with a supplier for non-refundable proceeds of $230 million in consideration of various contractual commitments. For accounting purposes, the recognition of these proceeds was deferred and will be applied to reduce the cost of these 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 revising 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 8.2 of this MD&A;

- An extension to a short-term loan of $82 million (U.S.$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. The sale and leaseback transactions were substantially completed in early November 2009 and provided initial net cash proceeds of $95 million (net of deposits), with additional net proceeds of $20 million to be received upon completion of a remaining part of the transaction, which is expected to occur later in the fourth quarter of 2009; and

- An agreement amending the terms related to Air Canada's capacity purchase agreement with Jazz, effective August 1, 2009, which provides 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 repaid in July 2009 in connection with the entering of 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.

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;

- The sale and leaseback of one 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 in exchange for the issuance of bills of exchange due in February 2010. Subsequent to the initial transaction, Air Canada settled or holds as collateral certain of the bills and, as a result, the expected final payment in 2010 is $18 million (U.S. $17 million) as at October 31, 2009;

- Repayment of pre-delivery financing of $83 million on the Boeing 777 aircraft received during the first quarter of 2009; and

- Net return of collateral deposits on fuel derivatives in the amount of $147 million more than offset by the settlement of fuel derivative contracts in favour of counterparties in the amount of $217 million.

At October 31, 2009, Air Canada had cash and cash equivalents and short-term investments of $1,460 million ($1,005 million at December 31, 2008 and $1,209 million as at September 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 8.2 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 third 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 3 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.

5.1 Changes in Accounting Policies

Stock-based compensation plans

The Corporation changed its accounting policy for awards of stock-based compensation granted to Corporation employees with a graded vesting schedule. Prior to January 1, 2009, the fair value of stock options with a graded vesting schedule was recognized as compensation expense and a credit to contributed surplus on a straight-line basis over the applicable vesting period. Effective January 1, 2009, the fair value of stock options with a graded vesting schedule is determined based on different expected lives for the options that vest each year as it would be if the award is viewed as several separate awards, each with a different vesting date, and it is accounted for on that basis. The new accounting policy provides more reliable and relevant information about the consequences of the transactions.

The impact of the change in accounting policy for awards granted to Corporation employees with a graded vesting schedule was immaterial to any prior period and therefore was not adjusted.

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.

5.2 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.

5.3 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 3 2009

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for Quarter 3 2009. Segment information has been prepared consistent with how financial information is produced internally for the purposes of making business decisions.

	Quarter 3 2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE Total**
Operating revenue			
Passenger revenue	$ 2,400	$ -	$ 2,400
Cargo revenue	92	-	92
Other revenue	178	-	178
	2,670	-	2,670
Operating expenses			
Aircraft fuel	682	-	682
Wages, salaries and benefits	437	-	437
Airport and navigation fees	272	-	272
Capacity purchase with Jazz	246	-	246
Depreciation and amortization	171	(1)	170
Aircraft maintenance	183	-	183
Food, beverages and supplies	82	-	82
Communications and information technology	70	-	70
Aircraft rent	81	-	81
Commissions	51	-	51
Other operating expenses	327	1	328
	2,602	-	2,602
Operating income	**68**	**-**	**68**
Non-operating income (expense)			
Interest income	2	1	3
Interest expense	(87)	-	(87)
Interest capitalized	1	-	1
Gain on assets	1	-	1
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(10)	(10)
Gain on financial instruments recorded at fair value	4	-	4
Other non-operating expense	(4)	-	(4)
	(83)	(9)	(92)
Loss before the following items	**(15)**	**(9)**	**(24)**
Non-controlling interest	(3)	(69)	(72)
Foreign exchange gain	295	-	295
Provision for income taxes	-	(1)	(1)
Net income (loss) for the period	**277**	**(79)**	**198**
EBITDAR [(1)]	**$ 320**	**$ (1)**	**$ 319**

(1) Refer to section 16 "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 3 2008.

	Quarter 3 2008		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE Total**
Operating revenue			
Passenger revenue	$ 2,766	$ -	$ 2,766
Cargo revenue	139	-	139
Other revenue	170	-	170
	3,075	-	3,075
Operating expenses			
Aircraft fuel	1,064	-	1,064
Wages, salaries and benefits	472	7	479
Airport and navigation fees	275	-	275
Capacity purchase with Jazz	243	-	243
Depreciation and amortization	176	(2)	174
Aircraft maintenance	127	-	127
Food, beverages and supplies	86	-	86
Communications and information technology	69	-	69
Aircraft rent	67	-	67
Commissions	54	-	54
Other operating expenses	330	2	332
	2,963	7	2,970
Operating income (loss)	**112**	**(7)**	**105**
Non-operating income (expense)			
Interest income	13	6	19
Interest expense	(72)	(15)	(87)
Interest capitalized	6	-	6
Gain (loss) on assets	-	-	-
Gain on financial instruments recorded at fair value	(93)	-	(93)
Equity and other investment loss	-	(19)	(19)
Other non-operating expense	(1)	-	(1)
	(147)	(28)	(175)
Loss before the following items	**(35)**	**(35)**	**(70)**
Non-controlling interest	(2)	32	30
Foreign exchange gain	(87)	-	(87)
Provision for income taxes	(8)	-	(8)
Net income (loss) for the period	**(132)**	**(3)**	**(135)**
EBITDAR [(1)]	**$ 355**	**$ (9)**	**$ 346**

(1) *Refer to section 16 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR to operating income (loss).*

ACE recorded operating income of $68 million in Quarter 3 2009 compared to operating income of $105 million in Quarter 3 2008. Air Canada recorded an operating income of $68 million, a deterioration of $44 million from the operating income of $112 million recorded in the third quarter of 2008.

ACE recorded EBITDAR of $319 million in Quarter 3 2009 compared to EBITDAR of $346 million in the same period in 2008. Air Canada reported EBITDAR of $320 million in the third quarter of 2009 compared to EBITDAR of $355 million in the same period in 2008, a decrease of $35 million.

ACE recorded operating revenues of $2,670 million and operating expenses of $2,602 million in Quarter 3 2009. In the same period in 2008, ACE recorded operating revenues of $3,075 million and operating expenses of $2,970 million. Air Canada's operating revenues of $2,670 million decreased $405 million from the same period in 2008. Passenger and cargo revenues decreased $366 million and $47 million, respectively, while other revenue increased by $8 million. The decrease in passenger and cargo revenues was due to both reduced traffic and lower yield. Air Canada's operating expenses of $2,602 million decreased $361 million from the same period in 2008. Reduced fuel expense of $382 million versus the same period in 2008 was the main factor in the decrease in operating expenses.

Non-operating expense amounted to $92 million in Quarter 3 2009 compared to non-operating expense of $175 million in Quarter 3 2008. In Quarter 3 2009, ACE recorded a loss on repurchase of the preferred shares within non-operating expense in the amount of $10 million. The repurchase price of this instrument, allocated to the liability component of this compound instrument, exceeded the respective carrying values resulting in a loss of $10 million being recorded. The residual equity component of the instrument amounting to $23 million has been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Refer to section 8.7 of this MD&A for additional information.

Air Canada's non-operating expense amounted to $83 million in the third quarter of 2009 compared to non-operating expense of $147 million in the third quarter of 2008. Factors contributing to the year-over-year change in the third quarter non-operating expense included:

- Gains related to fair value adjustments on derivative instruments amounted to $4 million in the third quarter of 2009 versus losses of $93 million in the same quarter of 2008. The mark-to-market gains on financial instruments recorded in the third quarter of 2009 were mainly related to a change in the fair value of fuel derivatives. Refer to section 10 of this MD&A for additional information on Air Canada's derivative instruments.
- Net interest expense increased $31 million from the third quarter of 2008 due to:
    - A decrease in interest income of $11 million due to both lower cash balances and lower rates of interest;
    - An increase in interest expense of $15 million, in part due to new financing transactions completed since the third quarter of 2008 and the unfavourable impact of foreign exchange on interest expense. These increases were partly offset by the impact of lower average interest rates year-over-year.
    - A lower amount of capitalized interest of $5 million compared to the third quarter of 2008.

In Quarter 3 2009, $72 million of net income was allocated to non-controlling interest compared to $30 million of the net loss being allocated to non-controlling interest in Quarter 3 2008.

Gains on foreign exchange amounted to $295 million in the third quarter of 2009 compared to losses of $87 million in the third quarter of 2008. The gains in the third quarter of 2009 were attributable to a stronger Canadian dollar at September 30, 2009 compared to June 30, 2009. The September 30, 2009 noon day exchange rate was US$1 = C$1.0722 while the June 30, 2009 noon day exchange rate was US$1 = C$1.1625.

Net income in Quarter 3 2009 amounted to $198 million or $5.15 per diluted share. In Quarter 3 2008, ACE recorded net loss of $135 million or $3.86 per diluted share.

6.1 Air Canada

Air Canada recorded net income of $277 million or $2.44 per diluted share in the third quarter of 2009 compared to a net loss of $132 million or $1.32 per diluted share in the third quarter of 2008. The net income recorded in the third quarter of 2009 included foreign exchange gains of $295 million. The foreign exchange gains were primarily attributable to a stronger Canadian dollar at September 30, 2009 versus June 30, 2009. The September 30, 2009 noon day exchange rate was US$1 = C$1.0722 while the June 30, 2009 noon day exchange rate was US $1 = C$1.1625. The third quarter 2008 included a foreign exchange loss of $87 million.

In the third quarter of 2009, Air Canada recorded an operating income of $68 million, a deterioration of $44 million from the operating income of $112 million recorded in the third quarter of 2008. EBITDAR amounted to $320 million in the third quarter of 2009 compared to EBITDAR of $355 million in the same period in 2008, a decrease of $35 million.

In the third quarter of 2009, operating revenues of $2,670 million decreased $405 million or 13% from the operating revenues of $3,075 million recorded in the third quarter of 2008. The decrease in operating revenues was mainly due to a passenger revenue decline of $366 million or 13.2% over the same period in 2008. The passenger revenue decline was due to both lower yield and reduced traffic. Yield declined 11.2% from the third quarter of 2008. Traffic decreased 2.1% on a capacity reduction of 3.3%, resulting in a passenger load factor improvement of 1.0 percentage point. RASM decreased 10.2% over the same period in 2008, mainly due to the yield decline.

In the third quarter of 2009, operating expenses of $2,602 million decreased $361 million or 12% from the operating expenses of $2,963 million recorded the third quarter of 2008. Reduced fuel expense of $382 million versus the same period in 2008 was the main factor in the decrease in operating expenses.

In the third quarter of 2009, CASM decreased 9.2% from the third quarter of 2008. Excluding fuel expense, CASM increased 4.5% mainly due to higher maintenance costs versus the same period in 2008. In the third quarter of 2009, the unfavourable impact of a weaker Canadian dollar versus the U.S. dollar was also a factor in the CASM growth (excluding fuel expense) year-over-year. Partly offsetting these increases to CASM (excluding fuel expense) was a reduction in employee benefits expense, the result of revised actuarial assumptions.

6.2 Corporate Items and Eliminations ("CIE")

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

CIE recorded a non-operating expense of $9 million in Quarter 3 2009 compared to a non-operating expense of $28 million in Quarter 3 2008.

Factors contributing to the year-over-year change in Quarter 3 2009 included:

- In Quarter 3 2009, ACE recorded a Loss on repurchase of the preferred shares within Non-operating expense in the amount of $10 million. The repurchase price of this instrument, allocated to the liability component of this compound instrument, exceeded the respective carrying values resulting in a loss of $10 million being recorded. The residual equity component of the instrument amounting to $23 million has been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Refer to section 8.7 of this MD&A for additional information.

- A reduction in interest expense of $15 million as a result of the purchase for cancellation in January, 2009, of 80% of ACE's convertible senior notes outstanding as at December 31, 2008 and the purchase of ACE's convertible preferred shares.

- ACE's consolidated statement of operations for Quarter 3 2008 reflected $19 million of equity and other investment loss from ACE's investment in ACTS Aero.

In Quarter 3 2009, $69 million of net income was allocated to non-controlling interest compared to $32 million of the net loss being allocated to non-controlling interest in Quarter 3 2008.

7. Results of Operations – First Nine Months of 2009

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

	First Nine Months of 2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE Total**
Operating revenue			
Passenger revenue	$ 6,469	$ -	$ 6,469
Cargo revenue	248	-	248
Other revenue	674	-	674
External revenue	7,391	-	7,391
Inter-segment revenue	-	-	-
	7,391	-	7,391
Operating expenses			
Aircraft fuel	1,847	-	1,847
Wages, salaries and benefits	1,333	4	1,337
Airport and navigation fees	743	-	743
Capacity purchase with Jazz	746	-	746
Depreciation and amortization	495	(5)	490
Aircraft maintenance	557	-	557
Food, beverages and supplies	222	-	222
Communications and information technology	229	-	229
Aircraft rent	250	-	250
Commissions	140	-	140
Other operating expenses	1,062	7	1,069
	7,624	6	7,630
Operating loss	**(233)**	**(6)**	**(239)**
Non-operating income (expense)			
Interest income	12	2	14
Interest expense	(286)	(6)	(292)
Interest capitalized	4	-	4
Loss on assets	(70)	-	(70)
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(43)	(43)
Gain on financial instruments recorded at fair value	73	-	73
Other non-operating expense	(5)	-	(5)
	(272)	(47)	(319)
Loss before the following items	**(505)**	**(53)**	**(558)**
Non-controlling interest	(11)	(9)	(20)
Foreign exchange gain	549	-	549
Provision for income taxes	(1)	(6)	(7)
Net income (loss) for the period	**32**	**(68)**	**(36)**
EBITDAR [1]	**$ 512**	**$ (11)**	**$ 501**

(1) *Refer to section 16 "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 the first nine months of 2008.

	First Nine Months of 2008		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE Total**
Operating revenue			
Passenger revenue	$ 7,531	$ -	$ 7,531
Cargo revenue	402	-	402
Other revenue	650	1	651
External revenue	8,583	1	8,584
Inter-segment revenue	1	(1)	-
	8,584	-	8,584
Operating expenses			
Aircraft fuel	2,627	-	2,627
Wages, salaries and benefits	1,433	29	1,462
Airport and navigation fees	771	-	771
Capacity purchase with Jazz	711	-	711
Depreciation and amortization	520	(6)	514
Aircraft maintenance	502	-	502
Food, beverages and supplies	244	-	244
Communications and information technology	214	-	214
Aircraft rent	199	-	199
Commissions	154	-	154
Other operating expenses	1,102	8	1,110
	8,477	31	8,508
Operating income (loss) before under-noted item	**107**	**(31)**	**76**
Provision for cargo investigations	(125)	-	(125)
Operating loss	**(18)**	**(31)**	**(49)**
Non-operating income (expense)			
Interest income	46	21	67
Interest expense	(231)	(39)	(270)
Interest capitalized	31	-	31
Gain (loss) on assets	(29)	990	961
Gain on financial instruments recorded at fair value	60	-	60
Equity and other investment loss	-	(2)	(2)
Other non-operating income (expense)	(3)	1	(2)
	(126)	971	845
Income (loss) before the following items	**(144)**	**940**	**796**
Non-controlling interest	(8)	70	62
Foreign exchange loss	(128)	-	(128)
Provision for income taxes	(18)	(199)	(217)
Net income (loss) for the period	**$ (298)**	**$ 811**	**$ 513**
EBITDAR before the provision for cargo investigations [(1)]	**$ 826**	**$ (37)**	**$ 789**
EBITDAR [(1)]	**$ 701**	**$ (37)**	**$ 664**

(1) Refer to section 16 "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 $239 million in the first nine months of 2009 compared to operating income of $76 million, before the provision for cargo investigations, in the first nine months of 2008. Air Canada reported an operating loss of $233 million in the first nine months of 2009 compared to operating income of $107 million, before a provision for cargo investigations, in the first nine months of 2008, a decrease of $340 million versus the same period in 2008. In the first nine months of 2008, Air Canada recorded a provision for cargo investigations of $125 million relating to alleged anti-competitive cargo pricing activities.

ACE recorded EBITDAR of $501 million in the first nine months of 2009 compared to EBITDAR (before the provision for cargo investigations) of $789 million in the same period in 2008. In the first nine months of 2009, Air Canada reported EBITDAR of $512 million compared to EBITDAR (before the provision for cargo investigations) of $826 million in the same period in 2008, a decrease of $314 million.

ACE recorded operating revenues of $7,391 million and operating expenses of $7,630 million in the first nine months of 2009. In the same period in 2008, ACE recorded operating revenues of $8,584 million and operating expenses of $8,508 million. Air Canada's operating revenues of $7,391 million decreased $1,193 million from the same period in 2008. Passenger and cargo revenues decreased $1,062 million and $154 million, respectively, while other revenue increased by $23 million. The decrease in passenger and cargo revenues was due to both reduced traffic and lower yield. Air Canada's operating expenses of $7,624 million decreased $853 million from the same period in 2008. Reduced fuel expense of $780 million versus the same period in 2008 was the main factor in the decrease in operating expenses.

Non-operating expense amounted to $319 million in the first nine months of 2009 compared to non-operating income of $845 million in the first nine months of 2008. In the first nine months of 2009, ACE recorded a Loss on repurchase of the convertible senior notes and preferred shares within Non-operating expense in the amount of $43 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 $43 million being recorded. The residual equity components of the instruments amounting to $182 million have been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Refer to section 8.7 of this MD&A for additional information. Included in the first nine months of 2008 were gains totalling $990 million on ACE's sale of Aeroplan Income Fund units and Jazz Air Income Fund units.

Air Canada's non-operating expense amounted to $272 million in the first nine months of 2009 compared to non-operating expense of $126 million in the first nine months of 2008. Factors contributing to the year-over-year change in first nine months non-operating expense included:

- Gains related to fair value adjustments on derivative instruments amounted to $73 million in the first nine months of 2009 versus gains of $60 million in the same quarter of 2008. The non-cash mark-to-market gains on financial instruments recorded in the first nine months of 2009 were mainly related to the change in the fair value of fuel derivatives.
- Net interest expense increased $116 million from the first nine months of 2008 due to:
    - A lower amount of capitalized interest of $27 million compared to the same period in 2008;
    - A decrease in interest income of $34 million due to both lower cash balances and lower rates of interest;
    - An increase in interest expense of $55 million included, mainly due to the impact of new financing transactions completed in the first nine months of 2009 and the unfavourable impact of foreign exchange on interest expense. These increases were partly offset by the impact of lower average interest rates year-over-year. In addition, in the first nine months of 2009, Air Canada recorded a charge of $17 million related to a sale and leaseback transaction of one Boeing 777 aircraft and a charge of $9 million related to the termination of the capital leases of two Airbus A340 aircraft and the subsequent sale of these aircraft. 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;

- In the first nine months of 2009, Air Canada recorded an impairment charge of $67 million 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.
- In the first nine months of 2008, Air Canada recorded an impairment charge of $38 million relating to the retirement of its fleet of Boeing 767-200 aircraft. and gains amounting to $7 million pertaining to the sale of aircraft-related inventory.

In the first nine months of 2009, $20 million of net income was allocated to non-controlling interest compared to $62 million of the net loss being allocated to non-controlling interest in the first nine months of 2008.

Gains on foreign exchange amounted to $549 million in the first nine months of 2009 compared to losses of $128 million in the first nine months of 2008. The gains in the first nine months of 2009 were mainly attributable to a stronger Canadian dollar at September 30, 2009 compared to December 31, 2008. The September, 2009 noon day exchange rate was US$1 = C$1.0722 while the December 31, 2008 noon day exchange rate was US$1 = C$1.2246.

The net loss in the first nine months of 2009 amounted to $36 million or $1.01 per diluted share. Net income in the first nine months of 2008 amounted to $513 million or $7.43 per diluted share. The net income in the first nine months of 2008 included the significant gains on disposal of the remaining units of Aeroplan Income Fund and Jazz Air Income Fund partially offset by the provision for cargo investigations of $125 million recorded by Air Canada. The net loss in the first nine months of 2009 included the benefit of foreign exchange gains of $549 million.

7.1 Air Canada

Air Canada recorded income of $32 million or $0.30 per diluted share in the first nine months of 2009 compared to a loss of $298 million or $2.98 per diluted share in the first nine months of 2008.

The net income recorded in the first nine months of 2009 included foreign exchange gains of $549 million. The gains in the first nine months of 2009 were attributable to a stronger Canadian dollar at September 30, 2009 compared to December 31, 2008. The September 30, 2009 noon day exchange rate was US$1 = C$1.0722 while the December 31, 2008 noon day exchange rate was US$1 = C$1.2246.

In the first nine months of 2009, Air Canada recorded an operating loss of $233 million, a deterioration of $340 million from the operating income of $107 million, before the provision for cargo investigations, recorded in the first nine months of 2008. EBITDAR amounted to $512 million in the first nine months of 2009 compared to EBITDAR, before the provision for cargo investigations, of $826 million in the same period in 2008, a decrease of $314 million.

In the first nine months of 2009, operating revenues of $7,391 million decreased $1,193 million or 14% from the operating revenues of $8,584 million recorded in the third quarter of 2008. The decrease in operating revenues was mainly due to a passenger revenue decline of $1,062 million or 14.1% over the same period in 2008. The passenger revenue decline was due to both lower yield and reduced traffic. Yield declined 7.8% from the first nine months of 2008. Traffic decreased 6.7% on a capacity reduction of 6.2%, resulting in a passenger load factor decrease of 0.5 percentage points. RASM decreased 8.4% over the same period in 2008, mainly due to the yield decline.

A weaker Canadian dollar in the first nine months of 2009 versus the first nine months of 2008 had a positive impact on foreign currency denominated revenues of $186 million.

In the first nine months of 2009, operating expenses of $7,624 million decreased $853 million or 10% from the operating expenses of $8,477 million recorded the first nine months of 2008. Reduced fuel expense of $780 million versus the same period in 2008 was the main factor in the decrease in operating expenses.

In the first nine months of 2009, CASM decreased 4.1% from the first nine months of 2008. Excluding fuel expense, CASM increased 5.3% from the first nine months of 2008. The unfavourable impact of a weaker Canadian dollar versus the US dollar accounted for over 50% of the CASM growth (excluding fuel expense) in the first nine months of 2009. In addition to the impact of foreign exchange, other factors included: increased Jazz CPA rates; growth in aircraft maintenance expenses; the higher unit cost of ownership, and the impact of the capacity reduction. Partly offsetting these increases to CASM was a reduction in employee benefits expense, the result of revised actuarial assumptions.

7.2 Corporate Items and Eliminations ("CIE")

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

CIE recorded a non-operating expense of $47 million in the first nine months of 2009 compared to non-operating income of $971 million in the first nine months of 2008.

Factors contributing to the year-over-year change in the first nine months of 2009 included:

- In the first nine months of 2008, gains totalling $990 million were recorded in CIE as a result of ACE's sale of Aeroplan Income Fund units and Jazz Air Income Fund units.

- In the first nine months of 2009, ACE recorded a Loss on repurchase of the convertible senior notes and preferred shares within Non-operating expense in the amount of $43 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 $43 million being recorded. The residual equity components of the instruments amounting to $182 million have been transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Refer to section 8.7 of this MD&A for additional information.

- A reduction in interest expense of $33 million as a result of the purchase for cancellation in January, 2009, of 80% of ACE's convertible senior notes outstanding as at December 31, 2008 and the purchase of ACE's convertible preferred shares.

In the first nine months of 2009, $9 million of the net income was allocated to non-controlling interest compared to $70 million of a net loss being allocated to non-controlling interest in the first nine months of 2008.

8. Financial and Capital Management

The following table summarizes ACE's consolidated statement of financial position as at September 30, 2009 and as at December 31, 2008.

Condensed Consolidated Statement of Financial Position (Canadian dollars in millions)	September 30, 2009	December 31, 2008
Assets		
Cash, cash equivalents and short-term investments	$ 1,343	$ 1,813
Other current assets	1,246	1,396
Current assets	2,589	3,209
Property and equipment	6,899	7,469
Intangible assets	627	698
Deposits and other assets	500	495
	$ 10,615	**$ 11,871**
Liabilities		
Current liabilities	$ 3,156	$ 3,704
Long-term debt and capital leases	4,354	4,980
Convertible preferred shares	-	206
Pension and other benefits liabilities	1,262	1,585
Other long-term liabilities	515	420
	9,287	**10,895**
Non-controlling interest	**528**	**512**
Shareholders' equity	**800**	**464**
	$ 10,615	**$ 11,871**

8.1 Analysis of Financial Position

ACE

Cash, cash equivalents and short-term investments
Refer to section 8.3 of this MD&A for a discussion of the change in non-consolidated Cash, cash equivalents and short-term investments.

Long-term debt and capital leases (including current portion)
In January 2009, ACE completed a 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. Refer to section 4 of this MD&A for the announcement concerning ACE's redemption of its convertible senior notes.

Convertible preferred shares
In January 2009 and March 2009, ACE completed substantial issuer bids resulting in the purchase for cancellation of 9.3 million of ACE's convertible preferred shares at a purchase price of $20.00 per preferred share. In September 2009, ACE purchased for cancellation the remaining 3.2 million convertible preferred shares at a purchase price of $23.00 per share. In Quarter 1 2009, the Corporation paid an aggregate purchase price of $186 million for the shares tendered. In Quarter 3 2009, the Corporation paid an aggregate purchase price of $74 million for the remaining shares.

Non-controlling interest
ACE's non-controlling interest amounted to $528 million as at September 30, 2009, an increase of $16 million from December 31, 2008. The change in non-controlling interest was largely due to the non-controlling

interests' share of the net income experienced by Air Canada in the first nine months of 2009. Refer to section 7.1 of this MD&A for a discussion of Air Canada results of operations for the nine months ended September 30, 2009.

Air Canada

Property and equipment amounted to $6,899 million at September 30, 2009, a reduction of $570 million from December 31, 2008. The reduction was mainly due to the impact of depreciation expense of $446 million in the first nine months of 2009 and the sale of two Airbus A340 aircraft partly offset by additions to capital assets.

Long-term debt and capital leases, including the current portion, amounted to $4,996 million at September 30, 2009, a decrease of $358 million from December 31, 2008. The decrease in long-term debt and capital leases was mainly due to the appreciation of the Canadian dollar and the resulting favourable impact of $602 million on Air Canada's U.S. dollar debt and capital leases. Additional borrowings of $930 million, including those under the Credit Facility described in section 4 of this MD&A, were largely offset by long-term debt and capital lease repayments of $856 million. In addition, the sale and leaseback of a Boeing 777 aircraft was accounted for as a capital lease which resulted in an increase to total long-term debt of $158 million.

The decline in pension and other benefits liabilities of $323 million from December 31, 2008 was primarily due to pension and other benefits funding of $315 million in excess of pension expense in the first nine months of 2009. Refer to section 9.4 of ACE's 2008 MD&A dated August 7, 2009 and section 8.5 of this MD&A for a discussion on Air Canada's pension funding obligations.

8.2 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. As at September 30, 2009, the cash and cash equivalents and short-term investments were 12% of the preceding four quarters operating revenues and 15% as at October 31, 2009, which includes the net proceeds under the offering completed on October 27, 2009.

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 such as those related to the current economic environment, including risks related to market volatility in the price of fuel, foreign exchange and interest rates and increased competitive pressures as well as risks relating to restrictive terms under Air Canada's financing, credit card processing and other arrangements and other risks identified in section 9.2 of ACE's 2008 MD&A dated August 7, 2009 and section 14 of this MD&A. The H1N1 influenza virus may also continue to impact demand for air travel. Air Canada is continuing to monitor the H1N1 influenza virus risk. While Air Canada has developed contingency plans related to the H1N1 influenza virus risk, it is unable to predict the likelihood of this risk materializing or the impact on Air Canada to the extent this risk does materialize. This section updates Air Canada's year-end disclosures and should be read in conjunction with section 9.2 of ACE's 2008 MD&A dated August 7, 2009. Refer to section 8.4 of this MD&A for information on Air Canada's contractual obligations.

Pension funding obligations

Refer to section 9.4 of ACE's 2008 MD&A dated August 7, 2009 and section 8.5 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 third quarter of 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 (which would require deposits of cash) based on a debt service coverage ratio is no longer applicable under the amended agreements. The agreements provide that 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. This occurred in July and August of 2009 upon which all deposits were returned to Air Canada. As long as unrestricted cash remains at or above $1,100 million at each month-end, Air Canada will have no obligation to provide deposits or security to the processor. Pursuant to the amendments entered into, should Air Canada's unrestricted cash be less than $1,100 million at any month-end, its obligation to provide deposits to the processor would be capped at an amount not to exceed $75 million, provided unrestricted cash is not less than $800 million. The amended credit card processing agreements discussed above expire in May 2010.

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 this MD&A. 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

Air Canada currently holds swaps and put options within collar structures which could expose Air Canada to the potential of posting cash collateral deposits. Once the fair value in favour of the counterparties of certain fuel derivatives exceeds certain agreed credit thresholds with those counterparties, Air Canada is responsible for extending collateral to the counterparties to cover their exposure.

As at October 31, 2009, the total cash collateral deposits held by counterparties amounted to $83 million ($105 million as at September 30, 2009 and $328 million at December 31, 2008). If oil prices remain at their current levels for the remainder of 2009 and for 2010, the collateral extended would cover the expected losses on existing fuel hedging contracts maturing in 2009 and 2010 and would not generate additional cash outflows to Air Canada. Refer to section 12 of ACE's 2008 MD&A dated August 7, 2009 and section 10 of this MD&A for a discussion on fuel price risk.

8.3 Consolidated Cash Flows

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

	Quarter 3			First Nine Months		
(Canadian dollars in millions)	**2009**	**2008**	**$ Change**	**2009**	**2008**	**$ Change**
Cash from (used for) operating activities	$ (240)	$ (265)	$ 25	$ (188)	$ 181	$ (369)
Cash from (used for) financing activities	107	(67)	174	(569)	(2,364)	1,795
Cash from (used for) investing activities	458	172	286	626	1,204	(578)
Net change in cash and cash equivalents during the period	**325**	**(160)**	**485**	**(131)**	**(979)**	**848**
Cash and cash equivalents - Beginning of period	**851**	**1,481**	**(630)**	**1,307**	**2,300**	**(993)**
Cash and cash equivalents - End of period	**$ 1,176**	**$ 1,321**	**$ (145)**	**$ 1,176**	**$ 1,321**	**$ (145)**

** Cash and cash equivalents exclude Short-term investments of $167 million as at September 30, 2009 (as at September 30, 2008 - $617 million).*

ACE

The following summarizes significant transactions or factors which impacted ACE's non-consolidated cash and cash equivalents in the first nine months of 2009:

- In January 2009, ACE 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, ACE completed a substantial issuer bid to purchase for cancellation 8.3 million of its convertible preferred shares at a purchase price of $20.00 per preferred share. On January 21, 2009, the Corporation paid an aggregate purchase price of $166 million for the shares tendered.

- In March 2009, ACE completed a substantial issuer bid to purchase for cancellation 1.0 million of its convertible preferred shares at a purchase price of $20.00 per preferred share. On March 23, 2009, the Corporation paid an aggregate purchase price of $20 million for the shares tendered.

- In July 2009, ACE participated in the Air Canada credit facility providing financing of $150 million, which represents 25% of the $600 million Credit Facility. The Credit Facility is a five-year facility repayable in sixteen (16) consecutive quarterly installments commencing in August 2010 with the final balloon installment due in July 2014. The Credit Facility bears interest at a rate based upon the greater of the bankers' acceptance rate or 3.00% plus 9.75% (12.75% at September 30, 2009).

- In September 2009, ACE entered into an agreement with Morgan Stanley Canada Limited pursuant to which ACE indirectly purchased for cancellation all of its remaining 3.2 million preferred shares at a price of $23.00 per share for an aggregate purchase price of $74 million.

The following summarizes significant transactions or factors which impacted ACE's unconsolidated cash, cash equivalents and short-term investments in the first nine months of 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.
- On April 21, 2008, ACE completed the sale of 20,400,000 units of Aeroplan Income Fund at a price of $17.50 per unit, for total net proceeds to ACE of $343 million.
- On June 2, 2008, ACE completed the sale in the market of a total of 11,726,920 units of Jazz Air Income Fund for total net proceeds to ACE of $85 million.
- On June 2, 2008, ACE completed the sale in the market of a total of 19,892,088 units of Aeroplan Income Fund for total net proceeds to ACE of $349 million.
- On June 18, 2008, 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 at $22.00 per share for an aggregate purchase price of $500 million, in accordance with the terms of a substantial issuer bid.
- In June 2008, an entity related to Grupo TACA exercised its put option and sold its 5% equity interest in ACTS Aero to ACE for $19 million.

Air Canada

The following summarizes significant transactions or factors which impacted Air Canada's consolidated cash, cash equivalents and short-term investments in Quarter 3 2009:

Cash flows used for operating activities amounted to $234 million, an improvement of $34 million from Quarter 3 2008. The improvement in operating cash flows versus the same period in 2008 was primarily driven by changes in non-cash working capital balances.

Cash flows from financing activities amounted to $331 million in Quarter 3 2009. In Quarter 3 2009, Air Canada had new borrowings of $587 million, relating to the Credit Facility, which was partially offset by a reduction of long-term debt and capital lease obligations of $256 million.

Cash flows from investing activities in Quarter 3 2009 amounted to $457 million. In Quarter 3 2009, Air Canada entered into an agreement with a supplier for non-refundable proceeds of $230 million in consideration of various contractual commitments. Additions to capital assets at Air Canada amounted to $34 million.

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

Cash flows from operating activities decreased $367 million from the first six months 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 Air Canada'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 $256 million in the first six months 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. In Quarter 2 2009, Air Canada had new borrowings of $76 million, relating mainly to a secured loan with Aeroplan, which was more than offset by a reduction of long-term debt and capital lease obligations of $177 million.

Cash flows from investing activities in the first six months 2009 amounted to $169 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. In Quarter 2 2009, Air Canada sold two A340 aircraft for proceeds of $91 million. Additions to capital assets at Air Canada amounted to $156 million.

8.4 Contractual Obligations

ACE

ACE's contractual obligations consist of its Convertible Senior Notes repayable on June 1, 2010 in the amount of $64 million. 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 September 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. Further information is disclosed in section 9.3 of ACE's 2008 MD&A dated August 7, 2009.

On November 5, 2009, the Board of Directors authorized the redemption for cash of ACE's senior convertible notes. The notes will be repurchased by December 14, 2009. Following the redemption, ACE will not have any remaining interest repayment obligations associated with the convertible senior notes.

Air Canada

The table below provides Air Canada's current contractual obligations 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)	$ 193	$ 826	$ 1,071	$ 792	$ 830	$ 2,882	$ 6,594
Operating lease obligations (2)	94	359	319	298	264	776	2,110
Committed capital expenditures (3)	11	60	53	137	753	3,912	4,926
Total contractual obligations (4)	**$ 298**	**$ 1,245**	**$ 1,443**	**$ 1,227**	**$ 1,847**	**$ 7,570**	**$ 13,630**

(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 U.S. dollar aircraft operating leases.
(3) The committed capital expenditures above mainly relate to U.S. 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.

8.5 Air Canada Pension Funding Obligations

Air Canada maintains several defined benefit pension plans as described in section 9.4 of ACE's 2008 MD&A dated August 7, 2009. As at December 31, 2008, Air Canada reported that the solvency deficit as at January 1, 2009 in the registered pension plans, which is used to determine funding requirements, was estimated to be approximately $3,200 million. As a result of updated information, including the annuity rate applied in discounting the pension obligations, the solvency deficit as at January 1, 2009 is approximately $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 the Pension MOUs identified in section 4 of this MD&A. Pursuant to the Pension MOUs, on October 26, 2009, Air Canada issued to a trust, 17,647,059 Class B voting shares. This number of shares represented 15% of the shares of Air Canada issued and outstanding as at the date of the Pension MOUs and the date of issuance (after taking into account such issuance). All net proceeds of sale of such shares by the trust are to be contributed to the pension plans. For so long as the trust continues to hold at least 2% of Air Canada's issued and outstanding shares of Air Canada, the trustee will have the right to designate one nominee (who shall not be a member or officer of any of Air Canada's Canadian-based unions) to Air Canada's board of directors, subject to completion of Air Canada's usual governance process for selection and confirmation of director nominees. Current service contributions will continue to be made in the normal course while the Air Canada 2009 Pension 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 compared to 2008.

The following table provides an estimate of Air Canada's pension funding obligations, on a cash basis, based on the Air Canada 2009 Pension Regulations as described above, as at September 30, 2009, for the remainder of 2009, for the full year 2009 and for the next four years. These funding obligations are based on a number of factors, including the Air Canada 2009 Pension Regulations described above for past service, the assumptions used in the last filed actuarial valuation reports for current service including a discount rate of 6.25%, the plan demographics at the valuation date, the existing plan provisions and current pension legislation. Actual contributions will be determined on the basis of future valuation reports which will be filed annually. In addition to changes in plan demographics and experience, actuarial assumptions may be changed from one valuation to the next because of changes in plan experience, financial markets, expectations about the future, changes in legislation and other factors. As of 2014, the Air Canada 2009 Pension Regulations will cease to have effect and Air Canada's pension funding obligations may vary significantly based on several factors, including regulatory developments, assumptions and methods used and changes in the economic conditions, mainly the return on fund assets and changes in interest rates.

(Canadian dollars in millions)	**Remainder of 2009**	**Full Year 2009**	**2010**	**2011**	**2012**	**2013**
Past service domestic registered plans	$ -	$ 140	$ -	$ 138	$ 173	$ 221
Current service domestic registered plans	42	188	161	165	170	175
Other pension arrangements (1)	35	79	78	79	81	83
Projected pension funding obligations	**$ 77**	**$ 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 approximately 750 Air Canada employees 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. The transition process has now been completed. For those employees who chose to transition to Aeroplan, their service, which largely determines benefit levels under the Air Canada pension and other employee benefit plans, ceased to accrue on the date of their employment with Aeroplan.

8.6 Air Canada Capital Expenditures and Related Financing Arrangements

In the third quarter of 2009, Air Canada and The Boeing Company ("Boeing") agreed to amend the purchase agreement for 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 revisions to delivery dates. 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 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	$ 11	$ 60	$ 53	$ 137	$ 753	$ 3,912
Projected planned but uncommitted expenditures	31	75	76	94	108	
Total projected expenditures [(1)] [(2)]	42	135	129	231	861	
Projected financing on committed expenditures	-	-	-	-	(580)	
Total projected expenditures, net of financing	**$ 42**	**$ 135**	**$ 129**	**$ 231**	**$ 281**	

(1) U.S. dollar amounts are converted using the September 30, 2009 noon day exchange rate of U.S.$1 = C$1.0722 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.

8.7 Share Information

At October 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)	October 31, 2009	December 31, 2008
Issued and outstanding common shares		
Class A variable voting shares	25,405	25,614
Class B voting shares	10,286	9,293
Total issued and outstanding common shares (1) (5)	**35,691**	**34,907**
Common shares potentially issuable		
Convertible preferred shares (2)	-	11,863
Convertible senior notes (3)	2,600	13,133
Stock options (4)	54	61
Total common shares potentially issuable	**2,654**	**25,057**
Total outstanding and potentially issuable common shares (5)	**38,345**	**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 $20.00 per preferred share. In Quarter 1 2009, the Corporation paid an aggregate purchase price of $186 million for the shares tendered. In September 2009, the Corporation entered into an agreement with Morgan Stanley Canada Limited pursuant to which ACE indirectly acquired for cancellation all of its remaining 3.2 million preferred shares at a price of $23.00 per share for an aggregate purchase price of $74 million.

(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. Refer to section 4 of this MD&A for the announcement concerning ACE's redemption of its convertible senior notes.

(4) The Corporation's stock option plan is described in Note 13 to the 2008 annual consolidated financial statements. At October 31, 2009, a total of 54,443 stock options with a weighted exercise of $14.49 were outstanding (61,230 stock options with a weighted exercise of $14.11 outstanding as at December 31, 2008). The decrease of 6,787 stock options since December 31, 2008 is due to forfeitures experienced in Quarter 1 and Quarter 3 2009.

(5) As described in section 4 of this MD&A, ACE intends, subject to regulatory compliance, to launch a substantial issuer bid to repurchase $20 of its Class A Variable Voting Shares and Class B Voting Shares.

9. 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)	Q4 2007[1]	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Operating revenues	$ 2,520	$ 2,726	$ 2,783	$ 3,075	$ 2,496	$ 2,391	$ 2,330	$2,670
Operating expenses	(2,474)	(2,753)	(2,785)	(2,970)	(2,646)	(2,583)	(2,445)	(2,602)
Operating income (loss) before under-noted item	**46**	**(27)**	**(2)**	**105**	**(150)**	**(192)**	**(115)**	**68**
Provision for cargo investigations[2]	-	(125)	-	-	-	-	-	-
Operating income (loss)	**46**	**(152)**	**(2)**	**105**	**(150)**	**(192)**	**(115)**	**68**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax[3]	1,082	(30)	832	(240)	(483)	(152)	225	130
Net income (loss)	**$ 1,128**	**$ (182)**	**$ 830**	**$ (135)**	**$ (633)**	**$ (344)**	**$ 110**	**$198**
Earnings (loss)[4]								
Per share – basic	**$ 10.81**	**$ (2.96)**	**$ 15.46**	**$ (3.86)**	**$ (18.12)**	**$ (9.87)**	**$ 3.16**	**$5.57**
Per share – diluted	**$ 8.88**	**$ (2.96)**	**$ 10.76**	**$ (3.86)**	**$ (18.12)**	**$ (9.87)**	**$ 2.68**	**$5.15**

(1) ACE ceased consolidating ACTS' results effective October 16, 2007.

(2) Air Canada recorded a provision for cargo investigations of $125 million in Quarter 1 2008.

(3) 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. Quarter 3 2009 includes a loss on repurchase of the preferred shares of $10 million relating to the acquisition for cancellation of the remaining preferred shares in September 2009.

(4) 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.

10. Financial Instruments and Risk Management

Summary of gain (loss) on financial instruments recorded at fair value

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

	Third Quarter		First Nine Months	
	2009	**2008**	**2009**	**2008**
Ineffective portion of fuel hedges	$ -	$ (58)	$ -	$ 24
Fuel derivatives not under hedge accounting	2	(54)	78	31
Cross currency interest rate swaps	-	19	-	6
Other	2	-	(5)	(1)
Gain (loss) on financial instruments recorded at fair value	**$ 4**	**$ (93)**	**$ 73**	**$ 60**

Fuel price risk

As a result of a thorough analysis of the costs and benefits specific to the application of cash flow hedge accounting, Air Canada elected to discontinue hedge accounting for all fuel derivatives effective the third quarter of 2009. The derivative instruments will continue to be recorded at fair value in each period with both realized and unrealized changes in fair value recognized immediately in earnings in non-operating income (expense). Amounts deferred to AOCI for derivatives previously designated under hedge accounting will be taken into fuel expense in the period in which the derivative was originally scheduled to mature.

There were no derivative contracts entered into during the first nine months of 2009. Air Canada continues to view hedging as an important method to manage fuel price volatility risk. Over the past several months, the increase in the value of the Canadian dollar versus the US dollar has acted as a natural hedge for the increase in the price of crude oil. Air Canada is currently reviewing different derivative products in order to balance liquidity issues with fuel price volatility risk mitigation.

As at September 30, 2009, approximately 32% 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 U.S.$105 per barrel, and 18% is subject to an average WTI-equivalent floor price of U.S.$85 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 U.S.$110 per barrel, and 12% is subject to an average floor price of U.S.$101 per barrel.

The following table outlines the notional volumes per barrel outstanding at September 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 September 30, 2009.

Outstanding at September 30, 2009				
Derivative Instruments	**Term**	**Volume (BBLs)**	**WTI-equivalent Average Floor Price (U.S.$ per barrel)**	**WTI-equivalent Average Capped Price (U.S.$ per barrel)**
Call Options [(1)]	2009	750,000	n/a	121
	2010	400,000	n/a	134
Swaps [(1)]	2009	285,000	99	99
	2010	1,070,000	99	99
Collars [(1)]	2009	620,000	79	90
	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.

In the third quarter of 2009, fuel derivative contracts cash settled with a fair value of $14 million in favour of the counterparties ($76 million in favour of the counterparties in the first nine months of 2009) ($76 million in favour of Air Canada in the third quarter of 2008 and $220 million in favour of Air Canada in the first nine months of 2008). As fuel hedging contracts with unfavourable fair values are settled, Air Canada can recall the offsetting cash collateral deposits from counterparties.

In the first quarter of 2009, in order to reduce its exposure to declining oil prices, Air Canada terminated fuel derivative contracts with a fair market value of $172 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. 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.

During the third quarter of 2009, $94 million of existing losses under AOCI, representing net realized losses on fuel derivative contracts while designated under hedge accounting, were reclassified into fuel expense (losses of $334 million in the first nine months of 2009) (gains of $64 million in the third quarter of 2008 and gains of $190 million in the first nine months of 2008).

As at September 30, 2009, the net amount of existing losses reported in AOCI that is expected to be reclassified to net income (loss) during the following 12 months was $236 million (before tax). Due to the discontinuation of hedge accounting, the AOCI balance related to fuel hedging contracts will be fully depleted by December 31, 2010.

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

(Canadian dollars in millions)		Third Quarter 2009	Third Quarter 2008	First Nine Months 2009	First Nine Months 2008
Consolidated Statement of Operations					
Operating expense					
Aircraft fuel	Realized effective gain (loss) – derivatives designated under hedge accounting	$ (94)	$ 64	$ (334)	$ 190
Non-operating income (expense)					
Gain (loss) on financial instruments recorded at fair value	Ineffective gain (loss) – derivatives designated under hedge accounting	n/a	(58)	-	24
	Fair market value gain (loss) – economic hedges	$ 2	$ (54)	$ 78	$ 31
Consolidated Statement of Comprehensive Income (Loss)					
	Effective gain (loss) – derivatives designated under hedge accounting	n/a	(328)	(1)	73
	Tax expense on effective gain	n/a	84	-	(44)
	Reclassification of net realized (gain) loss on fuel derivatives designed under hedge accounting to aircraft fuel expense	$ 94	$ (64)	$ 334	$ (190)
	Tax on reclassification	$ -	$ 20	$ 4	$ 61

		September 30, 2009	December 31, 2008
Consolidated Statement of Financial Position			
Current assets	Collateral deposits for fuel derivatives	$ 105	$ 328
Current liabilities*	Fair market value of fuel derivatives designated under hedge accounting	$ -	$ (405)
	Fair market value of fuel derivatives – economic hedges	$ (94)	$ (15)
Shareholders' equity (AOCI)	Net loss from fuel derivatives designated under hedge accounting	$ (269)	$ (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.*

For additional information on fuel price risk, refer to section 12 of ACE's 2008 MD&A dated August 7, 2009.

11. 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.

12. Related Party Transactions

At November 6, 2009, ACE held a 27% 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 Air Canada 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 November 6, 2009. The participant lenders participate on a pro rata basis with respect to any warrants and principal and interest payments. ACE's pro rata share of interest paid by Air Canada on October 30, 2009 amounts to $4.8 million.

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 Air Canada 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.

As a result of amendments during the year, the payment terms were extended. The extended payment terms will be reduced starting in November 2009 with the expiration of the extended payment terms to be completed over the following six months. During April 2010, following expiration of the extended payment terms, the letters of credit are to be reinstated to the levels then required under the Pension and Benefits Agreement between the two parties.

13. 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.

14. Risk Factors

The risks described herein may not be the only risks faced by the Corporation. Other risks which the Corporation is not aware of or which the Corporation currently deems to be immaterial may surface and have a material adverse impact on the Corporation's business, results from operations and financial condition.

Risks Related to ACE

Dependence on Air Canada
ACE's principal investments are equity and debt interests in Air Canada. The value of ACE's equity interest in Air Canada is subject to market conditions based on the financial performance of Air Canada, movements in the price of publicly-traded airline stocks and general market conditions. Any decrease in the market price of Air

Canada shares will reduce the value of these shares which can be realized. The value of ACE's debt interest is dependent on the performance of Air Canada and the value of the security for the Air Canada Credit Facility in which ACE participates. Detailed risk factors for Air Canada are set out below.

A Substantial Portion of ACE's Cash is Invested in Cash Equivalents
A substantial portion of ACE's cash is invested in cash equivalents which are subject to credit exposure and interest rate fluctuations which could change the value of these investments. These investments are made in accordance with an investment policy approved by the Board of Directors. Although ACE's investment policy is designed to provide for short-term liquidity and low levels of risk, such investments are subject to credit exposure and interest rate fluctuations. Consequently, the value of such investments could increase or decrease accordingly. Any decrease in the fair value of these investments would reduce the amount available for distribution to stakeholders.

Going Concern
On July 29, 2009, ACE announced that its participation in the $600 million Air Canada Credit Facility amounted to $150 million. Given ACE's participation in the facility, it is not management's intention to liquidate at this time.

If ACE subsequently proceeds with the liquidation of its net assets, ACE will again adopt a liquidation basis of presentation which will result in net assets in liquidation being presented on a non-consolidated basis.

Risks Relating to Air Canada

Operating Results
Prior to emergence from its restructuring under the Companies Creditors Arrangement Act, as amended ("CCAA") on September 30, 2004, Air Canada had sustained significant losses and Air Canada may sustain significant losses in the future. In 2008, Air Canada recorded an operating loss before a provision for cargo investigations and proceedings of $39 million. During the period from January 1, 2009 to September 30, 2009, Air Canada recorded an operating loss of $233 million. Current economic conditions may result in significant losses for Air Canada. Despite ongoing business initiatives and efforts at securing cost reductions, revenue improvements and additional sources of financing, Air Canada may not be able to successfully achieve positive net profitability or realize the objectives of any or all of its initiatives, including those which seek to improve yield or offset or mitigate risks facing Air Canada, including those relating to economic conditions, liquidity, pension funding, unexpected volatility in fuel costs and other expenses.

Leverage
Air Canada has, and is expected to continue to have and incur, a significant amount of indebtedness, including substantial fixed obligations under aircraft leases and financings, and as a result of challenging economic or other conditions affecting Air Canada, Air Canada may incur greater levels of indebtedness than currently exist. The amount of indebtedness that Air Canada currently has and which it may incur in the future could have a material adverse effect on Air Canada, for example, by (i) limiting Air Canada's ability to obtain additional financing, (ii) requiring Air Canada to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness and fixed cost obligations, thereby reducing the funds available for other purposes, (iii) making Air Canada more vulnerable to economic downturns, and (iv) limiting Air Canada's flexibility in planning for, or reacting to, competitive pressures or changes in its business environment.

The ability of Air Canada to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance and its ability to refinance its indebtedness, if necessary. In addition, as Air Canada incurs indebtedness which bears interest at fluctuating interest rates, to the extent these interest rates increase, its interest expense will increase. There can be no assurance that Air Canada will be able to generate sufficient cash from its operations to pay its debts and lease obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond Air Canada's control.

Need for Additional Capital and Liquidity
Air Canada faces a number of challenges in its business, including in relation to economic conditions, pension plan funding, volatile fuel prices, contractual covenants which could require Air Canada to deposit cash

collateral with third parties, foreign exchange rates and increased competition from international, transborder and low-cost domestic carriers. Air Canada's liquidity levels may be adversely impacted by these as well as by other factors and risks identified in this MD&A. As part of Air Canada's efforts to meet such challenges and to support Air Canada's business strategy, significant liquidity and significant operating and capital expenditures are, and will in the future be, required. There can be no assurance that Air Canada will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to Air Canada to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome challenges and support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate additional funds, whether from operations or additional debt or equity financings, could require Air Canada to delay or abandon some or all of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for Air Canada.

Air Canada's credit ratings influence its ability to access capital markets and its liquidity. There can be no assurance that Air Canada's credit ratings will not be downgraded, which would add to Air Canada's borrowing and insurance costs, hamper its ability to attract capital, adversely impact its liquidity, and limit its ability to operate its business, all of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Economic and Geopolitical Conditions

Airline operating results are sensitive to economic and geopolitical conditions which can have a significant impact on Air Canada. For example, economic and geopolitical conditions may impact demand for air transportation in general or to or from certain destinations, as well as Air Canada's operating costs, pension plan contributions and costs and availability of capital and supplies required by Air Canada. Especially in light of Air Canada's substantial fixed cost structure, any prolonged or significant impact arising from economic and geopolitical conditions, including weakness of the Canadian, U.S. or world economies could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Airline fares and passenger demand have fluctuated significantly in the past and are likely to fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares that Air Canada may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. Depressed economic conditions in North America and other areas served by Air Canada, as well as geopolitical instability in various areas of the world, concerns about the environmental impacts of air travel and tendencies towards "green" travel initiatives where consumers reduce their travel activities, could have the effect of reducing demand for air travel in Canada and abroad and could materially adversely impact Air Canada's profitability.

Pension Plans

Canadian federal pension legislation requires that the funded status of registered pension plans be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination).

Pension plan solvency valuations are influenced primarily by long-term interest rates and by the investment return on plan assets, which in turn may be dependent on a variety of factors, including economic conditions. The interest rate used to calculate benefit obligations for solvency purposes is a prescribed rate derived from the interest rates on long-term Government of Canada bonds. Deteriorating economic conditions may result in significant increases in Air Canada's funding obligations, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Refer to section 9.4 of ACE's 2008 MD&A and section 8.5 of this MD&A for a description relating to Air Canada's pension funding obligations. In particular, as of 2014, the Air Canada 2009 Pension Regulations will cease to have effect and Air Canada's pension funding obligations may vary significantly based on several factors, including regulatory developments, assumptions and methods used and changes in the economic conditions (mainly the return on fund assets and changes in interest rates). Underfunded pension plans or a failure or

inability by Air Canada to make required cash contributions to its registered pension plans could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of Air Canada in 2008. Fuel prices fluctuate widely depending on many factors including international market conditions, geopolitical events and the Canada/U.S. dollar exchange rate. Air Canada cannot accurately predict fuel prices. During 2006, 2007 and 2008, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices fluctuate significantly or increase significantly above current levels, fuel costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Due to the competitive nature of the airline industry, Air Canada may not be able to pass on increases in fuel prices to its customers by increasing its fares. Based on volumes for the twelve-month period ended September 30, 2009, Air Canada management estimates that a U.S.$1 per barrel movement in the average price of WTI crude oil would have resulted in an approximate $26 million change in fuel expense for Air Canada for such 12-month period (excluding any impact of fuel surcharges, foreign exchange rates and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

Foreign Exchange

Air Canada's financial results are sensitive to the fluctuating value of the Canadian dollar. In particular, Air Canada has a significant annual net outflow of U.S. dollars and is affected by fluctuations in the Canada/U.S. dollar exchange rate. Air Canada management estimates that during the period from October 2008 to September 2009, a $0.01 increase in the U.S. dollar/Cdn exchange rate (i.e., $1.08 to $1.09 per U.S. dollar) would have had an estimated $27 million unfavourable impact on operating income. Conversely, an opposite change in the exchange rate would have had the opposite effect. Air Canada incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental and maintenance charges, interest payments, debt servicing and computerized reservations system fees, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of Air Canada relative to its U.S. competitors and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, Air Canada may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

Labour Costs and Labour Relations

Labour costs constitute one of Air Canada's largest operating cost items. There can be no assurance that Air Canada will be able to maintain such costs at levels which do not negatively affect its business, results from operations and financial condition. There can be no assurance that future agreements with employees' unions or the outcome of arbitrations will be on terms consistent with Air Canada's expectations or comparable to agreements entered into by Air Canada's competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Most of Air Canada's employees are unionized. The collective agreements with the International Brotherhood of Teamsters (representing certain airport and call centre employees in the United States) and the most recent collective agreements with the unions representing Air Canada's Canadian-based employees were renewed or extended and will now expire in 2011. No strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied. There can be no assurance that collective agreements will be further renewed without labour conflict or action or that there will not be a labour conflict that could lead to a dispute or to an interruption or stoppage in Air Canada's service or otherwise adversely affect the ability of Air Canada to conduct its operations, any of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition. If there is a labour disruption or work stoppage by any of the unionized work groups of Jazz, there would also likely be a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, labour conflicts at Air Canada's Star Alliance® partners could result in lower demand for connecting traffic with Air Canada and, ultimately, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Airline Industry Characterized by Low Gross Profit Margins and High Fixed Costs
The airline industry is characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix would have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. Accordingly, a shortfall from expected revenue levels could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Air Canada incurs substantial fixed costs which do not meaningfully fluctuate with overall capacity. As a result, should Air Canada be required to reduce its overall capacity or the number of flights operated, it may not be able to successfully reduce certain fixed costs in the short term and may be required to incur important termination or other restructuring costs, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Competition
Air Canada operates within a highly competitive industry. Over the past few years, several carriers have entered or announced their intention to enter or expand into the domestic, the U.S. transborder and international markets in which Air Canada operates.

Canadian low-cost and other carriers have entered and/or expanded or announced their intention to compete in many of Air Canada's key domestic markets and, along with some U.S. carriers have also entered and/or expanded their operations in the U.S. transborder and leisure-oriented markets. Carriers against which Air Canada may compete, including U.S. carriers, may undergo (and some of whom who have undergone) substantial reorganizations (including by way of merger with or acquisition by another carrier), creating reduced levels of indebtedness and lower operating costs and may be in a position to more effectively compete with Air Canada. Air Canada is also facing increasing competition in international markets as carriers increase their international capacity, both by expansion and by shifting existing domestic capacity to international operations to avoid low-cost domestic competition.

If Canadian low-cost and other carriers are successful in entering or expanding into Air Canada's domestic and the U.S. transborder markets, if additional U.S. or other carriers against which Air Canada competes are successful in entering Air Canada's transborder market or if carriers are successful in their expansion in international markets of Air Canada, Air Canada's business results from operations and financial condition could be materially adversely affected.

Air Canada also encounters substantial price competition. The expansion of low-cost carriers in recent years, along with the advent of Internet travel websites and other travel products distribution channels, has resulted in a substantial increase in discounted and promotional fares initiated by Air Canada's competitors. The decision to match competitors' fares, to maintain passenger traffic, results in reduced yields which, in turn, could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Furthermore, Air Canada's ability to reduce its fares in order to effectively compete with other carriers is dependent on Air Canada's ability to achieve acceptable operating margins and may also be limited by government policies to encourage competition. Likewise, competitors continue to pursue commission/incentive actions and, in many cases, increase these payments. The decision to modify Air Canada's current programs in order to remain competitive and maintain passenger traffic could result in increased costs to Air Canada's business.

In addition, consolidation in the airline industry could result in increased competition as some airlines emerging from such consolidations may be able to compete more effectively against Air Canada which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Limitations Due to Restrictive Covenants
Some of the financing and other major agreements to which Air Canada is a party contain restrictive, financial (including in relation to liquidity, minimum EBITDAR, fixed charge coverage ratio and debt coverage ratios) and other covenants which affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Air Canada may structure or operate its business, including by reducing Air Canada's liquidity, limiting Air Canada's ability to incur indebtedness, create liens, sell assets, pay dividends, make capital expenditures,

and engage in acquisitions, mergers or restructurings or a change of control. Future financing and other major agreements may also be subject to similar covenants which limit Air Canada's operating and financial flexibility, which could materially and adversely affect Air Canada's ability to operate its business and its profitability.

A failure by Air Canada to comply with its contractual obligations (including restrictive, financial and other covenants), or to pay its indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of its indebtedness, the withholding of credit card proceeds by the credit card service providers and the exercise of remedies by its creditors and lessors, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that Air Canada would be able to repay the accelerated indebtedness or fulfill its obligations under certain contracts, make required aircraft lease payments or otherwise cover its fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of the assets of Air Canada which secure Air Canada's obligations.

Refer to section 8.2 of this MD&A for a description of restrictive covenants relating to one of Air Canada's credit card processing agreements.

Airport User Fees and Air Navigation Fees

With the privatization of airports and air navigation authorities over the last decade in Canada, new airport and air navigation authorities have imposed significant increases in their fees. If authorities in Canada or elsewhere continue to increase their fees at the rate at which they have increased them in the recent past, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Strategic, Business, Technology and Other Important Initiatives

In order to operate its business, achieve its goals and remain competitive, Air Canada continuously seeks to identify and devise, invest in and implement strategic, business, technology and other important initiatives, such as those relating to the aircraft fleet restructuring program, the aircraft refurbishment program, the new revenue model, business process initiatives, information technology initiatives and others. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond Air Canada's control. Such factors include the performance of third parties, including suppliers, the implementation and integration of such initiatives into Air Canada's other activities and processes as well as the adoption and acceptance of initiatives by Air Canada's customers, suppliers and personnel. A delay or failure to sufficiently and successfully identify and devise, invest in or implement these initiatives could adversely affect Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

For instance, a key component of Air Canada's business plan is the completion of Air Canada's fleet restructuring program through the acquisition of new and more efficient Boeing 787 aircraft. A delay or failure in the completion of Air Canada's fleet restructuring, including further delays by the manufacturers in the delivery of the wide-body aircraft, or an inability to remove, as planned, certain aircraft from the fleet in coordination with the planned entry into service of new aircraft, could adversely affect the implementation of Air Canada's business plan which may, in turn, have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Dependence on Technology

Air Canada relies heavily on technology, including computer and telecommunications equipment and software and Internet-based systems, to operate its business, increase its revenues and reduce its costs. These systems include those relating to Air Canada's telecommunications, websites, computerized airline reservations and airport customer services and flight operations.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, computer viruses, unauthorized or fraudulent users, and other operational and security issues. While Air Canada continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any such technology systems failure, interruption or misuse could materially and adversely affect Air Canada's operations and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Key Supplies and Suppliers

Air Canada is dependent upon its ability to source, on favourable terms and costs, sufficient quantities of goods and services in a timely manner, including those available at airports or from airport authorities or otherwise required for Air Canada's operations such as fuel, aircraft and related parts and aircraft maintenance services (including maintenance services obtained from Aveos). In certain cases, goods and services may only be available from a limited number of suppliers and transition to new suppliers may take significant amounts of time and require significant resources. A failure, refusal or inability of a supplier may arise as a result of a wide range of causes, many of which are beyond Air Canada's control. In addition, in the context of the current economic climate, there can be no assurance as to the continued viability of any of Air Canada's suppliers. Any failure or inability of Air Canada to successfully source goods and services, including by reason of a failure, refusal or inability of a supplier, or to source goods and services on terms and pricing and within the timeframes acceptable to Air Canada, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Aeroplan

Through its commercial agreement with Aeroplan LP ("Aeroplan"), Air Canada is able to offer its customers who are Aeroplan members the opportunity to earn Aeroplan miles. Based on customer surveys, Air Canada management believes that rewarding customers with Aeroplan miles is a significant factor in customers' decision to travel with Air Canada and Jazz and contributes to building customer loyalty. The failure by Aeroplan to adequately fulfill its obligations towards Air Canada under the Aeroplan Commercial Participation and Services Agreement and in connection with the Aeroplan program, or other unexpected interruptions of Aeroplan services which are beyond Air Canada's control, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Jazz

Under the CPA, Jazz provides Air Canada's customers service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States and also provides valuable traffic feed to Air Canada's mainline routes. Pursuant to the terms of the Jazz CPA, Air Canada pays Jazz a number of fees which are determined based upon certain costs incurred by Jazz. Air Canada also reimburses Jazz, without mark-up, for certain pass-through costs incurred directly by Jazz, such as fuel, navigation, landing and terminal fees and certain other costs. Significant increases in such pass-through costs, the failure by Jazz to adequately fulfill its obligations towards Air Canada under the Jazz CPA, or other unexpected interruptions or cessation of Jazz's services which are beyond Air Canada's control could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, the Jazz CPA requires that Jazz maintain a minimum fleet size and contains a minimum average daily utilization guarantee which requires that Air Canada make certain minimum payments to Jazz regardless of the amount of flying done on its behalf by Jazz.

Star Alliance®

The strategic and commercial arrangements with Star Alliance® members provide Air Canada with important benefits, including codesharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave Star Alliance® or otherwise fail to meet its obligations thereunder, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Interruptions or Disruptions in Service

Air Canada's business is significantly dependent upon its ability to operate without interruption at a number of hub airports, including Toronto Pearson International Airport. Delays or disruptions in service, including those due to security or other incidents, weather conditions, labour conflicts with airport workers, baggage handlers, air traffic controllers and other workers not employed by Air Canada or other causes beyond the control of Air Canada could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Current Legal Proceedings

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including

the levying of certain fuel surcharges, of a number of airlines and cargo operators, including Air Canada. Competition authorities have sought or requested information from Air Canada as part of their investigations. Air Canada is cooperating with these investigations, which are likely to lead, or have led, to proceedings against Air Canada and a number of airlines and other cargo operators in certain jurisdictions including in the European Union where all formal procedural steps preceding a decision have been completed. Air Canada is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations.

During 2008, Air Canada recorded a provision of $125 million as a preliminary estimate. This is only an estimate 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 and investigations 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 and investigations. Additional material provisions may be required and such provisions could have a material adverse effect on Air Canada's financial position.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, the Porter Defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850 million in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. On October 16, 2009, Jazz discontinued its suit in the Ontario Superior Court against Porter. However, Jazz is continuing its proceedings in the Federal Court of Canada against the TPA, to which Porter intervened. The counterclaim filed by Porter in the Ontario Court against Jazz and Air Canada has been stayed pending the outcome of the mirror counterclaim in the Federal Court. Air Canada management views Porter's counterclaims in both jurisdictions as being without merit.

The Canadian Union of Public Employees ("CUPE"), which represents Air Canada's flight attendants, has filed a complaint before the Canadian Human Rights Commission where it alleges gender-based wage discrimination. CUPE claims the predominantly female flight attendant group should be paid the same as the predominantly male pilot and mechanics groups because their work is of equal value. The complaint dates from 1991 but has not been investigated on the merits because of a legal dispute over whether the three groups work in the same "establishment" within the meaning of the Canadian Human Rights Act. On January 26, 2006, the Supreme Court of Canada ruled that they do work in the same "establishment" and sent the case back to the Canadian Human Rights Commission, which may now proceed to assess the merits of CUPE's complaint. On March 16, 2007, the Canadian Human Rights Commission referred the complaint against Air Canada for investigation. Air Canada considers that any investigation will show that it is complying with the equal pay provisions of the Canadian Human Rights Act, however, Air Canada management has determined that it is not possible at this time to predict with any degree of certainty the final outcome of the Commission's investigation.

Future Legal proceedings
Airlines are susceptible to various claims and litigation, including class action claims, in the course of operating their business or with respect to the interpretation of existing agreements. Any future claims or litigation could also have a material adverse effect on Air Canada, its business and results from operations.

Key Personnel
Air Canada is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If Air Canada were to experience a substantial turnover in its leadership or other key employees, Air Canada's business, results from operations and financial condition could be materially adversely affected. Additionally, Air Canada may be unable to attract and retain additional qualified key personnel as needed in the future.

Risks Relating to the Airline Industry

Terrorist Attacks and Security Measures
The September 11, 2001 terrorist attacks and subsequent terrorist activity, notably in the Middle East, Southeast Asia and Europe, caused uncertainty in the minds of the traveling public. The occurrence of a terrorist attack (whether domestic or international and whether involving Air Canada or another carrier or no carrier at all) and increasingly restrictive security measures, such as the current restrictions on the content of carry-on baggage and current or proposed passenger identification document requirements, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's flights. It could also lead to a substantial increase in insurance, airport security and other costs. Any resulting reduction in passenger revenues and/or increases in insurance, security or other costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Epidemic Diseases (Severe Acute Respiratory Syndrome (SARS), H1N1 Influenza or Other Epidemic Diseases)
As a result of the international outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003, the World Health Organization (the "WHO") issued on April 23, 2003 a travel advisory, which was subsequently lifted on April 30, 2003, against non-essential travel to Toronto, Canada. The seven-day WHO travel advisory relating to Toronto, the location of Air Canada's primary hub, and the international SARS outbreak had a significant adverse effect on passenger demand for air travel in Air Canada's markets and resulted in a major negative impact on traffic on the entire network. The WHO warns that there is a serious risk of an influenza pandemic. Air Canada is continuing to monitor the H1N1 influenza virus risk. While Air Canada has developed contingency plans related to the H1N1 influenza virus risk, it is unable to predict the likelihood of this risk materializing or the impact on its operations to the extent this risk does materialize. An outbreak of influenza, SARS, H1N1 influenza virus or of another epidemic disease (whether domestic or international) or a further WHO travel advisory (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel. Any resulting reduction in traffic in the markets served by Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Casualty Losses
Due to the nature of its core operating business, Air Canada may be subject to liability claims arising out of accidents or disasters involving aircraft on which Air Canada's customers are traveling or involving aircraft of other carriers maintained or repaired by Air Canada, including claims for serious personal injury or death. There can be no assurance that Air Canada's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material. Additionally, any accident or disaster involving one of Air Canada's aircraft or an aircraft of another carrier receiving line maintenance services from Air Canada may significantly harm Air Canada's reputation for safety, which would have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Seasonal Nature of the Business, Other Factors and Prior Performance
Air Canada has historically experienced considerably greater demand for its services in the second and third quarters of the calendar year and significantly lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the preference of a high number of leisure travelers to travel during the spring and summer months. Air Canada has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short term.

As described elsewhere, demand for and cost of air travel is also affected by factors such as geopolitical and economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Regulatory Matters
The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, privacy, licensing, competition, environment (including noise levels and carbon emissions) and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations.

For example, new and proposed legislation have been considered or adopted concerning carbon emissions emanating from the aviation industry; such legislative initiatives include, for example, market-based mechanisms called emissions trading systems which are being proposed and implemented to reduce the amount of pollutants in the atmosphere through the trading of emissions credits. The implementation of additional regulations or decisions, including those relating to carbon emissions, and others, whether by Transport Canada, the Competition Bureau and/or the Competition Tribunal, the Canadian Transportation Agency or other domestic or foreign governmental entities, may have a material adverse effect on Air Canada, its business, results from operations and financial condition. Air Canada cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

The availability of international routes to Canadian air carriers is regulated by agreements between Canada and foreign governments. Changes in Canadian or foreign government aviation policy could result in the alteration or termination of these agreements and could adversely affect Air Canada, its international operations.

Air Canada is subject to domestic and foreign laws regarding privacy of passenger and employee data, including advance passenger information and access to airline reservation systems, which are not consistent in all countries in which Air Canada operates. The need to comply with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Increased Insurance Costs

Since September 11, 2001 the aviation insurance industry has been continually reevaluating the terrorism risks that it covers, and this activity may adversely affect some of Air Canada's existing insurance carriers or Air Canada's ability to obtain future insurance coverage. To the extent that Air Canada's existing insurance carriers are unable or unwilling to provide it with insurance coverage, and in the absence of measures by the Government of Canada to provide the required coverage, Air Canada's insurance costs may increase further and may result in Air Canada being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which may have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Third Party War Risk Insurance

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it currently provides to Air Canada and certain other carriers in Canada. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Air Canada and other industry participants would have to turn to the commercial insurance market to seek such coverage. Air Canada estimates that such coverage would cost Air Canada approximately $10 million per year. Alternative solutions, such as those envisioned by the International Civil Aviation Organization ("ICAO") and the International Air Transport Association ("IATA"), have not developed as planned, due to actions taken by other countries and the recent availability of supplemental insurance products. ICAO and IATA are continuing their efforts in this area, however, the achievement of a global solution is not likely in the immediate or near future. The U.S. federal government has set up its own facility to provide war risk coverage to U.S. carriers, thus removing itself as a key component of any global plan.

Furthermore, the London aviation insurance market has introduced a new standard war and terrorism exclusion clause which is applicable to aircraft hull and spares war risk insurance, and intends to introduce similar exclusions to airline passenger and third party liability policies. Such clause excludes claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or biochemical materials. The Government of Canada's indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion. Unless and until the Government of Canada does so, the loss of coverage exposes Air Canada to this new uninsured risk and may result in Air Canada being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on Air Canada, its business, results from operations and financial condition.

15. 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 3 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 September 30, 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 September 30, 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 3 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

16. 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 and proceedings 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 proceedings and EBITDAR for Air Canada are reconciled to operating loss as follows:

	Quarter 3			First Nine Months		
(Canadian dollars in millions)	**2009**	**2008**	**$ Change**	**2009**	**2008**	**$ Change**
Air Canada						
GAAP operating income (loss) before the provision for cargo investigations	$ 68	$ 112	$ (44)	$ (233)	$ 107	$ (340)
Add back:						
Aircraft rent	81	67	14	250	199	51
Depreciation and amortization	171	176	(5)	495	520	(25)
EBITDAR before the provision for cargo investigations	**320**	**355**	**(35)**	**512**	**826**	**(314)**
Provision for cargo investigations	-	-	-	-	(125)	125
EBITDAR	**$ 320**	**$ 355**	**$ (35)**	**$ 512**	**$ 701**	**$ (189)**
ACE Consolidated						
GAAP operating income (loss) before the provision for cargo investigations	$ 68	$ 105	$ (37)	$ (239)	$ 76	$ (315)
Add back:						
Aircraft rent	81	67	14	250	199	51
Depreciation and amortization	170	174	(4)	490	514	(24)
EBITDAR before the provision for cargo investigations	**319**	**346**	**(27)**	**501**	**789**	**(288)**
Provision for cargo investigations	-	-	-	-	(125)	125
EBITDAR	**$ 319**	**$ 346**	**$ (27)**	**$ 501**	**$ 664**	**$ (163)**

17. 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.