ACE AVIATION

Second Quarter 2010
Interim Unaudited
Consolidated Financial Statements and Notes

August 5, 2010

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended June 30 2010 *	Three Months Ended June 30 2009	Six Months Ended June 30 2010 *	Six Months Ended June 30 2009
Operating revenues					
Passenger		$ -	$ 2,058	$ -	$ 4,069
Cargo		-	76	-	156
Other		-	196	-	496
		-	2,330	-	4,721
Operating expenses					
Aircraft fuel		-	572	-	1,165
Wages, salaries and benefits		-	440	-	900
Airport and navigation fees		-	241	-	471
Capacity purchase with Jazz		-	254	-	500
Depreciation and amortization		-	163	-	320
Aircraft maintenance		-	185	-	374
Food, beverages and supplies		-	73	-	140
Communications and information technology		-	80	-	159
Aircraft rent		-	83	-	169
Commissions		-	40	-	89
Other		3	314	5	741
		3	2,445	5	5,028
Operating loss		**(3)**	**(115)**	**(5)**	**(307)**
Non-operating income (expense)					
Interest income		5	3	10	11
Interest expense		-	(97)	-	(205)
Interest capitalized		-	2	-	3
Loss on investment	Note 2	-	-	(1)	-
Loss on other assets		-	(71)	-	(71)
Loss on repurchase of ACE convertible senior notes and preferred shares		-	-	-	(33)
Gain (loss) on financial instruments recorded at fair value	Notes 2&4	(1)	79	1	69
Proportionate share of Air Canada's loss	Note 2	(51)	-	(71)	-
Other		-	-	-	(1)
		(47)	(84)	(61)	(227)
Loss before the following items		**(50)**	**(199)**	**(66)**	**(534)**
Non-controlling interest		-	(44)	-	52
Foreign exchange gain		-	355	-	254
Recovery of (provision for) income taxes	Note 5				
Current		-	(1)	-	2
Future		-	(1)	-	(8)
Income (loss) for the period		**$ (50)**	**$ 110**	**$ (66)**	**$ (234)**
Income (loss) per share					
Basic		$ (1.56)	$ 3.16	$ (2.03)	$ (6.68)
Diluted		$ (1.56)	$ 2.68	$ (2.03)	$ (6.68)

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2).*

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		**June 30 2010**	**December 31 2009**
ASSETS			
Cash and cash equivalents		$ 56	$ 71
		56	71
Accounts receivable	Note 2	3	3
Equity investment in Air Canada	Note 2	58	99
Loan receivable from Air Canada	Note 2	150	150
Air Canada warrants issued under the Credit Facility	Note 2	1	-
		$ 268	**$ 323**
LIABILITIES			
Accounts payable and accrued liabilities		$ 4	$ 3
		4	3
SHAREHOLDERS' EQUITY			
Share capital and other equity		95	104
Contributed surplus		347	358
Deficit		(158)	(92)
Accumulated other comprehensive loss		(20)	(50)
		264	320
		$ 268	**$ 323**

The accompanying notes are an integral part of these financial statements.
Guarantees - Refer to Note 2.

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Six Months Ended June 30 2010 *	Year Ended December 31 2009 *	Six Months Ended June 30 2009
Share capital				
Common shares, beginning of period		$ 104	$ 100	$ 100
Repurchase and cancellation of common shares	Note 3	(9)	-	-
Issue of shares through stock options exercised		-	4	4
Total share capital		95	104	104
Other equity				
Convertible senior notes		-	-	18
Convertible preferred shares		-	-	30
Total share capital and other equity		95	104	152
Contributed surplus				
Balance, beginning of period		358	163	163
Repurchase and cancellation of common shares	Note 3	(11)	-	-
Repurchase and cancellation of ACE convertible senior notes and preferred shares		-	199	159
Deconsolidation of ACE's investment in Air Canada		-	(6)	-
Fair value of stock options recognized as compensation expense		-	2	1
Total contributed surplus		347	358	323
Retained earnings (deficit)				
Balance, beginning of period		(92)	600	600
Loss for the period		(66)	(692)	(234)
Retained earnings (deficit)		(158)	(92)	366
Accumulated other comprehensive income (loss)				
Balance, beginning of period		(50)	(606)	(606)
Other comprehensive income		30	556	243
Total accumulated other comprehensive loss		(20)	(50)	(363)
Total retained earnings (deficit) and accumulated other comprehensive loss		(178)	(142)	3
Total shareholders' equity		**$ 264**	**$ 320**	**$ 478**

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2).*

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income (Loss)

Unaudited (Canadian dollars in millions)		Three Months Ended June 30 2010 *		Three Months Ended June 30 2009		Six Months Ended June 30 2010 *		Six Months Ended June 30 2009	
Comprehensive income (loss)									
Income (loss) for the period		$	(50)	$	110	$	(66)	$	(234)
Other comprehensive income (loss), net of taxes:									
Net losses on fuel derivatives under hedge accounting			-		-		-		(1)
Reclassification of net realized losses on fuel derivatives to income			-		115		-		244
Proportionate share of Air Canada's other comprehensive income	Note 2		14		-		30		-
			14		115		30		243
Total comprehensive income (loss)		**$**	**(36)**	**$**	**225**	**$**	**(36)**	**$**	**9**

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2).*

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended June 30 2010 *	Three Months Ended June 30 2009	Six Months Ended June 30 2010 *	Six Months Ended June 30 2009
Cash flows from (used for)					
Operating					
Income (loss) for the period		$ (50)	$ 110	$ (66)	$ (234)
Adjustments to reconcile to net cash from operations					
Depreciation and amortization		-	163	-	320
Proportionate share of Air Canada's loss	Note 2	51	-	71	-
Loss on other assets		-	71	-	71
Loss on repurchase of ACE convertible senior notes and preferred shares		-	-	-	33
Air Canada warrants issued under the Credit Facility	Note 2	1	-	(1)	-
Foreign exchange gain		-	(355)	-	(212)
Future income taxes		-	1	-	8
Excess of employee future benefit funding over expense		-	(109)	-	(212)
Non-controlling interest		-	44	-	(52)
Fuel and other derivatives		-	19	-	(63)
Fuel hedge collateral deposits, net		-	62	-	209
Loss on investment	Note 2	-	-	1	-
Changes in non-cash working capital balances		1	(123)	1	158
Other		-	13	-	25
		3	**(104)**	**6**	**51**
Financing					
Repurchase and cancellation of ACE common shares	Note 3	-	-	(20)	-
Repurchase of ACE convertible senior notes		-	-	-	(233)
Repurchase of ACE convertible preferred shares		-	-	-	(186)
Air Canada borrowings		-	76	-	343
Reduction of long-term debt and capital lease obligations		-	(177)	-	(600)
		-	**(101)**	**(20)**	**(676)**
Investing					
Short-term investments		-	68	-	87
Additions to capital assets		-	(49)	-	(156)
Proceeds from sale of assets		-	93	-	93
Proceeds from sale-leaseback transactions		-	-	-	172
Loss on investment	Note 2	-	-	(1)	-
Other		-	(33)	-	(27)
		-	**79**	**(1)**	**169**
Increase (decrease) in cash and cash equivalents		**3**	**(126)**	**(15)**	**(456)**
Cash and cash equivalents, beginning of period		53	977	71	1,307
Cash and cash equivalents, end of period		**$ 56**	**$ 851**	**$ 56**	**$ 851**
Cash payments of interest		$ -	$ 87	$ -	$ 181
Cash recoveries of income taxes		$ -	$ -	$ -	$ (2)

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2).*

The accompanying notes are an integral part of these financial statements.

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

1. BASIS OF PRESENTATION

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment holding company of aviation interests. Reference to the "Corporation" in the following notes to the financial statements refers to, as the context may require, ACE and its aviation interests collectively, ACE and one or more of its aviation interests, one or more of ACE's aviation interests, or ACE itself. Refer to Note 2 for a description of ACE's investments.

These financial statements have been prepared on a going concern basis of presentation. Effective October 27, 2009, ACE no longer consolidates Air Canada's financial position, operating results and cash flows. ACE's investment in Air Canada has since been accounted for using the equity method whereby the Air Canada investment carrying value is adjusted to include the Corporation's proportionate share of Air Canada's earnings and other comprehensive income.

- The Consolidated statement of operations and related notes for the three and six months ended June 30, 2010 reflect ACE's proportionate share of Air Canada's loss.
- The Consolidated statement of financial position and related notes as at June 30, 2010 exclude the Air Canada consolidated financial position and instead reflect the Air Canada investment using the equity method.
- The Consolidated statement of comprehensive income (loss) and related notes for the three and six months ended June 30, 2010 reflect ACE's proportionate share of Air Canada comprehensive income (loss).
- The Consolidated statement of cash flow and related notes for the three and six months ended June 30, 2010 reflect ACE's unconsolidated cash flows.

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2009 annual audited consolidated financial statements of the Corporation.

In accordance with Canadian generally accepted accounting principles ("GAAP"), these interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the 2009 annual audited consolidated financial statements of the Corporation. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

2. INVESTMENTS

As at June 30, 2010, ACE's principal investments are:

- a 27.0% (75 million Class B Voting Shares) ownership interest in Air Canada;
- a secured loan of $150 to Air Canada; and
- 2.5 million warrants for the purchase of Air Canada Class B voting shares at exercise prices of $1.44 (1.25 million warrants) and $1.51 (1.25 million warrants) per share.

Air Canada

27% ownership interest in Air Canada

ACE's investment in Air Canada is accounted for using the equity method whereby the Air Canada investment carrying value is adjusted to include the Corporation's proportionate share of Air Canada's earnings and other comprehensive income. For the three months and six months ended June 30, 2010, an equity loss of $51 and $71 respectively, was recorded representing ACE's proportionate share of Air Canada's earnings, after adjustments. For the three months and six months ended June 30, 2010, other comprehensive income of $14 and $30 respectively, was recorded representing ACE's proportionate share of Air Canada's other comprehensive income.

The following table details the carrying value and fair value of ACE's investment in Air Canada:

Carrying value of ACE's investment in Air Canada as at December 31, 2009	$	99
Proportionate share of loss during the six months ended June 30, 2010		(71)
Proportionate share of other comprehensive income during the six months ended June 30, 2010		30
Carrying value of ACE's investment in Air Canada as at June 30, 2010	**$**	**58**
Fair value of ACE's investment in Air Canada as at June 30, 2010 *	**$**	**127**
Air Canada total assets as at June 30, 2010	$	10,440
Air Canada total liabilities as at June 30, 2010	$	8,997
Air Canada net loss for the six months ended June 30, 2010	$	(288)

** The fair value of ACE's holdings of Air Canada shares of $127 is based on the closing price of $1.69 per Air Canada Class B share as at June 30, 2010, as quoted on the TSX.*

Secured loan of $150 to Air Canada

Significant events during July and August 2010

On July 15, 2010, ACE reached an agreement with Air Canada with respect to the prepayment terms associated with the secured Air Canada credit facility (the "Credit Facility") whereby, under certain conditions, the applicable percentage payable in respect of a prepayment is reduced from 3.0% to 1.0%. Air Canada entered into similar agreements with the other lenders who participated in the $600 Credit Facility in July 2009.

On August 3, 2010, Air Canada repaid to ACE its proportionate share of the outstanding debt under the Credit Facility in the amount of $150 together with interest and prepayment fees for total proceeds to ACE of $156. This prepayment follows the completion of Air Canada's offerings of approximately $1.1 billion, consisting of two series of senior secured first lien notes (the "First Lien Notes") and an offering of senior secured second lien notes (the "Second Lien Notes"), which closed on August 3, 2010.

The Notes are senior secured obligations of Air Canada, (i) secured on a first-lien basis (in the case of the First Lien Notes) or on a junior lien basis (in the case of the Second Lien Notes), subject to certain permitted liens, by accounts receivable, certain real estate interests, certain spare engines, ground equipment, certain airport slots and gate leaseholds, and Air Canada's licenses to operate its Pacific routes and the airport slots and gate leaseholds utilized in connection with these Pacific routes and (ii) guaranteed on a senior secured basis by certain subsidiaries of Air Canada, subject to certain thresholds and exclusions.

Air Canada recorded a charge of $54 in Interest expense ($43 after tax) related to the repayment of the Credit Facility in Quarter 2 2010. ACE's proportionate share of Air Canada's loss in Quarter 2 2010, on an equity basis, included $12 attributable to this charge.

Significant events during Quarter 1 2010

In accordance with the terms of the Credit Facility, during Quarter 1 2010, Air Canada entered into arrangements with a new lender, comprised of a group of entities that are related to each other, to obtain a $100 increase to the $600 Credit Facility. The addition to the facility increased, on a pro rata basis, the scheduled repayments, including the final payment. Air Canada received financing proceeds of $100, less financing fees of $2, in February 2010. No additional warrants were issued as a result of the increase to the Credit Facility. ACE and the other lenders under the Credit Facility did not participate in the increase to the facility.

On July 29, 2009, ACE had participated in the $600 Credit Facility with a number of other lenders providing financing of $150. Such facility is further described in Note 3 to the 2009 annual audited consolidated financial statements of the Corporation. The Credit Facility was repayable in 16 consecutive quarterly installments commencing in August 2010 of $30 with the final installment of $120 due in July 2014. The Credit Facility bore interest at a rate based upon the greater of the bankers' acceptance rate or 3.00% plus 9.75% (12.75% as at June 30, 2010). Air Canada's obligations under the Credit Facility were secured by a first priority security interest and hypothec over substantially all the present and after-acquired property of Air Canada and its subsidiaries, subject to certain exclusions and permitted liens.

<u>2.5 million warrants</u>

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. On October 19, 2009, ACE received an additional 1,250,000 warrants for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.44 per share, exercisable at any time, and expiring four years after the date of issuance.

The warrants are presented as Air Canada warrants issued under the Credit Facility and any changes in fair value are recorded within Gain (loss) on financial instruments recorded at fair value in the consolidated statement of operations. The fair value of the 2,500,000 warrants amounted to $1 as at June 30, 2010 ($2 as at March 31, 2010 and nil as at December 31, 2009) using the Black-Scholes option valuation model.

<u>Guarantee of Air Canada obligation</u>

On May 7, 2009, ACE intervened into the employment agreement between Air Canada and Mr. Calin Rovinescu, its President and Chief Executive Officer, to guarantee the payments required of Air Canada under the agreement. In addition, ACE agreed to cause to be issued an irrevocable bank letter of credit to a maximum of $5.

On March 11, 2010, the subject agreement was amended such that the guarantee shall automatically terminate upon the earlier of (i) April 1, 2014 and (ii) the date on which the shareholders of ACE approve the winding-up and liquidation of ACE, in the event that such approval is requested by ACE of its shareholders. Notwithstanding the foregoing, in the event of such approval by ACE's shareholders and that a liquidator is not appointed within 180 days of the shareholders' vote approving the winding-up and liquidation of ACE, the guarantee shall automatically resume and continue in full force and effect, and shall thereafter automatically terminate upon the earlier of (i) April 1, 2014 and (ii) the date on which such a liquidator shall have been appointed for the winding-up and liquidation of ACE. This agreement was also further amended such that ACE is not required to issue the bank letter of credit.

ACTS Aero

As described in Note 18 to the 2009 annual audited consolidated financial statements of the Corporation, on January 22, 2010, ACE entered into a Restructuring and Lockup Agreement with Aveos, Aero Technical Support & Services Holdings sarl ("ACTS Aero"), lenders and other shareholders. The restructuring was completed on March 12, 2010. Under the terms of the restructuring, ACE transferred its shares in ACTS Aero to a newly formed company, in which ACE has no interest, for nil consideration. Under the terms of a Release Agreement entered into on March 12, 2010, ACE and ACTS LP were released from substantially any claims that may arise under the Asset Purchase Agreement relating to the monetization of ACTS on October 16, 2007, in return for a payment of $1.25 which was recorded as a Loss on investment in Quarter 1 2010.

3. SHARE INFORMATION

The issued and outstanding common shares of ACE as at June 30, 2010, along with potential common shares, are as follows:

Outstanding shares ('000s)	June 30 2010	December 31 2009
Issued and Outstanding		
Class A variable voting shares	25,654	25,643
Class B voting shares	6,811	10,048
Total issued and outstanding (1)	**32,465**	**35,691**
Potential common shares		
Stock options (2)	47	48
Total potential common shares	**47**	**48**

(1) On January 6, 2010, ACE accepted for purchase and cancellation a total of 1,401,094 Class A variable voting shares and 1,824,711 Class B voting shares at $6.20 per share for an aggregate purchase price of $20 in accordance with the terms of a substantial issuer bid.

Upon purchase and cancellation by ACE of the Class A variable voting shares and Class B voting shares, Share capital decreased by $9 and Contributed surplus decreased by $11.

(2) The Corporation's stock option plan is described in Note 11 to the 2009 annual audited consolidated financial statements. At June 30, 2010, a total of 46,770 stock options with a weighted exercise price of $14.51 were outstanding (47,812 stock options with a weighted exercise price of $14.61 outstanding as at December 31, 2009). The decrease of 1,042 stock options since December 31, 2009 is due to forfeitures experienced in Quarter 1 2010.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Gain (Loss) on Financial Instruments Recorded at Fair Value

	Three Months Ended June 30		Six Months Ended June 30	
	2010 *	**2009**	**2010 ***	**2009**
Fuel derivatives not under hedge accounting	$ -	$ 85	$ -	$ 76
Air Canada warrants issued under the Credit Facility	(1)	-	1	-
Other	-	(6)	-	(7)
Gain (loss) on financial instruments recorded at fair value	**$ (1)**	**$ 79**	**$ 1**	**$ 69**

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2).*

Risk Management

As described in Notes 1 and 2, effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE.

As a result, as at June 30, 2010, ACE's financial instruments include cash and cash equivalents in the amount of $56 ($71 as at December 31, 2009), a secured loan receivable of $150 from Air Canada ($150 as at December 31, 2009), warrants issued under the Air Canada Credit Facility of $1 (nil as at December 31, 2009), interest receivable of $3 from Air Canada ($3 as at December 31, 2009) and accounts payable of $4 ($3 as at December 31, 2009). The risk exposure related to these holdings is described below.

<u>Interest Rate Risk</u>

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

The Corporation is exposed to interest rate risk from its holding in cash and cash equivalents of $56 in addition to its secured loan receivable and related interest receivable from Air Canada of $150 and $3, respectively. The loan receivable from Air Canada bears interest at a rate based upon the greater of the bankers' acceptance rate or 3.00% plus 9.75% (12.75% as at June 30, 2010), which mitigates interest rate risk under the loan receivable to nil.

The weighted average interest rate on ACE's cash and cash equivalents at June 30, 2010, is approximately 0.50%, which results in limited downside risk.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. This risk is mitigated by the fact that as at June 30, 2010, the Corporation had cash and cash equivalents of $56 and current financial liabilities of $4.

<u>Credit Risk</u>

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. The Corporation is exposed to credit risk from its cash and cash equivalents and its secured loan receivable from Air Canada and related interest receivable from Air Canada. The maximum exposure of which is represented by the carrying amounts reported on the balance sheet.

This risk is mitigated by the fact that:

- Cash and cash equivalents are held by credit worthy institutions only. The Corporation's target is that no one financial institution holds more than 25% of the total;
- Air Canada's obligations under the Credit Facility are secured by a first priority security interest and hypothec over substantially all the present and after-acquired property of Air Canada and its subsidiaries, subject to certain exclusions and permitted liens. The Credit Facility contains customary representations and warranties and is subject to customary terms and conditions (including negative covenants, financial covenants and events of default).

As detailed in Notes 2 and 8, Air Canada repaid its obligations under the Credit Facility to ACE and other participants on August 3, 2010.

5. FUTURE INCOME TAXES

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

	Three Months Ended June 30		Six Months Ended June 30	
	2010 *	**2009**	**2010 ***	**2009**
Recovery of (provision for) income taxes before under noted items	$ -	$ (2)	$ -	$ 2
Repurchase of ACE convertible senior notes	-	-	-	(8)
Provision for income taxes	**$ -**	**$ (2)**	**$ -**	**$ (6)**

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2).*

ACE has applied for Certificates of Discharge from the Canada Revenue Agency and Revenu Québec. ACE is assisting them with their audits of ACE's income tax returns for the years 2005 to 2008. In addition to the audits of income tax returns, audits in respect of other taxes, including GST, QST and Customs, are ongoing. It is possible that the audits, which relate to ACE and its subsidiaries, may lead to some reassessments in the future.

6. SUPPLEMENTARY INFORMATION

Composition of Business Segments

ACE had two reportable segments: Air Canada and Corporate Items and Eliminations ("CIE") until October 27, 2009, after which time only one segment, ACE (formerly CIE), remains.

ACE's investment in Air Canada was changed on October 27, 2009 from the consolidation to the equity method of accounting reported under the CIE segment.

The under-noted reconciliation provides supplementary information to separate CIE from Air Canada results included in the consolidated financial statements for the three months ended June 30, 2010.

	Three Months Ended June 30			
	2010 ACE	Air Canada	CIE	2009 ACE
Passenger revenue	$ -	$ 2,058	$ -	$ 2,058
Cargo revenue	-	76	-	76
Other revenue	-	196	-	196
External revenue	-	2,330	-	2,330
Inter-segment revenue	-	-	-	-
Total revenues	**-**	**2,330**	**-**	**2,330**
Aircraft fuel	-	572	-	572
Wages, salaries and benefits	-	438	2	440
Airport and navigation fees	-	241	-	241
Capacity purchase with Jazz	-	254	-	254
Depreciation and amortization	-	165	(2)	163
Aircraft maintenance	-	185	-	185
Food, beverages and supplies	-	73	-	73
Communications and information technology	-	80	-	80
Aircraft rent	-	83	-	83
Commissions	-	40	-	40
Other	3	312	2	314
Total operating expenses	**3**	**2,443**	**2**	**2,445**
Operating loss	**(3)**	**(113)**	**(2)**	**(115)**
Interest income	5	4	(1)	3
Interest expense	-	(94)	(3)	(97)
Interest capitalized	-	2	-	2
Loss on other assets	-	(71)	-	(71)
Gain (loss) on financial instruments recorded at fair value	(1)	79	-	79
Proportionate share of Air Canada's loss	(51)	-	-	-
Non-controlling interest	-	(4)	(40)	(44)
Foreign exchange gain	-	355	-	355
Recovery of (provision for) income taxes	-	(3)	1	(2)
Segment income (loss) for the period	**$ (50)**	**$ 155**	**$ (45)**	**$ 110**

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2). For the three months ended June 30, 2010, equity loss of $51 (2009 – equity loss of nil) relating to ACE's equity investment in Air Canada is included in Proportionate share of Air Canada's loss.*

Included within Depreciation and amortization is depreciation of property and equipment for the three months ended June 30, 2010 of nil (2009 - $147) related to Air Canada.

The under-noted reconciliation provides supplementary information to separate CIE from Air Canada results included in the consolidated financial statements for the six months ended June 30, 2010.

	Six Months Ended June 30			
	2010 ACE	Air Canada	CIE	2009 ACE
Passenger revenue	$ -	$ 4,069	$ -	$ 4,069
Cargo revenue	-	156	-	156
Other revenue	-	496	-	496
External revenue	-	4,721	-	4,721
Inter-segment revenue	-	-	-	-
Total revenues	**-**	**4,721**	**-**	**4,721**
Aircraft fuel	-	1,165	-	1,165
Wages, salaries and benefits	-	896	4	900
Airport and navigation fees	-	471	-	471
Capacity purchase with Jazz	-	500	-	500
Depreciation and amortization	-	324	(4)	320
Aircraft maintenance	-	374	-	374
Food, beverages and supplies	-	140	-	140
Communications and information technology	-	159	-	159
Aircraft rent	-	169	-	169
Commissions	-	89	-	89
Other	5	735	6	741
Total operating expenses	**5**	**5,022**	**6**	**5,028**
Operating loss	**(5)**	**(301)**	**(6)**	**(307)**
Interest income	10	10	1	11
Interest expense	-	(199)	(6)	(205)
Interest capitalized	-	3	-	3
Loss on investment	(1)	-	-	-
Loss on other assets	-	(71)	-	(71)
Loss on repurchase of ACE convertible senior notes and preferred shares	-	-	(33)	(33)
Gain on financial instruments recorded at fair value	1	69	-	69
Proportionate share of Air Canada's loss	(71)	-	-	-
Other non-operating expense	-	(1)	-	(1)
Non-controlling interest	-	(8)	60	52
Foreign exchange gain	-	254	-	254
Provision for income taxes	-	(1)	(5)	(6)
Segment income (loss) for the period	**$ (66)**	**$ (245)**	**$ 11**	**$ (234)**

** Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE (Refer to Notes 1 & 2). For the six months ended June 30, 2010, equity loss of $71 (2009 – equity loss of nil) relating to ACE's equity investment in Air Canada is included in Proportionate share of Air Canada's loss.*

Included within Depreciation and amortization is depreciation of property and equipment for the six months ended June 30, 2010 of nil (2009 - $291) related to Air Canada.

7. RELATED PARTY TRANSACTIONS

At June 30, 2010, ACE Aviation Holdings Inc. ("ACE") holds a 27% ownership interest in Air Canada. Air Canada has various related party transactions with ACE and Aveos (a subsidiary of ACTS Aero), as further described below and in the 2009 annual audited consolidated financial statements of the Corporation.

Aveos Restructuring Plan

During Quarter 1 2010, Aveos reached an agreement with its lenders and equity holders on the terms of a consensual restructuring plan to recapitalize the company. As part of this recapitalization, Air Canada and Aveos entered into agreements to settle certain issues and modify the terms of certain contractual arrangements in exchange for Air Canada receiving a minority equity interest in Aveos. This restructuring modified the terms of certain commercial agreements between Air Canada and Aveos, including terms of the Pension and Benefits Agreement and the Agreement with Aveos on Revised Payment Terms described in the 2009 annual audited consolidated financial statements of the Corporation and below. The modified terms relating to maintenance agreements are not expected to have a material impact on maintenance expense over their terms.

As part of these agreements, Air Canada also agreed to extend repayment terms on $22 of receivables (as further described in Note 17 to the 2009 annual audited consolidated financial statements of the Corporation under Agreement with Aveos on Revised Payment Terms), due in 2010, over six years with annual repayments on a non-interest bearing basis, with such payments subject to satisfaction of certain conditions. This agreement is now referred to as the Term Note.

The terms of the Pension and Benefits Agreement were also modified to defer the determination of pension assets and related solvency deficiencies of transferring unionized employees performing airframe maintenance services to April 2011. This has the result of Air Canada assuming responsibility for changes in the solvency deficiency for those affected employees from the date of the Pension and Benefits Agreement, which was entered into as of October 16, 2007, to the date of their transfer to Aveos, scheduled for April 2011. As part of the amendment, all letters of credit issued under the Pension and Benefits Agreement were cancelled and a new letter of credit in the amount of $20 was issued by Air Canada in favour of Aveos to secure the payment of all compensation payments owing by Air Canada to Aveos in respect of pension, disability, and retiree liabilities for which Air Canada would be liable under the Pension and Benefits Agreement. This modification resulted in a reduction to the outstanding deposit under Air Canada's letter of credit facility of $23 during the first quarter of 2010. Until such future time as the assets and obligations under the Air Canada pension and other employee and retiree benefit arrangements pertaining to unionized employees may be transferred to Aveos, the current service pension cost and the current service and interest costs for other employee benefits in respect of Air Canada employees providing services to Aveos are charged by Air Canada to Aveos, and as such, the modifications to the Pension and Benefits Agreement have no accounting consequence in the current period. Refer to Note 17 to the 2009 annual audited consolidated financial statements for further information on the Pension and Benefits Agreement.

As described in Note 2, during Quarter 1 2010, ACE transferred its shares in ACTS Aero to a newly formed company, in which ACE has no interest, for nil consideration. As a result, Aveos and ACE are no longer related parties. In addition, Aveos and Air Canada are no longer related parties.

8. SUBSEQUENT EVENTS

On July 15, 2010, ACE reached an agreement with Air Canada with respect to the prepayment terms associated with the Credit Facility whereby, under certain conditions, the applicable percentage payable in respect of a prepayment is reduced from 3.0% to 1.0%. Air Canada entered into similar agreements with the other lenders who participated in the $600 Credit Facility in July 2009.

On August 3, 2010, Air Canada repaid to ACE its proportionate share of the outstanding debt under the Credit Facility in the amount of $150 together with interest and prepayment fees for total proceeds to ACE of $156. This prepayment follows the completion of Air Canada's offerings of approximately $1.1 billion, consisting of two series of senior secured first lien notes (the "First Lien Notes") and an offering of senior secured second lien notes (the "Second Lien Notes"), which closed on August 3, 2010.

The Notes are senior secured obligations of Air Canada, (i) secured on a first-lien basis (in the case of the First Lien Notes) or on a junior lien basis (in the case of the Second Lien Notes), subject to certain permitted liens, by accounts receivable, certain real estate interests, certain spare engines, ground equipment, certain airport slots and gate leaseholds, and Air Canada's licenses to operate its Pacific routes and the airport slots and gate leaseholds utilized in connection with these Pacific routes and (ii) guaranteed on a senior secured basis by certain subsidiaries of Air Canada, subject to certain thresholds and exclusions.

Air Canada recorded a charge of $54 in Interest expense ($43 after tax) related to the repayment of the Credit Facility in Quarter 2 2010. ACE's proportionate share of Air Canada's loss in Quarter 2 2010, on an equity basis, included $12 attributable to this charge.