ACE Aviation Holdings Inc.
Consolidated Statement of Operations and Retained Earnings (Deficit)

(in millions except per share figures - Canadian dollars)
(unaudited)

	Successor Company - ACE (note 1)	Predecessor Company - Air Canada (note 1)
	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Operating revenues		
Passenger	$ 1,739	$ 1,661
Cargo	135	126
Other	303	334
	2,177	2,121
Operating expenses		
Salaries, wages and benefits	613	687
Aircraft fuel	415	338
Aircraft rent (note 1)	90	194
Airport and navigation fees	213	203
Aircraft maintenance, materials and supplies	94	103
Communications and information technology	77	88
Food, beverages and supplies	78	79
Depreciation, amortization and obsolescence (note 2)	120	95
Commissions	65	80
Other	422	399
	2,187	2,266
Operating loss before reorganization and restructuring items	(10)	(145)
Reorganization and restructuring items (note 9)	-	(132)
Non-operating income (expense)		
Interest income	12	4
Interest expense	(75)	(47)
Interest capitalized	3	-
Loss on sale of and provisions on assets	-	(3)
Non-controlling interest	(3)	-
Other	(3)	3
	(66)	(43)
Loss before foreign exchange on non-compromised long-term monetary items and income taxes	(76)	(320)
Foreign exchange gain (loss) on long-term monetary items	(15)	17
Loss before income taxes	(91)	(303)
Recovery of (provision for) income taxes	14	(1)
Loss for the period	**$ (77)**	**$ (304)**
Retained earnings (deficit), beginning of period as originally reported	15	(5,147)
Adjustment related to a change in accounting policy (note 1)	142	-
Retained earnings (deficit), beginning of period as restated	157	(5,147)
Retained earnings (deficit), end of period	**$ 80**	**$ (5,451)**
Loss per share		
- Basic and diluted	$ (0.87)	$ (2.53)

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

ACE Aviation Holdings Inc.
Consolidated Statement of Financial Position

(in millions of Canadian dollars) (unaudited)	Successor Company - ACE (note 1) March 31 2005	December 31 2004
ASSETS		
Current		
Cash and cash equivalents	$ 959	$ 1,481
Short-term investments (note 1)	826	151
	1,785	1,632
Restricted cash	49	118
Accounts receivable	632	547
Spare parts, materials and supplies	221	237
Prepaid expenses	161	161
Future income taxes	17	-
	2,865	2,695
Property and equipment (note 2)	5,056	3,696
Deferred charges	125	167
Intangible assets	2,678	2,691
Other assets	246	137
	$ 10,970	**$ 9,386**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 1,275	$ 1,197
Advance ticket sales and loyalty program deferred revenues	1,227	1,076
Current portion of long-term debt and capital lease obligations (note 3)	288	218
	2,790	2,491
Long-term debt and capital lease obligations (note 3)	3,499	2,328
Convertible preferred shares	135	132
Future income taxes	243	243
Pension and other benefit liabilities	2,336	2,344
Non-controlling interest (note 1)	192	-
Other long-term liabilities	1,506	1,645
	10,701	9,183
Commitments (note 6) and Guarantees (note 7)		
SHAREHOLDERS' EQUITY		
Share capital and other equity	187	187
Contributed surplus	2	1
Retained earnings	80	15
	269	203
	$ 10,970	**$ 9,386**

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

ACE Aviation Holdings Inc.
Consolidated Statement of Cash Flow

(in millions of Canadian dollars)
(unaudited)

Cash flows from (used for)	**Successor Company - ACE (note 1)** **Three Months Ended March 31, 2005**	**Predecessor Company - Air Canada (note 1)** **Three Months Ended March 31, 2004**
Operating		
Loss for the period	$ (77)	$ (304)
Adjustments to reconcile to net cash provided by operations		
Reorganization and restructuring items (note 9)	-	109
Depreciation, amortization and obsolescence	120	95
Loss on sale of and provisions on assets	-	3
Foreign exchange	15	(17)
Future income taxes	(17)	(2)
Employee future benefit funding (more than) less than expense	(8)	60
Decrease (increase) in accounts receivable	(91)	(54)
Decrease (increase) in spare parts, materials and supplies	14	(3)
Increase in accounts payable and accrued liabilities	100	62
Increase in advance ticket sales, net of restricted cash	219	140
Aircraft lease payments in excess of rent expense	(4)	(44)
Other	43	18
	314	63
Financing		
GE DIP financing	-	300
Credit facility borrowings	-	80
Reduction of long-term debt and capital lease obligations	(140)	(214)
	(140)	166
Investing		
Short-term investments	(675)	186
Additions to capital assets	(38)	(36)
Proceeds from sale of assets	37	1
Cash collaterization of letters of credit	(20)	-
	(696)	151
Increase (decrease) in cash and cash equivalents	(522)	380
Cash and cash equivalents, beginning of period	1,481	1,101
Cash and cash equivalents, end of period	**$ 959**	**$ 1,481**
Cash payments of interest	**$ 38**	**$ 35**
Cash payments of income taxes	**$ 4**	**$ -**

Cash and cash equivalents exclude short-term investments of $826 as at March 31, 2005 ($151 as at December 31, 2004)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(currencies in millions – Canadian dollars)

1. Nature of Operations and Accounting Policies

Nature of Operations

ACE Aviation Holdings Inc. ("ACE" or the "Corporation") was incorporated on June 29, 2004 for the purpose of becoming the parent company of Air Canada and its subsidiaries upon the implementation of the consolidated plan of reorganization, compromise and arrangement ("the Plan") on September 30, 2004 as further described in the 2004 annual consolidated financial statements of ACE.

The Corporation 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 high number of leisure travelers and their preference for travel during the spring and summer months.

The Corporation has substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short-term. Seasonally low passenger demand normally results in significantly lower operating cash flow in the first and fourth quarters of each calendar year compared to the second and third quarters.

In accordance with Section 1625 of the CICA Handbook, Comprehensive Revaluation of Assets and Liabilities ("CICA 1625"), ACE adopted fresh start reporting on September 30, 2004. References to "Predecessor Company" in these consolidated financial statements and notes thereto refer to Air Canada and its subsidiaries prior to September 30, 2004. References to "Successor Company" refer to ACE and its subsidiaries on and after June 29, 2004. In accordance with CICA 1625, prior period financial information has not been restated to reflect the impact of the fair value adjustments, and accordingly certain amounts in the Predecessor Company's results are not directly comparable with those of the Successor Company.

The consolidated balance sheets as of March 31, 2005 and December 31, 2004 represent the accounts of the Successor Company. The consolidated statement of operations for the three months ended March 31, 2005 reflects the results of operations of the Successor Company; the three months ended March 31, 2004 reflects the results of operations of the Predecessor Company. The consolidated statement of cash flow for the three months ended March 31, 2005 reflects the cash flows of the Successor Company; the three months ended March 31, 2004 reflects the cash flows of the Predecessor Company.

Accounting Policies

For the period from April 1, 2003 through to September 30, 2004, while Air Canada and certain of its subsidiaries (the "Applicants") operated under the Companies' Creditors Arrangement Act (Canada) ("CCAA") proceedings, the Predecessor Company followed accounting policies, including disclosures, applicable to entities under creditor protection. In addition to Canadian generally accepted accounting principles applicable, the Predecessor Company applied the guidance in American Institute of Certified Public Accountant Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (SoP 90-7). Accordingly, revenues, expenses (including professional fees), realized gains and losses and provisions for losses directly associated with the reorganization and restructuring of the business were reported separately as reorganization items.

For the period April 1, 2003 to September 30, 2004, interest expense on compromised liabilities was reported only to the extent that it would be paid under the Plan or that it was probable that it would be an allowed claim. Cash flows related to reorganization items have been disclosed separately in the consolidated statement of cash flows. Consolidated financial statements that include one or more entities in reorganization proceedings and one or more entities not in reorganization proceedings include disclosure of condensed combined financial statements of the entities in reorganization proceedings. This information is presented in note 10.

The unaudited interim consolidated financial statements for the Successor Company are based on the accounting policies consistent with those disclosed for the Successor Company in Note 4 to the 2004 annual consolidated financial statements of ACE with the exception of the adoption of the accounting policies described further in this note under New Accounting Policies. The accounting policies of the Successor Company were consistent with those of the Predecessor Company, with the exception of the fair value adjustments applied under fresh start reporting and the accounting policies noted below:

Property and Equipment

On the application of fresh start accounting effective September 30, 2004, the estimated useful lives of buildings was extended to periods not exceeding 50 years. The Predecessor Company depreciated buildings over their useful lives not exceeding 30 years.

Air Transportation Revenues and Loyalty Program

As a result of the application of fresh start reporting, the outstanding loyalty program mileage credits ("Miles") were adjusted to reflect the estimated fair value of Miles to be redeemed in the future. As a consequence of this fair value adjustment and the evolving nature of the Aeroplan loyalty program, the Successor Company changed the accounting policy as of September 30, 2004 for the recognition of its obligations relating to the loyalty program. The Predecessor Company recognized the obligation related to Miles earned through transportation services based on the incremental cost of providing future transportation services. On a prospective basis from the date of fresh start reporting, Miles earned by members through transportation services provided by the Corporation and the transportation services are treated as multiple elements. Miles are recorded at fair values with the residual allocated to transportation services. Consistent with the accounting policy of the Predecessor Company, the proceeds from the sale of Miles to loyalty program partners are deferred.

Effective September 30, 2004, Miles redeemed for travel on Air Canada and Jazz are included in passenger revenue and Miles redeemed for other than travel are included in Other revenues. Under the previous accounting policy in the Predecessor Company, Aeroplan redemption revenues from Miles earned by members through loyalty program partners were included in Other revenues. These revenues amounted to $70 for the three months ended March 31, 2004. For the three months ended March 31, 2005, Aeroplan revenues from Miles redeemed for air travel on Air Canada and Jazz amount to $101, of which $65 relate to Miles earned by members through loyalty program partners and are included in passenger revenues.

Non-transportation Revenues

Non-transportation revenue includes certain loyalty program revenues, as described in Loyalty Program, as well as revenues from technical services maintenance and other airline related services. The Predecessor Company recorded all loyalty program revenues under non-transportation revenues prior to September 30, 2004.

Segment Reporting

As a result of the corporate restructuring, the segment reporting structure for the Successor Company reflects four reportable segments consistent with the current management of the business: transportation services, loyalty program, technical services, and regional operations. In the Predecessor Company, there was one reportable segment.

Other

In accordance with Canadian generally accepted accounting principles, 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 2004 annual consolidated financial statements of ACE.

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

Short-term investments with original maturities greater than ninety days were previously included in Cash and Cash Equivalents. Because of increased significance, they are now separately presented as Short-term Investments. Short-term investments have original maturities over ninety days, but not more than one year. These investments can be readily converted to cash and are with institutions that have high credit ratings.

During the three months ended March 31, 2005, the Corporation recorded a favorable adjustment of $11 relating to changes in estimates on commission expense on corporate contracts.

New Accounting Policies:

a) Consolidation of Variable Interest Entities

Accounting Guideline 15 – Consolidation of Variable Interest Entities (AcG-15) is effective for periods beginning on or after November 1, 2004; as a result, ACE adopted this standard effective January 1, 2005. AcG-15 relates to the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. The purpose of AcG-15 is to provide guidance for determining when an enterprise includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its consolidated financial statements. Restatement of comparative financial information is not required by AcG-15.

An entity falls under the guidance in AcG-15 and is classified a variable interest entity ("VIE") if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that will absorb a majority of the expected losses or will receive the majority of the expected residual returns or both, as a result of ownership, contractual or other financial interests in the VIE.

Aircraft and Engine Leasing Transactions

Prior to the adoption of AcG-15, Air Canada entered into aircraft and engine lease transactions with a number of special purpose entities that are referred to as VIEs under AcG-15. As a result of the adoption of AcG-15 and Air Canada being the primary beneficiary of these VIEs, the Corporation consolidated leasing entities covering 51 aircraft and 22 engines previously accounted for as operating leases. The following adjustments to the consolidated statement of financial position as at January 1, 2005 result from consolidating these lease structures on initial adoption of AcG-15:

	Assets	Liabilities and Shareholders' Equity
Increase to property and equipment	$1,304	
Decrease to deferred charges	(45)	
Decrease to intangible assets	(6)	
Increase to other assets	113	
Increase to current portion of long-term debt		$77
Increase to long-term debt		1,173
Increase to non-controlling interest		181
Decrease to other long-term liabilities		(155)
Cumulative effect of change in accounting policy		90
	$1,366	$1,366

The increase to other assets represents restricted cash held in the VIEs and the fair value of a currency swap arrangement of $7 in favour of the Corporation, taking into account foreign exchange rates in effect as at December 31, 2004. This currency swap was put in place on the inception of the leases for 11 Canadair Regional Jet aircraft. This currency swap has not been designated as a hedge for accounting purposes.

Fuel Facilities Arrangements

Air Canada and Jazz participate in fuel facilities arrangements, along with other airlines to contract for fuel services at various domestic airports. The Fuel Facilities Corporations are organizations incorporated under federal or provincial business corporations acts in order to acquire, finance and lease assets used in connection with the fuelling of aircraft and ground support equipment. The Fuel Facilities Corporations operate on a cost recovery basis.

Under AcG-15, the Corporation is the primary beneficiary of certain of the Fuel Facilities Corporations. On January 1, 2005 the Corporation consolidated three Fuel Facilities Corporations, resulting in the following adjustments:

	Assets	Liabilities and Shareholders' Equity
Increase to property and equipment	$113	
Increase to long-term debt		$51
Increase to non-controlling interest		8
Increase to other long-term liabilities		2
Cumulative effect of change in accounting policy		52
	$113	$113

The remaining five Fuel Facilities Corporations in Canada that have not been consolidated have assets recorded of approximately $103 and debt of approximately $90, which is the Corporation's maximum

exposure to loss without taking into consideration any cost sharing that would occur amongst the other contracting airlines and any value of the assets. The Corporation views this loss potential as remote.

Effect in Current Period

During the three months ended March 31, 2005, the net impact of adopting AcG-15 was a before tax charge of $30 ($0.34 per share, diluted). This impact is a result of depreciation expense of $25, net interest expense of $24, foreign exchange loss of $6 and non-controlling interest of $3 offset by reduced aircraft rent of $28.

Prior Periods

Restatement of comparative financial information is not required by AcG-15. The cumulative effect to retained earnings on the adoption of AcG-15 as at January 1, 2005 is an increase of $142.

b) Foreign Currency Translation of Financial Statements of Integrated Foreign Operations

The majority of the VIEs are not Canadian based entities and monetary assets and liabilities of the VIEs are denominated in foreign currencies, principally US dollars. The Corporation applies the temporal method for the translation of the financial statements of the VIEs denominated in foreign currencies. Monetary assets and liabilities of the VIEs are translated at rates of exchange in effect at the date of the consolidated statement of financial position. Non monetary items are translated at historical exchange rates. Expense items are translated at the average rate of exchange for the period, which results in substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Depreciation of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate.

c) Asset Retirement Obligations

As a result of the consolidation of certain Fuel Facilities Corporations, the Corporation has applied the Canadian Institute of Chartered Accountants Section 3110, “Accounting for Asset Retirement Obligations”, which requires the Corporation to record an asset and related liability for the costs associated with the retirement of long-lived tangible assets when a legal liability to retire such assets exists. Under Section 3110, the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount of the underlying cash flows through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

Under the terms of its land leases, the Fuel Facilities Corporations have the obligation to restore the land to vacant condition at the end of the lease and to rectify any environmental damage for which is it responsible. If it was found that the Fuel Facilities Corporations had to contribute to any remediation costs, each contracting airline would share pro rata, based on system usage, in the costs. For Fuel Facilities Corporations that are consolidated under AcG-15, the Corporation has recorded an obligation of $2 ($12 undiscounted) representing the present value of the estimated decommissioning and remediation obligations at the end of the lease, with lease term expiry dates ranging from 2032 to 2039. This estimate is based on numerous assumptions including the overall cost of decommissioning and remediation and the selection of alternative decommissioning and remediation approaches.

2. Property and Equipment

	Successor Company	
	March 31, 2005	December 31, 2004
Cost (1)		
Flight equipment	$ 1,153	$ 1,179
Flight equipment consolidated under AcG-15	1,304	-
Capital leases	1,814	1,758
Buildings and leasehold improvements	520	520
Buildings consolidated under AcG-15	113	-
Ground equipment and other	165	176
Computer equipment	4	1
	5,073	3,634
Accumulated depreciation and amortization		
Flight equipment	40	18
Flight equipment consolidated under AcG-15	23	-
Capital leases	47	22
Buildings and leasehold improvements	22	10
Buildings consolidated under AcG-15	2	-
Ground equipment and other	10	5
Computer equipment	1	-
	145	55
	4,928	3,579
Purchase deposits	128	117
Property and equipment at net book value	$ 5,056	$ 3,696

During the three months ended March 31, 2005, the Corporation recorded total depreciation, amortization and obsolescence expense of $120 (2004 $95 recorded in Predecessor Company) which included amortization expense related to intangible assets of $26 (2004 $13 recorded in Predecessor Company).

1) In accordance with Section 1625 of the CICA Handbook, Comprehensive Revaluation of Assets and Liabilities ("CICA 1625"), on the application of fresh start reporting effective September 30, 2004, the cost of property and equipment was adjusted to fair value.

3. Long-Term Debt and Capital Lease Obligations

			Successor Company	
	Final Maturity	Current Interest Rate (%)	March 31, 2005	December 31, 2004
GECC Exit Financing (a)	2011	6.853	$ 540	$ 540
Air Canada - Lufthansa Cooperation Agreement (b)	2009	6.495	76	76
GECC Limited Recourse Loan (c)	2014	6.306	-	30
GECC Loan (d)	2015	8.47	54	55
Amex Financing (e)	2006	4.25	25	43
Other (f)	2007 - 2019	4.55 - 6.85	231	232
			926	976
Debt consolidated under AcG 15 - Aircraft leases (g)	2007 - 2017	3.0 - 8.7	1,205	-
Debt consolidated under AcG-15 - Fuel Facilities Corporations (h)	2007	5.0	50	-
Capital lease obligations (i)	2004-2027	8.0	1,606	1,570
			3,787	2,546
Current portion			(288)	(218)
Long-term debt and capital lease obligations			$ 3,499	$ 2,328

Principal repayment requirements as at March 31, 2005 on long-term debt, capital lease obligations, and aircraft, engine and fuel facility debt consolidated as variable interest entities under AcG-15 through to 2009 are as follows:

	Remainder of 2005	2006	2007	2008	2009
Long-term debt excluding GECC Exit Financing	$ 54	$ 32	$ 32	$ 51	$ 28
Capital lease principal obligations	138	147	182	179	88
Debt consolidated under AcG-15	44	74	118	117	57
Total excluding GECC Exit Financing	236	253	332	347	173
GECC Exit Financing	-	-	96	128	128
Total	$ 236	$ 253	$ 428	$ 475	$ 301

a) Tranche A, a non-revolving term loan in the amount of US$425 or CDN equivalent, bears interest at a BA rate plus a margin. The loan was drawn in Canadian dollars as at September 30, 2004 in the amount of $540. The margin was set at 4.25% at March 31, 2005. The loan was secured by a first priority security interest on all of the existing and after acquired property of the Successor Company, other than leased assets, assets financed by other parties, and certain other excluded property of ACE and its subsidiaries. The loan was repaid in full prior to maturity on April 6, 2005, including an early payment fee of $16.

b) US$63 borrowing maturing in 2009, with semi annual repayments, at a fixed interest rate of 4.495% plus an annual 2.0% guarantee fee.

c) US$25 borrowing, secured by one B747-400 aircraft, maturing in 2014 at an interest rate equal to the one month LIBOR rate plus a margin of 4.0% and was accrued in arrears at the end of each LIBOR period. Air Canada completed a sales agreement with a third party in January 2005. Consistent with the terms of the loan agreement, the proceeds were used to repay this borrowing.

d) US$45 borrowing maturing in 2015, with quarterly repayments, at a floating interest rate equal to the six month LIBOR rate plus 5.75% pre-payable on any interest payment date after December 23, 2007 secured by certain flight training equipment with a carrying value of $73.

e) The Amex Financing requires monthly principal and interest payments over the term of the Canadian dollar loan which extends to January 5, 2006 and may be extended in six month intervals by mutual consent. Under the terms of the agreement, cash principal payments under the facility are made as loyalty points are purchased and as amounts may be due to Air Canada or Aeroplan under various Amex agreements. The facility bears interest at the Bank of Montreal's prime lending rate (4.25% as at March 31, 2005) and is secured by all accounts due to Amex under the agreements and all of the present and future licenses, trademarks and design marks owned by Air Canada and Aeroplan and used by Amex in connection with the agreement.

f) Other mainly includes financings secured by two A340-500 aircraft. These aircraft purchases were financed through conditional sales agreements for an initial value of US$174. Principal and interest is paid quarterly until maturity in 2019. The purchase price instalments bear interest at a three month LIBOR rate plus 2.9% (5.66% as at March 31, 2005).

g) Air Canada entered into aircraft and engine lease transactions with several special purpose entities that qualify as VIEs (refer to Note 1). As a result of the adoption of AcG-15 as described in Note 1, the Corporation has consolidated leasing entities covering 51 aircraft and 22 engines previously accounted for as operating leases. The debt has a weighted average effective interest rate of approximately 8%. The aircraft are charged as collateral against the debt by the owners thereof. The creditors under these leasing arrangements have recourse to Air Canada, as lessee, in the event of default or early termination of the lease. The majority of the VIEs are not Canadian based entities and hold debt amounting to US$995.

Aircraft related debt consolidated under AcG-15 is summarized as follows:

	Final Maturity	March 31, 2005
Canadair Regional Jet	2007-2011	$ 334
Boeing 767-300	2011-2016	249
Engines	2008	86
Airbus A319	2011-2014	359
Airbus A321	2017	177
		$ 1,205

h) Under AcG-15, the Corporation is the primary beneficiary of certain of the Fuel Facilities Corporations. As a result of the adoption of AcG-15 as described in Note 1, the Corporation consolidated three Fuel Facilities Corporations. The debt is secured by a general security agreement covering all assets of the Fuel Facilities Corporations.

i) Capital lease obligations, related to computer equipment, facilities and 38 aircraft, total $1,606 ($92 and US$1,252). Future minimum lease payments are $2,387, which includes $781 of interest.

4. Post-Employment Expenses and Labor Related Provisions

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

	Successor Company	Predecessor Company
	Three months ended March 31, 2005	Three months ended March 31, 2004
Pension benefit expense	$31	$77
Other employee future benefit expense	39	39
Total	$70	$116

The following table outlines the changes to the labour related provisions:

	Successor Company
	Three months ended March 31, 2005
Beginning of period	$ 192
Charges recorded	1
Amounts disbursed	(8)
End of period	$ 185
Current portion	53
Long-term employee liabilities	$ 132

No charges were recorded by the Predecessor Company for the three months ended March 31, 2004.

The current portion of the liability is included in Accounts payable and accrued liabilities. The long-term portion is included in Other long-term liabilities.

5. Segment Information

As a result of the corporate restructuring, the segment reporting structure has been adjusted to reflect four reportable segments consistent with the current management of the business: transportation services, loyalty program, technical services, and regional operations. In the Predecessor Company, Technical Services was a cost centre within Air Canada and discrete financial information is not available. A capacity purchase agreement between Air Canada and Jazz Limited Partnership ("Jazz") came into effect on September 30, 2004. The Regional Operations segment information in the Successor Company is not directly comparable as a result of this new agreement.

As described in note 1, the Corporation changed the accounting as of September 30, 2004 for the recognition of its revenues relating to the loyalty program. As a result, Loyalty Program results are not comparable to prior periods.

Segment financial information has been prepared consistent with how financial information is produced internally for the purposes of making operating decisions. Segments negotiate transactions between each other as if they were unrelated parties. A reconciliation of the total amounts reported by each segment to the applicable amounts in the consolidated financial statements follows:

	Sucessor Company three months ended March 31, 2005					
	Transportation Services (a)	Loyalty Program (b)	Technical Services	Regional Operations (c)	Inter-Segment Elimination	ACE Consolidated Total
Passenger revenue	$ 1,739	$ -	$ -	$ -	$ -	$ 1,739
Cargo revenue	135	-	-	-	-	135
Other revenue	93	169	39	2	-	303
External revenue	1,967	169	39	2	-	2,177
Inter-segment revenue	50	3	141	211	(405)	-
Total revenue	2,017	172	180	213	(405)	2,177
Operating expenses, before the following	1,996	149	149	178	(405)	2,067
Amortization of capital assets	105	2	8	5	-	120
Total operating expenses	2,101	151	157	183	(405)	2,187
Operating income (loss)	(84)	21	23	30	-	(10)
Net interest expense	(54)	-	(3)	(3)	-	(60)
Foreign exchange on long-term monetary items	(15)	-	-	-	-	(15)
Income tax expense	14	-	-	-	-	14
Other non operating items	(6)	-	-	-	-	(6)
	(61)	-	(3)	(3)	-	(67)
Segment Results	$ (145)	$ 21	$ 20	$ 27	$ -	$ (77)
Total Assets	$ 10,053	$ 234	$ 308	$ 375	$ -	$ 10,970
Capital Expenditures	$ 32	$ 2	$ -	$ 4	$ -	$ 38

a) Includes revenues and costs for Air Canada Mainline operations, Jazz transportation revenues and fees to Air Canada Mainline for Jazz operations under the capacity purchase agreement, as well as AC Cargo Limited Partnership (doing business as Air Canada Cargo), Destina.ca Inc., AC Online Limited Partnership, ACGHS Limited Partnership (doing business as Air Canada Groundhandling), Touram Limited Partnership (doing business as Air Canada Vacations), and ACE. Inter-segment revenue includes management fees and

costs and operating services charged to the other segments. Foreign exchange on long-term monetary items is included by management in the Transportation Services segment. Interest expense in the Transportation Services segment represents interest on third party debt. Interest expense included in other segments represents interest on intercompany debt and third party debt. Management reflects all income taxes within the Transportation Services segment including any income taxes that may be applicable to amounts earned in the other segments because the activities of the other segments are carried out as limited partnerships and the income is taxable in one of the entities included in Transportation Services.

b) Other revenue of $169 includes revenue recognized on redemption of points accumulated through both air and third party contracts. Inter-segment revenue of $3 represents the management fee charged to Air Canada by Aeroplan relating to the redemption of points accumulated prior to January 1, 2002. The value of points earned through air travel, charged by Aeroplan to Air Canada, is recorded in Aeroplan's accounts as deferred revenues.

c) Includes Jazz operations under the capacity purchase agreement effective September 30, 2004.

	Predecessor Company three months ended March 31, 2004				
	Transportation Services	Loyalty Program	Regional Operations (d)	Inter-Segment Elimination	ACE Consolidated Total
Passenger revenue	$ 1,481	$ -	$ 180	$ -	$ 1,661
Cargo revenue	122	-	4	-	126
Other revenue	213	117	4	-	334
External revenue	1,816	117	188	-	2,121
Inter-segment revenue	120	24	2	(146)	-
Total revenue	1,936	141	190	(146)	2,121
Operating expenses, before the following	2,016	100	201	(146)	2,171
Amortization of capital assets	86	1	8	-	95
Total operating expenses	2,102	101	209	(146)	2,266
Operating income (loss) before reorganization and restructuring items	(166)	40	(19)	-	(145)
Reorganization and restructuring items	(110)	-	(22)	-	(132)
	(276)	40	(41)	-	(277)
Net interest expense	(42)	2	(3)	-	(43)
Foreign exchange on long-term monetary items	17	-	-	-	17
Income tax expense	(1)	-	-	-	(1)
Other non operating items	4	-	(4)	-	-
	(22)	2	(7)	-	(27)
					-
Segment Results	$ (298)	$ 42	$ (48)	$ -	$ (304)

d) Includes Jazz transportation revenues and costs from Jazz operations as reported prior to implementation of the capacity purchase agreement on September 30, 2004.

Geographic Information of Passenger Revenues

	Successor Company Three months ended March 31, 2005	Predecessor Company Three months ended March 31, 2004
Passenger revenue		
Canada	$ 677	$ 647
US Transborder	379	415
Atlantic	293	270
Pacific	189	164
Other	201	165
Total passenger revenue	$ 1,739	$ 1,661

Passenger revenues for Canada are based on the actual flown revenue for flights with an origin and destination in Canada. Passenger revenues for US Transborder and other International destinations are based on the actual flown revenue for flights with an origin or destination outside of Canada.

Property and Equipment

ACE's subsidiaries, Air Canada and Jazz are Canadian based domestic and international carriers and while these subsidiaries' flight equipment is used on various routes internationally, for purposes of segment reporting, the Corporation attributes the location of flight equipment to Canada. As a consequence, substantially all of the Corporation's property and equipment are related to operations in Canada.

6. Commitments

As a result of the adoption of AcG-15 as described in Note 1, the Corporation has consolidated leasing entities covering aircraft and engine leasing agreements previously accounted for as operating leases. The consolidation of these aircraft leasing agreements impacts the operating lease commitments previously disclosed in the 2004 annual consolidated financial statements of ACE. The future principal repayments under these aircraft agreements are now disclosed in Note 3, Long-term Debt and Capital Lease Obligations. Future minimum lease payments under existing operating leases of aircraft, excluding leases accounted for as VIEs, using period end exchange rates are:

remainder of 2005	$	292
2006		370
2007		320
2008		257
2009		210
Thereafter		763
	$	2,212

7. Guarantees

As a result of the adoption of AcG-15 as described in Note 1, the Corporation no longer has any residual value guarantees under any of its aircraft leasing agreements accounted for as operating leases. The entire debt balance under these leasing agreements is now on the consolidated balance sheet of the Corporation, and as a result the residual value support previously disclosed in the 2004 annual consolidated financial statements of ACE is no longer a guarantee of the Corporation.

8. Subsequent Events

Financial Offerings

On April 6, 2005, ACE completed the public offering of an aggregate of 11,350,000 Class A Variable Voting Shares and Class B Voting Shares at a price of $37.00 per share for gross proceeds of approximately $420, and $300 of 4.25 per cent Convertible Senior Notes due 2035. Aggregate gross proceeds are approximately $720 with ACE receiving net proceeds of approximately $693, after commissions and expenses. In addition, ACE granted the underwriters over-allotment options to purchase up to an additional 10 per cent of each of the offerings, until May 5, 2005.

On April 11, 2005, the Corporation announced that it had received written notice from the underwriters that they had elected to exercise in full their over-allotment options to purchase an additional 1,135,000 Class A Variable Voting Shares at $37.00 per share and $30 of 4.25 per cent convertible senior notes due 2035. The aggregate gross proceeds of approximately $72 received from the exercise of the over-allotment options will be used for general corporate purposes and have brought the aggregate gross proceeds of the ACE financial offerings to approximately $792.

ACE used approximately $557 of the aggregate net cash proceeds of the offerings to repay all of its outstanding debt under the exit credit facility with General Electric Capital Corporation, including $17 for early payment and legal fees.

The Corporation expects to record a charge of $29 for this transaction in the Second Quarter 2005, including $12 for the write-off of deferred financing charges.

Revolving Credit Facility

On April 6, 2005, Air Canada entered into a senior secured syndicated revolving credit facility in an aggregate amount of up to $300 or the US dollar equivalent. The revolving credit facility has a two-year term which can be extended at Air Canada's option for additional one-year periods on each anniversary of closing, subject to prior approval by a majority of the lenders. Included in the aggregate amount is a swing line facility of up to $20 provided for cash management and working capital purposes. The amount available to be drawn by Air Canada under the revolving credit facility is limited to the lesser of $300 and the amount of a borrowing base determined with reference to certain eligible accounts receivable of Air Canada and certain eligible owned and leased real property of Air Canada. The credit facility is secured by a first priority security interest and hypothec over the present and after-acquired property of Air Canada, subject to certain exclusions and permitted encumbrances.

Fleet Renewal Plan

On April 25, 2005, the Corporation announced a wide-body fleet renewal plan that includes firm orders for 18 Boeing 777s, plus purchase rights for an additional 18 aircraft. Air Canada's 777 deliveries are scheduled to begin with the arrival of three 777-300ERs in 2006. The renewal plan also includes firm orders for 14 Boeing 787 Dreamliners, plus options and purchase rights for an additional 46 aircraft. Air Canada's first 787 is scheduled for delivery in 2010. The order is subject to several conditions including final documentation. The Corporation expects the agreement to be finalized by mid-2005.

9. Reorganization and Restructuring Items

Cash expenditures related to reorganization and restructuring items for the three months ended March 31, 2004 amounted to $23 and related mainly to the payment of professional fees. The table below summarizes reorganization and restructuring charges recorded by the Predecessor Company during the three months ended March 31, 2004:

	Predecessor Company Three Months Ended March 31, 2004	
Repudiated and renegotiated leases and contracts (a)	$	86
Foreign exchange adjustments on compromised debt		23
Professional fees		24
Interest income on accumulated cash (b)		(7)
Other		6
Reorganization and restructuring items, net	$	132

a) Repudiated and renegotiated contracts, including aircraft lease agreements, represented the estimated allowable claim resulting from contracts that had been terminated and the amortization of deferred charges related to deficiency claims on renegotiated contracts.

b) Interest income earned by an entity under creditor protection, that it would not have earned but for the proceedings, should be reported as a reorganization and restructuring item. The interest income recorded in reorganization items is due mainly to the cash balances retained by the Predecessor Company as a result of the moratorium on aircraft lease payments and the stay on actions to collect pre-filing indebtedness, including trade payables.

c) Reorganization and restructuring items are nil in the current period as no charges have been recorded in the Successor Company.

10. Condensed Combined Financial Statements of the Applicants of the Predecessor Company

Consolidated financial statements of an entity under creditor protection that include one or more entities in reorganization proceedings and one or more entities not in reorganization proceedings should include disclosure of condensed combined financial statements of the entities in reorganization proceedings. The following are the condensed combined Statement of Operations and Statement of Cash Flow of the entities of the Predecessor Company that were in CCAA for the period ended March 31, 2004. Included in the statement of operations for the three months ended March 31, 2004 are intercompany revenues of $130 and expenses of $66 with non-Applicants.

Condensed Combined Statement of Operations

	Predecessor Company Three Months Ended March 31, 2004
Operating revenues	$ 1,977
Operating expenses	2,178
Operating loss before reorganization and restructuring items	(201)
Reorganization and restructuring items (note 9)	(132)
Net interest expense	(51)
Loss on sale of assets	(3)
Other non-operating income, including equity income of non-applicants	67
Loss before foreign exchange on non-compromised long-term monetary items and income taxes	(320)
Foreign exchange on non-compromised long-term monetary items	17
Loss before income taxes	(303)
Provision for income taxes	(1)
Loss for the period	$ (304)

Condensed Combined Statement of Cash Flow

	Predecessor Company Three Months Ended March 31, 2004
Net cash provided by operating activities	$ 45
Financing	
Reduction of long-term debt and capital lease obligations	(119)
Drawdown on GE DIP financing	300
Other credit facility borrowings	80
Credit facility repayments	(95)
	166
Investing	
Additions to property and equipment	(34)
Proceeds from sale of assets	1
	(33)
Increase in cash and cash equivalents	178
Cash and cash equivalents, beginning of period	697
Cash and cash equivalents, end of period	$ 875