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 September 30, 2005	**Nine Months Ended September 30, 2005**	**Three Months Ended September 30, 2004**	**Nine Months Ended September 30, 2004**
Operating revenues				
Passenger	$ 2,461	$ 6,300	$ 2,123	$ 5,628
Cargo	162	444	142	405
Other	210	724	231	805
	2,833	7,468	2,496	6,838
Operating expenses				
Salaries, wages and benefits	636	1,872	630	1,989
Aircraft fuel	675	1,620	462	1,174
Aircraft rent (note 1)	112	300	157	521
Airport and navigation fees	259	702	206	616
Aircraft maintenance, materials and supplies	80	263	80	265
Communications and information technology	75	230	73	236
Food, beverages and supplies	94	253	98	264
Depreciation, amortization and obsolescence (note 2)	118	357	114	312
Commissions	68	206	78	240
Other	396	1,178	355	1,101
	2,513	6,981	2,253	6,718
Operating income before reorganization and restructuring items	320	487	243	120
Reorganization and restructuring items (note 12)	-	-	(313)	(871)
Non-operating income (expense)				
Dilution gain (note 5)	-	190	-	-
Interest income	20	47	2	6
Interest expense	(76)	(228)	(62)	(169)
Interest capitalized	2	8	-	-
Gain (loss) on sale of and provisions on assets	2	2	(62)	(75)
Other	14	(16)	(11)	(10)
	(38)	3	(133)	(248)
Income (loss) before the following items	282	490	(203)	(999)
Non-controlling interest	(9)	(16)	-	-
Foreign exchange gain	125	57	123	106
Provision for income taxes	(128)	(170)	(1)	(2)
Income (loss) for the period	**$ 270**	**$ 361**	**$ (81)**	**$ (895)**
Plan of arrangement and fresh start reporting (note 1)				6,042
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, end of period		**$ 518**		**$ -**
Earnings (loss) per share				
- Basic	$ 2.66	$ 3.73	$ (0.67)	$ (7.45)
- Diluted	$ 2.33	$ 3.37	$ (0.67)	$ (7.45)

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) September 30 2005	December 31 2004
ASSETS		
Current		
Cash and cash equivalents (note 5)	$ 1,111	$ 1,481
Short-term investments (note 1)	1,370	151
	2,481	1,632
Restricted cash	35	118
Accounts receivable	898	547
Spare parts, materials and supplies	236	237
Prepaid expenses	96	161
	3,746	2,695
Property and equipment (note 2)	5,163	3,696
Deferred charges	144	167
Intangible assets	2,467	2,691
Investments and other assets (note 3)	373	137
	$ 11,893	**$ 9,386**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 1,315	$ 1,197
Advance ticket sales and loyalty program deferred revenues	1,462	1,076
Current portion of long-term debt and capital lease obligations (note 4)	264	218
	3,041	2,491
Long-term debt and capital lease obligations (note 4)	3,400	2,328
Convertible preferred shares	144	132
Future income taxes	229	243
Pension and other benefit liabilities	2,233	2,344
Non-controlling interest (note 1)	200	-
Other long-term liabilities	1,388	1,645
	10,635	9,183
Commitments (note 9) and Guarantees (note 10)		
SHAREHOLDERS' EQUITY		
Share capital and other equity (note 7)	736	187
Contributed surplus	4	1
Retained earnings	518	15
	1,258	203
	$ 11,893	**$ 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)

	Successor Company - ACE (note 1)		Predecessor Company - Air Canada (note 1)	
Cash flows from (used for)	**Three Months Ended September 30, 2005**	**Nine Months Ended September 30, 2005**	**Three Months Ended September 30, 2004**	**Nine Months Ended September 30, 2004**
Operating				
Income (loss) for the period	$ 270	$ 361	$ (81)	$ (895)
Adjustments to reconcile to net cash provided by operations				
Reorganization and restructuring items (note 12)	-	-	281	786
Depreciation, amortization and obsolescence	118	357	114	312
(Gain) loss on sale of and provisions on assets	(2)	(2)	62	75
Dilution gain (note 5)	-	(190)	-	-
Foreign exchange	(149)	(94)	(123)	(106)
Future income taxes	125	161	1	(5)
Employee future benefit funding (more than) less than expense	(33)	(47)	34	126
Decrease (increase) in accounts receivable	(131)	(330)	(15)	(191)
Decrease (increase) in spare parts, materials and supplies	3	(2)	(7)	-
Increase (decrease) in accounts payable and accrued liabilities	(7)	53	49	34
Increase (decrease) in advance ticket sales, net of restricted cash	(208)	230	(138)	196
Aircraft lease payments (in excess of) less than rent expense	(6)	(7)	(3)	(31)
Other	8	151	9	59
	(12)	641	183	360
Financing				
Issue of share capital (note 7)	(1)	442	-	-
Issue of convertible notes (note 4)	-	319	-	-
Issue of subsidiary units (note 5)	-	232	-	-
GE DIP financing	-	-	-	300
Aircraft related borrowings	213	213	116	233
Credit facility borrowings (note 4)	(18)	300	-	80
Reduction of long-term debt and capital lease obligations	(67)	(834)	(49)	(358)
Distributions paid to non-controlling interest	(3)	(3)	-	-
Other	1	(4)	(2)	(2)
	125	665	65	253
Investing				
Short-term investments	136	(1,219)	78	186
Sale of subsidiary units (note 5)	-	35	-	-
Additions to capital assets	(316)	(411)	(142)	(328)
Proceeds from sale of assets	4	41	1	2
Cash collaterization of letters of credit	(15)	(35)	-	-
Investment in US Airways (note 3)	(87)	(87)	-	-
	(278)	(1,676)	(63)	(140)
Increase (decrease) in cash and cash equivalents	(165)	(370)	185	473
Cash and cash equivalents, beginning of period	1,276	1,481	772	484
Cash and cash equivalents transferred to the Successor Company	-	-	(957)	(957)
Cash and cash equivalents, end of period	**$ 1,111**	**$ 1,111**	**$ -**	**$ -**
Cash payments of interest	**$ 54**	**$ 163**	**$ 41**	**$ 131**
Cash payments of income taxes	**$ 11**	**$ 20**	**$ -**	**$ -**

Cash and cash equivalents exclude short-term investments of $1,370 as at September 30, 2005 ($151 as at December 31, 2004)

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)

	Successor Company - ACE (note 1)	
	Three Months Ended September 30, 2004	**Nine Months Ended September 30, 2004**
Cash flows from (used for)		
Operating		
Settlement of lease obligations	$ (290)	$ (290)
Rebate on lease settlement	33	33
Take out fee on notes and warrants	(45)	(45)
Fees conditional on emergence	(12)	(12)
	(314)	(314)
Investing		
Cash collaterization of lines of credit	(21)	(21)
Financing		
Drawdown of exit financing	527	527
Repayment of GE DIP financing	(300)	(300)
Preferred shares issued to Cerberus for cash	238	238
Shares issued for cash under Rights Offering	852	852
	1,317	1,317
Increase in cash and cash equivalents	982	982
Cash and cash equivalents transferred from the Predecessor Company	957	957
Cash and cash equivalents, end of period	**$ 1,939**	**$ 1,939**

This Consolidated Statement of Cash Flow discloses the exit financing transactions of the Successor Company on September 30, 2004.

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

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.

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 statement of financial position as of September 30, 2005 and December 31, 2004 represent the accounts of the Successor Company. The consolidated statement of operations for the three months ended September 30, 2005 and the nine months ended September 30, 2005 reflect the results of operations of the Successor Company; the three months ended September 30, 2004 and the nine months ended September 30, 2004 reflect the results of operations of the Predecessor Company. The consolidated statement of cash flow for the three months ended September 30, 2005 and the nine months ended September 30, 2005 reflect the cash flows of the Successor Company; the three months ended September 30, 2004 and the nine months ended September 30, 2004 reflect the cash flows of the Predecessor Company and the Successor Company, as presented.

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 flow. 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 13.

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. The following table summarizes the amounts recorded under the current and previous accounting policies:

Successor Company Accounting Policy	Three months ended September 30, 2005	Nine Months Ended September 30, 2005
Aeroplan Miles redeemed for travel on Air Canada and Jazz		
Miles earned through Air Transportation Services	$ 47	$ 123
Miles earned through loyalty program partners	86	229
	133	352
Less the deferral of the fair value of Miles issued	(43)	(131)
Net recorded in passenger revenue	$ 90	$ 221

Predecessor Company Accounting Policy	Three months ended September 30, 2004	Nine Months Ended September 30, 2004
Miles earned through loyalty program partners and redeemed for travel on Air Canada and Jazz (recorded in other revenue)	$ 50	$ 173

Non-transportation Revenues

Non-transportation revenues include 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. In our opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

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.

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 leasing 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 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. The Corporation views this loss potential as remote.

Effect in Current Period

During the three months ended September 30, 2005, the net impact of adopting AcG-15 was a before tax income of $38 ($0.38 per share, basic). This impact is a result of depreciation expense of $20, net interest expense of $24, foreign exchange gain of $55 and non-controlling interest of $3 offset by reduced aircraft rent of $30. For the nine months ended September 30, 2005, the net charge is $25, ($0.26 per share, basic) resulting from depreciation expense of $66, net interest expense of $69, foreign exchange gain of $34 and non-controlling interest of $11 offset by reduced aircraft rent of $87.

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 it is 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.

d) Investments

Investments not subject to significant influence are carried at cost and any declines in value that are determined to be other than temporary are included in earnings. Earnings from such investments are recognized only to the extent received or receivable.

Future Accounting Standard Changes:

a) Financial Instruments and Comprehensive Income

The Accounting Standards Board has issued three new standards dealing with financial instruments: (i) Financial Instruments – Recognition and Measurement (ii) Hedges and (iii) Comprehensive Income. The key principles under these standards are that all financial instruments, including derivatives, are to be included on a company's statement of financial position and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. Financial instruments intended to be held-to-maturity should be measured at amortized cost. Existing requirements for hedge accounting are extended to specify how hedge accounting should be performed. Also, a new location for recognizing certain gains and losses – other comprehensive income – has been introduced. This provides an ability for certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement but in a transparent manner. The new standards are effective for the Corporation beginning January 1, 2007 and will be applied prospectively. As the Corporation has financial instruments, implementation planning will be necessary to review the new standards to determine the impact on the Corporation.

2. Property and Equipment

	Successor Company			
	September 30, 2005		December 31, 2004	
Cost (1)				
Flight equipment	$	1,461	$	1,179
Flight equipment consolidated under AcG-15		1,304		-
Capital leases		1,758		1,758
Buildings and leasehold improvements		531		520
Buildings consolidated under AcG-15		113		-
Ground equipment and other		175		176
Computer equipment		4		1
		5,346		3,634
Accumulated depreciation and amortization				
Flight equipment		80		18
Flight equipment consolidated under AcG-15		62		-
Capital leases		109		22
Buildings and leasehold improvements		39		10
Buildings consolidated under AcG-15		5		-
Ground equipment and other		22		5
Computer equipment		2		-
		319		55
		5,027		3,579
Purchase deposits		136		117
Property and equipment at net book value	$	5,163	$	3,696

During the three months ended September 30, 2005, the Corporation recorded total depreciation, amortization and obsolescence expense of $118 ($357 for the nine months ended September 30, 2005; $114 for the three months ended September 30, 2004 and $312 for the nine months ended September 30, 2004 recorded in Predecessor Company) which included amortization expense related to intangible assets of $24 ($74 for the nine months ended September 30, 2005; $8 for the three months ended September 30, 2004 and $31 for the nine months ended September 30, 2004 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. Investment

On September 27, 2005, the Corporation invested $87 (US$75) in the merged US Airways carrier in conjunction with US Airways' exit from US bankruptcy proceedings. The Corporation's investment represented approximately 7% of the equity of the merged entity at the closing date. In connection with the equity investment, the Corporation has obtained commitments to negotiate commercial agreements with US Airways regarding maintenance services, groundhandling, regional jet flying, network, training and other areas of cooperation. The equity investment is subject to a six month holding period from the closing date. This investment has been accounted for using the cost method.

In connection with the equity investment, ACE also received options to purchase additional common stock in US Airways. On closing of the transaction, ACE sold these options for proceeds of $1.

4. Long-Term Debt and Capital Lease Obligations

	Final Maturity	Current Interest Rate (%)	Successor Company September 30, 2005	Successor Company December 31, 2004
GE Exit Financing (a)	2011	6.853	$ -	$ 540
Convertible Senior Notes due 2035 (b)	2035	4.25	244	-
Aeroplan Term Credit Facility (c)	2009	3.70	300	-
Aeroplan Revolving Term Credit Facility (c)	2008	3.60	-	-
Air Canada - Lufthansa Cooperation Agreement (d)	2009	6.495	66	76
GE Limited Recourse Loan (e)	2014	6.306	-	30
GE Loan (f)	2015	9.39	51	55
Amex Financing (g)	2006	-	-	43
Embraer Aircraft Financing (h)	2017	7.25 - 7.88	204	-
Other (i)	2007-2019	4.5 - 6.91	216	232
			1,081	976
Debt consolidated under AcG 15 - Aircraft leases (j)			1,128	-
Debt consolidated under AcG-15 - Fuel Facilities Corporations (k)			50	-
Capital lease obligations (l)			1,405	1,570
			3,664	2,546
Current portion			(264)	(218)
Long-term debt and capital lease obligations			$ 3,400	$ 2,328

Principal repayment requirements as at September 30, 2005 through to 2009 on long-term debt, capital lease obligations, and aircraft, engine and fuel facility debt consolidated as variable interest entities under AcG-15 are as follows:

	Remainder of 2005	2006	2007	2008	2009
Long-term debt	$ 14	$ 40	$ 41	$ 60	$ 338
Capital lease principal obligations	45	140	173	171	84
Debt consolidated under AcG-15	11	72	114	112	55
Total	$ 70	$ 252	$ 328	$ 343	$ 477

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. The Corporation recorded a charge for $29 in other non-operating expenses for this transaction in the three months ended June 30, 2005, including $13 for the write-off of deferred financing charges.

b) During the second quarter, 2005 the Corporation issued $330 of Convertible Senior Notes due 2035 ("Convertible Notes") for net proceeds of $319. For accounting purposes, the Convertible Notes are presented as a compound instrument. At the date of issuance, the value ascribed to the holders' conversion option, which is presented as equity, was $94 less allocated fees of $2; the value ascribed to the financial liability was $236. The financial liability was calculated by discounting the stream of future payments of interest and principal at the prevailing rate for a similar liability that does not have an associated conversion feature. The financial liability will increase to the face value of the debt over a five year period to June 1, 2010, the first date on which the holder can require ACE to purchase all or a portion of the Convertible Notes, as described further below.

   The Convertible Notes bear interest at a rate of 4.25% per annum payable semi-annually in arrears on June 1 and December 1 in each year commencing December 1, 2005. The December 1, 2005 interest payment will represent accrued interest for the period from Closing to December 1, 2005. Holders may convert their Convertible Notes into Class B Voting Shares (if the holder is Canadian) or into Class A Variable Voting Shares (if the holder is not a Canadian) prior to maturity based on an initial conversion rate of 20.8333 Shares per $1,000.00 principal amount of Convertible Notes. Upon notice of conversion, ACE will have the option to deliver cash, Shares or a combination of cash and Shares for the Convertible Notes surrendered.

   At any time on or after June 6, 2008, ACE may redeem all or a portion of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes, plus accrued and unpaid interest. Holders may require ACE to purchase all or a portion of the Convertible Notes on June 1, 2010; June 1, 2015; June 1, 2020; June 1, 2025 and June 1, 2030 at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest. Upon specified change of control events, holders of Convertible Notes will have the option to require ACE to purchase all or any portion of the Convertible Notes at a price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest.

   ACE may, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or

any portion of the principal amount of the Convertible Notes that are to be redeemed, purchased or that are to be repaid at maturity, by issuing and delivering Class A Variable Voting Shares (if the holder is not a Canadian) and Class B Voting Shares (if the holder is Canadian). The number of Shares a holder will receive in respect of each Convertible Note will be determined by dividing the principal amount of the Convertible Notes that are to be redeemed, purchased or repaid at maturity, as the case may be, and that are not paid in cash, by 95% of the average Closing Price (defined as the weighted average, by volume, of the reported last sale price of each class of Shares) of the Shares on the TSX for the ten consecutive trading days ending on the third trading day preceding the date fixed for redemption, purchase or maturity date, as the case may be.

c) Aeroplan LP has arranged for senior secured credit facilities in the amount of $475. The credit facilities consist of one $300 (or the U.S. dollar equivalent thereof) term facility (the ''Term A Facility''), a $100 (or the US dollar equivalent thereof) Acquisition facility (the ''Term B Facility'') and a $75 (or the U.S. dollar equivalent thereof) revolving term facility (the ''Revolving Facility'').

The Term A Facility matures on June 29, 2009, or earlier at the option of Aeroplan and bears interest at rates ranging from Canadian prime rate and U.S. base rate to Canadian prime rate and U.S. base rate plus 0.75% and the Bankers' Acceptance rate and LIBOR plus 1.0% to 1.75%, with the effective interest rate at September 30, 2005 being 3.7%. The Term A Facility was drawn on June 29, 2005 in the amount of $300, in order to fund a portion of the $400 Aeroplan Miles Redemption Reserve (refer to Note 5).

The Revolving Facility matures on June 29, 2008, or earlier at the option of Aeroplan and bears interest at rates ranging from Canadian prime rate and U.S. base rate to Canadian prime rate and U.S. base rate plus 0.75% and the Bankers' Acceptance rate and LIBOR plus 1.0% to 1.75% with the effective interest rate at September 30, 2005 being 3.6%. The $18 drawn on June 29, 2005 under the Revolving Facility for general corporate and working capital purposes was repaid during the third quarter of 2005. At September 30, 2005, there were no amounts drawn under this facility.

The senior secured credit facilities are secured by a first priority security interest and hypothec over the present and after-acquired personal property of Aeroplan LP, subject to certain exclusions and permitted liens. Aeroplan LP's obligations in respect of the senior secured credit facilities will also be guaranteed by each of Aeroplan LP's general partner (Aeroplan GP) and the Aeroplan Trust, with the Trust providing a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations, and with Aeroplan GP providing a pledge of its interests in Aeroplan LP as security for its guarantee obligations. The Aeroplan Trust is an unrelated third party to ACE, and is wholly owned by the Aeroplan Income Fund. The terms of the New Credit Facilities include certain covenants. The credit facilities are subject to Aeroplan's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants.

d) US$57 borrowing maturing in 2009, with semi annual repayments, at a fixed interest rate of 4.495% plus an annual 2.0% guarantee fee.

e) 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. No gain or loss was recorded on this sale.

f) US$44 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 current carrying value of $65.

g) The Amex Financing required monthly principal and interest payments over the term of the Canadian dollar loan which extended to January 5, 2006 and was extendable in six month intervals by mutual consent. Under the terms of the agreement, cash principal payments under the facility were made as loyalty points were purchased and as amounts were due to Air Canada or Aeroplan under various Amex agreements. The facility was subject to interest at the Bank of Montreal's prime lending rate and was 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. This financing was repaid during the third quarter of 2005.

h) Air Canada completed secured loan agreements with a third party in 2005 for Embraer aircraft totalling US$176. The loans are to be repaid in quarterly installments and all mature in 2017. The majority of the borrowings bear interest at a fixed interest rate and the remainder bears interest at a floating interest rate equal to the three month US LIBOR plus 3.25%.

i) 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% (6.91% as at September 30, 2005).

j) Air Canada entered into aircraft and engine lease transactions with several special purpose entities that qualify as VIEs. 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$971.

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

	Final Maturity	Sept 30, 2005
Canadair Regional Jet	2007-2011	$ 322
Boeing 767-300	2011-2016	230
Engines	2008	81
Airbus A319	2011-2014	332
Airbus A321	2017	163
		$ 1,128

k) 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.

l) Capital lease obligations, related to computer equipment, facilities and 35 aircraft, total $1,405 ($88 and US$1,134). Future minimum lease payments are $2,063, which includes $658 of interest.

Air Canada revolving credit facility

On April 6, 2005, Air Canada entered into a senior secured syndicated revolving credit facility ("the Credit Facility") in an aggregate amount of up to $300 or the US dollar equivalent. The 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 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. As at September 30, 2005, the amount available under the Credit Facility was $300, and no amounts had been drawn. 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.

5. Dilution Gain

Aeroplan Transaction

On June 29, 2005, Aeroplan Limited Partnership ("the Predecessor LP") transferred substantially all of its assets and liabilities into a newly created Aeroplan Limited Partnership ("Aeroplan LP") in exchange for the issuance of 175 million units of Aeroplan LP and the issuance of two promissory notes (the Acquisition Promissory Note in the amount of $125 and the Working Capital Note in the amount of $186). The Predecessor LP was liquidated into ACE at closing. The Acquisition Promissory Note was settled on June 29, 2005 from the proceeds of the offering. The Working Capital Note which was due October 31, 2005, was repaid during the third quarter.

On June 29, 2005, the Aeroplan Income Fund ("the Fund") sold 25 million units at a price of $10.00 per unit for net proceeds of $232. On June 30, 2005 the underwriters exercised in full their over-allotment option to purchase an additional 3.75 million units at a price of $10.00 per unit for proceeds of $38. With the proceeds from the over-allotment option, the Fund purchased 3.75 million units from ACE at a cost of $38, reducing the number of units held by ACE to 171.25 million. Costs of $3 incurred in connection with the exercise of the over-allotment option were borne by ACE. The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario, created to indirectly acquire and hold an interest in the outstanding units of Aeroplan LP. The Fund, through the Aeroplan Trust, holds 14.4% of the outstanding limited partnership units of Aeroplan LP and ACE holds the remaining 85.6% of the outstanding limited partnership units of Aeroplan LP.

Pursuant to the limited partnership agreement, 20% of Aeroplan's units are subordinated, representing 40 million units held by ACE in favour of the Fund until December 31, 2006. Distributions on the subordinated units will only be paid by Aeroplan to the extent that Aeroplan has met and paid its distributable cash target to the Fund as the holder of non-subordinated units.

Under the terms of an investor liquidity agreement dated June 29, 2005, the non-subordinated units held by ACE in Aeroplan are exchangeable for Fund units on a one-to-one basis. The Fund has reserved 171.25 million units for the exercise of the exchange right. The subordinated units of Aeroplan held by ACE will become exchangeable after December 31, 2006. The exchange right expires once all units of Aeroplan held by ACE have been exchanged. In addition, ACE also has liquidity rights, which require the Trust, on a best efforts basis, to purchase a number of non-subordinated (exchangeable) Aeroplan units for a cash payment equal to the net proceeds of an offering of an equivalent number of units of the Fund. The investor liquidity agreement also provides for registration and piggy-back rights subject to certain restrictions.

ACE has recorded a dilution gain of $190 as a result of this transaction. The dilution gain is the net proceeds of the offering in excess of ACE's proportionate carrying value of its investment in Aeroplan LP, including fair value adjustments recorded on consolidation. In addition, a future income tax expense of $28 was recorded.

In conjunction with the issuance of Units to the Aeroplan Income Fund and the bank financing (refer to Note 4c) entered into on June 29, 2005, Aeroplan LP established the Aeroplan Miles Redemption reserve ("the Reserve"). As at September 30, 2005, the Reserve was $400 and is included in cash and cash equivalents. The amount to be held in the Reserve, as well as the types of securities it may be invested in, are based on policies established by management of Aeroplan LP, which will be reviewed periodically. The Reserve may be used to supplement cash flows generated from operations in order to pay for rewards during unusually high redemption activity associated with Aeroplan Miles. Under the terms of the term

facility, described in Note 4c, Aeroplan LP was required to deposit the borrowed funds of $300 into the Reserve. Any deposits of funds in non-Canadian dollar denominated investments have to be hedged.

6. Post-Employment Benefits and Labor Related Provisions

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

	Successor Company		Predecessor Company	
	Three months ended September 30, 2005	Nine months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
Pension benefit expense	$39	$117	$52	$205
Other employee future benefit expense	35	100	48	127
Total	$74	$217	$100	$332

Canadian federal pension legislation applicable to the Corporation requires that the funded status of registered pension plans be determined annually. In June 2005, the Corporation received new pension valuations for funding purposes as at January 1, 2005. As a result, the total 2005 employer contribution to the Company's pension plans is estimated to be $274. The estimate previously disclosed in the consolidated financial statements for the year ended December 31, 2004 was $259.

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

	Successor Company		Predecessor Company	
	Three months ended September 30, 2005	Nine months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
Beginning of period	$178	$192	$97	$121
Charges recorded	6	10	116	117
Amounts disbursed	(10)	(28)	(15)	(40)
End of period	$174	$174	$198	$198
Current portion	56	56	68	68
Long-term employee liabilities	$118	$118	$130	$130

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.

7. Share Capital and Other Equity

The number of issued and outstanding common shares of ACE, along with potential common shares, are as follows:

		Successor Company	
		September 30, 2005	December 31, 2004
	Authorized	Outstanding (000)	
Issued and outstanding common shares			
Class A variable voting shares	unlimited	76,919	74,813
Class B voting shares	unlimited	24,294	8,813
Shares held in escrow		87	5,189
Total issued and outstanding common shares		101,300	88,815

	Successor Company	
	September 30, 2005	December 31, 2004
Potential common shares		
Convertible preferred shares	10,102	9,259
Convertible notes	6,875	-
Stock options	3,692	3,028
	20,669	12,287

During the second quarter, 2005, ACE completed the public offering of an aggregate of 12,485,000 Class A Variable Voting Shares and Class B Voting Shares at a price of $37.00 per share for gross proceeds of approximately $462 ($442 net of fees).

Together with the proceeds from the issue of the Convertible Notes (refer to Note 4b), 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, including $16 for early payment. The Corporation recorded a charge of $29 in other non-operating expenses for this transaction in the three months ended June 30, 2005, including $13 for the write-off of deferred financing charges.

Shares Held in Escrow

The Court-appointed Monitor for the restructuring of the Predecessor Company under CCAA completed its report certifying that all remaining disputed unsecured claims have been resolved. On May 30, 2005, the Monitor recommended to the Ontario Superior Court of Justice that it authorize the Monitor to proceed with the final distribution of shares in accordance with the restructuring plan. The shares were distributed with the exception of 86,926 shares that continue to be held in escrow by the Monitor pending resolution of tax obligations with governmental authorities.

Share capital and other equity summary (net of issue costs):

	Successor Company	
	September 30, 2005	December 31, 2004
Common shares	$ 2,220	$ 1,778
Convertible preferred shares	117	117
Convertible notes [1]	92	-
	2,429	1,895
Adjustment to shareholders' equity [2]	(1,693)	(1,708)
Share capital and other equity	$ 736	$ 187

(1) As described in Note 4b, for accounting purposes, the Convertible Notes are presented as a compound instrument. At the date of issuance, the value ascribed to the holders' conversion option, which is presented as equity, was $94 less allocated fees of $2.

(2) Under fresh start reporting, when there is a negative balance in shareholders' equity after a comprehensive revaluation, share capital is disclosed at a nominal value and the balance is disclosed as a capital deficiency resulting from the financial reorganization. CICA 1625 - Comprehensive Revaluation of Assets and Liabilities, does not permit goodwill to be recorded even if the fair value of net assets is less than the fair value of the enterprise as a whole.

An adjustment of $15 was recorded in shareholders' equity during the three months ended September 30, 2005 related to fresh start reporting. Management has assessed this adjustment as not material to the financial statements for the periods presented or for prior periods that have been previously reported.

8. 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 Air 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:

	Successor Company Three months ended September 30, 2005					
	Transportation Services (a)	Loyalty Program (b)	Technical Services	Regional Operations (c)	Inter-Segment Elimination	ACE Consolidated Total
Passenger revenue	$ 2,461	$ -	$ -	$ -	$ -	$ 2,461
Cargo revenue	162	-	-	-	-	162
Other revenue	(8)	154	62	2	-	210
External revenue	2,615	154	62	2	-	2,833
Inter-segment revenue	59	2	124	271	(456)	-
Total revenue	2,674	156	186	273	(456)	2,833
Aircraft rent	91	-	-	23	(2)	112
Depreciation, amortization, and obsolescence	104	2	8	4	-	118
Other operating expenses	2,219	134	175	209	(454)	2,283
Total operating expenses	2,414	136	183	236	(456)	2,513
Operating income	260	20	3	37	-	320
Total non-operating income (expense), non-controlling interest, foreign exchange, and income taxes	(46)	(1)	(3)	-	-	(50)
Segment Results	$ 214	$ 19	$ -	$ 37	$ -	$ 270

	Successor Company					
	Nine months ended September 30, 2005					
	Transportation Services (a)	Loyalty Program (b)	Technical Services	Regional Operations (c)	Inter-Segment Elimination	ACE Consolidated Total
Passenger revenue	$ 6,299	$ -	$ -	$ 1	$ -	$ 6,300
Cargo revenue	444	-	-	-	-	444
Other revenue	92	478	148	6	-	724
External revenue	6,835	478	148	7	-	7,468
Inter-segment revenue	160	8	414	710	(1,292)	-
Total revenue	6,995	486	562	717	(1,292)	7,468
Aircraft rent	251	-	-	54	(5)	300
Depreciation, amortization, and obsolescence	314	5	24	14	-	357
Other operating expenses	6,159	409	487	556	(1,287)	6,324
Total operating expenses	6,724	414	511	624	(1,292)	6,981
Operating income	271	72	51	93	-	487
Total non-operating income (expense), non-controlling interest, foreign exchange, and income taxes	(108)	(1)	(10)	(7)	-	(126)
Segment Results	$ 163	$ 71	$ 41	$ 86	$ -	$ 361

Going forward from the date of the Aeroplan offering, as described in Note 5, a non-controlling interest charge is recorded upon the consolidation of Aeroplan LP. As Aeroplan LP's non-controlling interest is in a deficit position, the non-controlling interest charge is equal to the greater of the non-controlling interest holders' share of the Aeroplan LP earnings for the period or the amount of distributions to the non-controlling interest holder during the period.

a) Includes revenues and costs for Air Canada operations, Jazz transportation revenues and fees to Air Canada for Jazz operations under the capacity purchase agreement, as well as AC Cargo Limited Partnership (doing business as Air Canada Cargo), Destina eCommerce Group LP, ACGHS Limited Partnership (doing business as Air Canada Groundhandling), Touram Limited Partnership (doing business as Air Canada Vacations), and ACE. Destina eCommerce Group LP is a successor to Destina.ca Inc. and AC Online Limited Partnership, all assets of the latter entities have been transferred to Destina eCommerce Group LP as of July 1, 2005. Inter-segment revenue includes management fees and costs and operating services charged to the other segments. Foreign exchange 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 certain entities included in Transportation Services.

Certain adjustments related to transactions between Air Canada and the Loyalty Program segment are recorded within the Transportation Services segment. These adjustments relate mainly to the revenue recognition timing difference from when Aeroplan records revenues, at the time a Mile is redeemed for travel, to the consolidated accounting policy of revenue recognition at the time reward transportation is provided. In addition the Loyalty Program segment records revenue from the redemption of Miles in Other revenue, whereas on the consolidated financial statements, Miles redeemed for travel on Air Canada and Jazz are recorded in Passenger revenue. In the Loyalty Program segment information, the cost to Aeroplan of purchasing rewards is recorded in other operating expenses. The adjustment for these items in the three months ended September 30, 2005 is an add back of $96 to Other revenue and Other operating expenses ($296 for the nine months ended September 30, 2005).

b) Other revenue includes revenue recognized on redemption of points accumulated through both air and third party contracts. Inter-segment revenue of $2 ($8 for the nine months ended September 30, 2005) 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 September 30, 2004				
	Transportation Services	Loyalty Program	Regional Operations (d)	Inter-Segment Elimination	ACE Consolidated Total
Passenger revenue	$ 1,922	$ -	$ 201	$ -	$ 2,123
Cargo revenue	138	-	4	-	142
Other revenue	130	100	1	-	231
External revenue	2,190	100	206	-	2,496
Inter-segment revenue	125	7	2	(134)	-
Total revenue	2,315	107	208	(134)	2,496
Aircraft rent	147	-	11	(1)	157
Depreciation, amortization, and obsolescence	106	1	7	-	114
Other operating expenses	1,825	101	189	(133)	1,982
Total operating expenses	2,078	102	207	(134)	2,253
Operating income (loss) before reorganization and restructuring items	237	5	1	-	243
Reorganization and restructuring items	(302)	-	(11)	-	(313)
	(65)	5	(10)	-	(70)
Total non-operating income (expense), foreign exchange, and income taxes	(5)	-	(6)	-	(11)
Segment Results	$ (70)	$ 5	$ (16)	$ -	$ (81)

	Predecessor Company Nine months ended September 30, 2004				
	Transportation Services	Loyalty Program	Regional Operations (d)	Inter-Segment Elimination	ACE Consolidated Total
Passenger revenue	$ 5,040	$ -	$ 588	$ -	$ 5,628
Cargo revenue	393	-	12	-	405
Other revenue	454	343	8	-	805
External revenue	5,887	343	608	-	6,838
Inter-segment revenue	367	48	7	(422)	-
Total revenue	6,254	391	615	(422)	6,838
Aircraft rent	493	-	32	(4)	521
Depreciation, amortization, and obsolescence	286	3	23	-	312
Other operating expenses	5,416	310	577	(418)	5,885
Total operating expenses	6,195	313	632	(422)	6,718
Operating income (loss) before reorganization and restructuring items	59	78	(17)	-	120
Reorganization and restructuring items	(819)	-	(52)	-	(871)
	(760)	78	(69)	-	(751)
Total non-operating income (expense), foreign exchange and income taxes	(129)	1	(16)	-	(144)
Segment Results	$ (889)	$ 79	$ (85)	$ -	$ (895)

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 Revenue

	Successor Company		Predecessor Company	
	Three months ended September 30, 2005	Nine months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
Passenger revenue				
Canada	$ 1,000	$ 2,593	$ 809	$ 2,236
US Transborder	398	1,176	363	1,160
Atlantic	635	1,365	560	1,212
Pacific	302	715	287	650
Other	126	451	104	370
Total passenger revenue	$ 2,461	$ 6,300	$ 2,123	$ 5,628

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.

9. 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 4, 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	$	111
2006		438
2007		387
2008		305
2009		252
Thereafter		1,265
	$	2,758

10. 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 statement of financial position 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 characterized as a guarantee of the Corporation.

11. Financial Instruments

Foreign Exchange Contracts

As at September 30, 2005, the Company had entered into foreign currency forward contracts and option agreements on US$470 of purchases**.** The fair value of these foreign currency contracts as at September 30, 2005 is $13 in favour of third parties. These derivative instruments have not been designated as hedges for accounting purposes. The unrealized loss has been recorded in foreign exchange.

Fuel Contracts

As at September 30, 2005, the Company has entered into financial instruments to reduce the risk of jet fuel price volatility affecting future cash flows. As of September 30, 2005, the Company had collar option structures in place to hedge a portion of its anticipated jet fuel requirements over the 2005-to-2007 period. Because jet fuel is not traded on an organized futures exchange, liquidity for hedging this commodity is mostly limited to a shorter time horizon. Crude oil and heating oil contracts are effective commodities for hedging jet fuel and the Corporation will use these commodities for medium to longer term hedges. As of September 30, 2005, the majority of the Company's fourth quarter 2005 hedges are effectively jet fuel-based contracts. For 2006, the majority of the Company's hedge positions are effectively in the form of heating oil-based contracts. The majority of the remaining hedge positions are crude oil-based contracts. Hedge accounting will be applied prospectively from October 1, 2005. In the third quarter of 2005, these derivative instruments had not been designated as hedges for accounting purposes. As at September 30, 2005, the unrealized gain on these contracts is $2 and is recorded in other non-operating expense.

Other

During the third quarter 2005, the Corporation reached a settlement with a third party related to interest rate swaps, covering two B767 aircraft leases, that were terminated as a result of Air Canada's filing for CCAA on April 1, 2003. A dispute arose following termination between Air Canada and the unrelated third party with respect to replacement arrangements for the swaps. The settlement agreement provides for a payment to Air Canada of US$8 related to a portion of the net payments the Corporation would have received had the swaps not been terminated. The replacement swaps that were put in place with another unrelated third party have a fair value of $9 in favour of the Corporation on inception. As a result of these transactions, the Corporation recorded a gain of $17 net of transaction fees of $3. The swaps have a term to January, 2024 and convert lease payments related to two B767 aircraft leases consolidated under AcG-15, from fixed to floating interest rates.

12. Reorganization and Restructuring Items

Cash expenditures related to reorganization and restructuring items for the three months ended September 30, 2004 amounted to $32 ($85 for the nine months ended September 30, 2004) and related mainly to the payment of professional fees. Reorganization and restructuring items are nil in the current period as no charges have been recorded in the Successor Company. The table below summarizes reorganization and restructuring charges recorded by the Predecessor Company:

	Predecessor Company	
	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Repudiated and renegotiated leases and contracts (a)	$ 198	$ 529
Labour related items (b)	156	279
Foreign exchange adjustments on compromised debt	(143)	(84)
Professional fees	106	158
Interest income on accumulated cash (c)	(4)	(17)
Other	-	6
Reorganization and restructuring items, net	$ 313	$ 871

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) Labour related items relate to the amortization of the estimated compromised claim related to the Predecessor Company's employee groups.

c) 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.

13. 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 September 30, 2004. Included in the Statement of Operations for the three months ended September 30, 2004 are intercompany revenues of $79 ($301 for the nine months ended September 30, 2004) and expenses of $55 ($184 for the nine months ended September 30, 2004) with non-Applicants.

Condensed Combined Statement of Operations

	Predecessor Company	
	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Operating revenues	$ 2,448	$ 6,581
Operating expenses	2,238	6,596
Operating loss before reorganization and restructuring items	210	(15)
Reorganization and restructuring items (note 12)	(313)	(871)
Net interest expense	(64)	(171)
Loss on sale of assets	(62)	(74)
Other non-operating income, including equity income of non-applicants	25	129
Loss before foreign exchange on non-compromised long-term monetary items and income taxes	(204)	(1,002)
Foreign exchange on non-compromised long-term monetary items	124	107
Loss before income taxes	(80)	(895)
Provision for income taxes	(1)	-
Loss for the period	$ (81)	$ (895)

Condensed Combined Statement of Cash Flow

	Predecessor Company	
	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Net cash provided by operating activities	$ 168	$ 320
Financing		
Aircraft related borrowings	116	233
Reduction of long-term debt and capital lease obligations	(49)	(358)
Drawdown on GE DIP financing	-	300
Credit facility borrowings	-	80
	67	255
Investing		
Additions to property and equipment	(139)	(320)
Proceeds from sale of assets	-	1
	(139)	(319)
Increase (decrease) in cash and cash equivalents	96	256
Cash and cash equivalents, beginning of period	857	697
Cash and cash equivalents, end of period	$ 953	$ 953

14. ACE Aviation Holdings Inc. / Air Canada

Differences Between Generally Accepted Accounting Principles in Canada and the United States

(Canadian dollars – millions except per share data)

The consolidated financial statements of the Corporation (and Predecessor Company) have been prepared in accordance with Canadian generally accepted accounting policies ("Canadian GAAP"), which differ in certain respects from accounting principles generally accepted in the United States (US GAAP). The following represents the principal differences affecting statements of operations and retained earnings (deficit), financial position, and cash flow as well as additional disclosures required by US GAAP.

	Successor Company - ACE (note 1)		Predecessor Company - Air Canada (note 1)	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	2005	**2005**	**2004**	**2004**
Income (loss) for the period in accordance with Canadian GAAP	$ 270	$ 361	$ (81)	$ (895)
Aircraft introduction costs (1)	-	-	2	5
Derivative instruments (2)	-	-	(30)	(32)
Residual value guarantee adjustment (3)	-	-	5	14
Pension valuation allowance (4)	-	-	(2)	(6)
Pre-operating costs (5)	-	-	5	6
Convertible securities (6)	57	14	-	-
Variable interest entity adjustment (7)	-	-	55	11
Amortization of intangible assets (8)	(1)	(1)	-	-
Gain on discharge of compromised liabilities	-	-	7,056	7,056
Fresh start reporting	-	-	(1,501)	(1,501)
Income adjustments for the period before the following	56	13	5,590	5,553
Cumulative effect of change in accounting policy - Variable interest entity adjustment (7)	-	-	-	(178)
Income tax adjustment	(2)	(4)	-	-
Non-controlling interest - Variable interest entity adjustment (7)	-	-	(2)	(5)
Respective period income adjustments	54	9	5,588	5,370
Income (loss) for the period in accordance with US GAAP	324	370	5,507	4,475
Minimum pension liability adjustment (4)	238	(121)	(105)	(2)
Available for sale securities (11)	36	36	-	-
Fresh start reporting	-	-	491	491
Comprehensive income (loss) for the period in accordance with US GAAP	$ 598	$ 285	$ 5,893	$ 4,964
Earnings (loss) per share - US GAAP				
- Basic	$ 3.15	$ 3.70	$ 46.86	$ 38.27
- Diluted	$ 2.74	$ 3.34	$ 40.46	$ 33.05

	Successor Company - ACE (note 1)	
	September 30, 2005	December 31, 2004
Property and equipment		
Balance under Canadian GAAP	$ 5,163	$ 3,696
Variable interest entity adjustment (7)	-	1,417
Balance under US GAAP	$ 5,163	$ 5,113
Deferred charges		
Balance under Canadian GAAP	$ 144	$ 167
Deferred finance charges (6)	(3)	(6)
Variable interest entity adjustment (7)	-	(15)
Balance under US GAAP	$ 141	$ 146
Goodwill		
Balance under Canadian GAAP	$ -	$ -
Goodwill (8)	1,468	1,583
Balance under US GAAP	$ 1,468	$ 1,583
Intangible Assets		
Balance under Canadian GAAP	$ 2,467	$ 2,691
Variable interest entity adjustment (7)	-	(39)
Goodwill (8)	134	11
Balance under US GAAP	$ 2,601	$ 2,663
Other assets		
Balance under Canadian GAAP	$ 373	$ 137
Variable interest entity adjustment (7)	-	111
Available for sale securities (11)	36	
Balance under US GAAP	$ 409	$ 248
Current portion of long-term debt		
Balance under Canadian GAAP	$ 264	$ 218
Variable interest entity adjustment (7)	-	77
Balance under US GAAP	$ 264	$ 295
Long-term debt and capital lease obligations		
Balance under Canadian GAAP	$ 3,400	$ 2,328
Variable interest entity adjustment (7)	-	1,230
Convertible securities (6)	23	-
Balance under US GAAP	$ 3,423	$ 3,558
Convertible preferred shares		
Balance under Canadian GAAP	$ 144	$ 132
Reclassification of preferred shares (6)	(144)	(132)
Balance under US GAAP	$ -	$ -
Pension and other benefit liabilities		
Balance under Canadian GAAP	$ 2,233	$ 2,344
Minimum pension liability adjustment (4)	123	2
Balance under US GAAP	$ 2,356	$ 2,346

	Successor Company - ACE (note 1)	
	September 30, 2005	December 31, 2004
Future income taxes		
Balance under Canadian GAAP	$ 229	$ 243
Goodwill (8)	14	-
Balance under US GAAP	$ 243	$ 243
Other long-term liabilities		
Balance under Canadian GAAP	$ 1,388	$ 1,645
Convertible preferred shares - embedded derivative (6)	184	180
Convertible notes - embedded derivative (6)	65	-
Variable interest entity adjustment (7)	-	(156)
Balance under US GAAP	$ 1,637	$ 1,669
Minority interest		
Balance under Canadian GAAP	$ 200	$ -
Variable interest entity adjustment (7)	-	178
Balance under US GAAP	$ 200	$ 178
Temporary equity		
Balance under Canadian GAAP	$ -	$ -
Reclassification of convertible preferred shares (6)	179	167
Balance under US GAAP	$ 179	$ 167
Shareholders' equity		
Balance under Canadian GAAP	$ 1,258	$ 203
Convertible securities (6)	(17)	(5)
Reclassification of convertible preferred shares and convertible notes (6)	(209)	(117)
Variable interest entity adjustment (7)	-	112
Goodwill recorded at fresh start (8)	1,596	1,596
Current year income adjustments	9	(68)
Current year adjustments for comprehensive income		
Minimum pension liability adjustment (4)	(121)	(2)
Available for sale securities (11)	36	-
Cumulative prior year adjustments for:		
Future income tax	(2)	-
Convertible securities	(99)	-
Comprehensive income		
Minimum pension liability adjustment	(2)	-
Balance under US GAAP	$ 2,449	$ 1,719

1. Aircraft Introduction Costs

Under Canadian GAAP, the Predecessor Company deferred and amortized aircraft introduction costs. Under US GAAP, these costs are expensed as incurred. The Successor Company expenses aircraft introduction costs as incurred. Under Canadian GAAP, the Predecessor Company recorded amortization expense of $2 for the three months ended September 30, 2004 ($5 for the nine months ended September 30, 2004).

2. Derivative Financial Instruments

Under US GAAP, all derivatives are recorded on the balance sheet at fair value. The Corporation and Predecessor Company have elected not to designate any derivatives as hedging instruments for US GAAP purposes and as such, changes in the fair value of all derivative instruments are recorded in income.

Effective January 1, 2004 under Canadian GAAP, derivative instruments that are not part of a designated hedging relationship are recorded at fair value, with changes in fair value recognized currently in income. The opening deferred credit related to the fair value adjustment of the Predecessor Company is amortized over the life of the related derivative instruments. Under US GAAP, this deferred credit is reversed to income. As a result of the application of fresh start reporting, this deferred credit was valued at nil in the Successor Company.

3. Residual Value Guarantees under Operating Leased Aircraft

Under Canadian GAAP, the portion of the gain on sale-leasebacks that includes a residual value guarantee is deferred until the end of the lease term for leases entered into after September 1999, whereas under US GAAP, the amount would be deferred until the end of the lease term for leases entered into after September 1986. Further, under Canadian GAAP, the expected deficiency under a residual value guarantee is accrued over the remaining lease term irrespective of the end of lease term options for leases entered into after September 1999; however, under US GAAP, the accrual of an expected deficiency is required for leases entered into after September 1996. In the Successor Company, all aircraft lease agreements with residual value guarantees are consolidated under the Variable Interest Entity adjustment described under note 7. The adjustment for the three months ended September 30, 2004, and the nine months ended September 30, 2004 relates to the amortization of the previous accrual of the residual value guarantee on renegotiated leases where the residual value guarantee has been removed.

4. Employee Future Benefits

Under Canadian GAAP, a minimum pension liability is not recognized if the accumulated benefit obligation related to employee pensions exceeds the fair value of plans assets; however, a pension valuation allowance is required to limit the pension asset to the amount that can be realized in the future. Under US GAAP, a minimum pension liability has been recorded; however, a pension valuation allowance is not permitted.

5. Pre-operating Costs

Under Canadian GAAP, eligible pre-operating costs are deferred and amortized. Under US GAAP, these costs are expensed as incurred. Under Canadian GAAP, the Predecessor Company recorded amortization expense of $5 for the three months ended September 30, 2004 ($6 for the nine months ended September 30, 2004.

6. Convertible Preferred Shares

Under US GAAP, the convertible preferred shares issued by the Successor Company contain an embedded derivative which has been reported separately as an other long-term liability at its fair value of $184 as at September 30, 2005 ($217 as at June 30, 2005; $201 as at March 31, 2005; and $180 as at December 31, 2004). The convertible preferred shares were initially recorded at $162 which is the proceeds received less direct costs of issuance and the fair value of the embedded derivative, as of the date of issuance, and is included in temporary equity as the conditions of redemption are not solely within the control of the Successor Company. The adjustment to deferred charges reflects applying the direct costs of issuance, recorded in deferred charges under Canadian GAAP, against the amount recorded in temporary equity.

For the convertible preferred shares, the changes in the fair value of the embedded derivative are included in income and the accretion of the temporary equity to the redemption value over the period to redemption is reflected as a charge to retained earnings.

The adjustment reflects the reversal of interest expense under Canadian GAAP of $5 ($12 for the nine months ended September 30, 2005); increase (decrease) to the liability related to the fair values of the embedded derivative amounting to ($33) ($4 for the nine months ended September 30, 2005); and the amount charged to retained earnings under US GAAP of $5 ($12 for the nine months ended September 30, 2005).

Convertible Notes

Under Canadian GAAP the convertible notes issued in April 2005 are presented as a compound instrument. At the date of issuance, the value ascribed to the holders' conversion option, which is presented as equity, was $94 less allocated fees of $2; the value ascribed to the financial liability was $236. Under US GAAP the convertible notes were initially recorded at $260 which is the proceeds received before costs of issuance and the fair value of the embedded derivative, as of the date of issuance, of $71. The direct costs of issuance of $11 are recorded in deferred charges. The adjustment also reflects the increase (decrease) to the liability related to the fair values of the embedded derivative amounting to ($18) (($6) for the nine months ended September 30, 2005) and a reduction to interest expense of $1.

7. Variable Interest Entities

As discussed in note 1, under Canadian GAAP, Accounting Guideline 15 – Consolidation of Variable Interest Entities ("AcG-15") was adopted on January 1, 2005. There are no significant differences between AcG-15 and Interpretation No. 46R – Consolidation of Variable Interest Entities ("FIN 46R"), issued by the Financial Accounting Standards Board and adopted effective January 1, 2004 under US GAAP that affect the Corporation's GAAP reconciliation. As a result, this reconciling difference is no longer applicable.

The adjustment for the three months ended September 30, 2004 of $53 ($6 for the nine months ended September 30, 2004), reflects depreciation expense of $23 ($73 for the nine months ended September 30, 2004), interest expense of $27 ($80 for the nine months ended September 30, 2004), a foreign exchange gain of $80 ($30 for the nine months ended September 30, 2004) and a non-controlling interest charge of $2 ($5 for the nine months ended September 30, 2004) offset by the reversal of aircraft rent expense of $25 ($134 for the nine months ended September 30, 2004).

8. Fresh Start Reporting and Goodwill

Under Canadian GAAP, the effects of the fresh start reporting adjustments, including the settlement of the compromised debt, are accounted for as a capital transaction and recorded within shareholders' equity. Under US GAAP, the effect of the fresh start reporting adjustments, including the settlement of the compromised debt, are reflected in the income statement.

Under Canadian GAAP, upon emergence from creditor protection, the identifiable assets and liabilities of an enterprise are revalued based on the fair values of such assets and liabilities in a manner similar to that used for a business combination. The difference between the fair value of the Successor's equity over the fair value of the identifiable assets and liabilities is not permitted to be recorded as an asset (goodwill) under Canadian GAAP. US GAAP does not prohibit the recognition of goodwill to the extent that the reorganization value exceeds the fair value of the specific tangible and identifiable intangibles of the Successor. The resulting goodwill under US GAAP is not amortized and is subject to an impairment test on an annual basis or earlier if an event occurs or circumstances change that would more likely than not reduce the fair value of the respective reporting unit below the carrying amount.

Under Canadian GAAP, the benefit of future income tax assets that exist at fresh start, and for which a valuation allowance is recorded against, will be recognized first to reduce to nil any remaining intangible assets (on a pro-rata basis) that were recorded upon fresh start reporting with any remaining amount as a credit to shareholders' equity. Under US GAAP the benefit of future income tax assets that exist at fresh start will be recognized first to reduce to nil any goodwill, then intangibles with any remaining amount taken to income. As a result, the adjustment at September 30, 2005 reflects a cumulative increase to intangible assets of $136, less amortization expense of $1 for the three months ended September 30, 2005 ($2 for the nine months ended September 30, 2005), an increase to future income tax liabilities of $14, a cumulative reduction of $128 to goodwill, a tax expense of $2 for the three months ended September 30, 2005 ($4 for the nine months ended September 30, 2005) and a cumulative retained earnings adjustment of $(2).

9. Comprehensive Income

Under US GAAP, comprehensive income must be reported which is defined as all changes in equity other than those resulting from investments by owners and distributions to owners. Cumulative other comprehensive income (loss) as at September 30, 2005 is ($123), (($2) at December 31, 2004). For the periods presented, under Canadian GAAP, the Predecessor and the Successor were not permitted to use the concept of comprehensive income. The adjustments to cumulative other comprehensive income relate mainly to the minimum pension liability adjustment described under item 4.

10. Pension and Other Benefit Plans

The components of US GAAP net periodic cost of defined benefit plans include the following:

	Three Months Ended September 30			
	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Service cost	$ 51	$ 47	$ 21	$ 22
Interest cost	162	144	12	13
Expected return on plan assets	(174)	(161)	-	-
Amortization of prior service cost	-	22	-	4
Amortization of net transition obligation	-	(3)	-	-
Amortization of experience (gains) losses	-	5	(1)	8
	$ 39	$ 54	$ 32	$ 47

	Nine Months Ended September 30			
	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Service cost	$ 150	$ 139	$ 63	$ 68
Interest cost	488	468	37	40
Expected return on plan assets	(521)	(487)	-	-
Amortization of prior service cost	-	67	-	5
Amortization of net transition obligation	-	(6)	-	-
Amortization of experience (gains) losses	-	30	(3)	11
	$ 117	$ 211	$ 97	$ 124

For the nine months ended September 30, 2005 the Corporation had contributed $214 to its defined benefit pension plans. The Corporation expects to contribute an additional $60 during the remainder of 2005.

11. Available-for-sale Securities

Under Canadian GAAP, portfolio investments are accounted for using the cost method. Under US GAAP, portfolio investments classified as available-for-sale securities are carried at market value with unrealized gains or losses reflected as a separate component of shareholders' equity and included in comprehensive income. Under US GAAP, an unrealized gain of $36 for the three months ended September 30, 2005 has been recorded as a separate component of shareholders' equity and included in comprehensive income, to reflect the fair value of the US Airways investment of $122 at September 30, 2005.

New Accounting Policies

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). This standard replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). It requires that the compensation cost of share-based payment transactions be recognized in financial statements based on the fair value of the equity or liability instruments issued. SFAS 123R is effective for public companies beginning with the first annual period that begins after June 15, 2005. The Corporation will adopt this statement as of the beginning the first quarter 2006. The Corporation has not completed its evaluation of the impact of SFAS 123R on its financial statements. Under Canadian GAAP as described in note 4t) to the 2004 annual consolidated financial statements of ACE, the fair value of stock options granted is recognized as a charge to salary and wage expense on a straight line basis over the applicable vesting period, with an offset to contributed surplus. The amount of compensation cost recognized at any date at least equals the value of the vested portion of the options at that date. When stock options are exercised, the consideration paid by employees, together with the amount in contributed surplus, is credited to share capital.

FASB has issued FIN 47 - Asset retirement obligations. This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005; the Corporation will apply FIN 47 in the fourth quarter 2005. The Corporation is reviewing the impact that FIN 47 may have on its financial statements.