AIR CANADA

Third Quarter 2007
Interim Unaudited
Consolidated Financial Statements and Notes

November 8, 2007

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended September 30 2007*	Three Months Ended September 30 2006	Nine Months Ended September 30 2007*	Nine Months Ended September 30 2006
			(note 1)		(note 1)
Operating revenues					
Passenger revenue		$ 2,660	$ 2,552	$ 7,133	$ 6,816
Cargo revenue		132	158	408	463
Other revenue		162	127	545	493
		2,954	2,837	8,086	7,772
Special charge for Aeroplan Miles	note 10	-	(102)	-	(102)
		2,954	2,735	8,086	7,670
Operating expenses					
Wages, salaries and benefits		478	539	1,591	1,602
Aircraft fuel		716	762	1,938	1,962
Aircraft rent		66	107	261	334
Airport and navigation fees		284	275	783	750
Aircraft maintenance, materials and supplies		155	192	626	627
Communications and information technology		70	68	210	209
Food, beverages and supplies		88	94	252	255
Depreciation, amortization and obsolescence		144	130	417	374
Commissions		54	61	164	188
Capacity purchase with Jazz	note 8	234	-	310	-
Special charge for labour restructuring	note 5	-	-	-	28
Other		314	338	1,111	1,111
		2,603	2,566	7,663	7,440
Operating income		**351**	**169**	**423**	**230**
Non-operating income (expense)					
Interest income		21	24	72	62
Interest expense		(82)	(81)	(262)	(231)
Interest capitalized		24	18	88	40
Gain (loss) on disposal of assets	note 2	(2)	1	19	4
Gain (loss) on financial instruments recorded at fair value	note 6	(4)	(16)	24	(19)
Other		(2)	1	(11)	2
		(45)	(53)	(70)	(142)
Income before the following items		306	116	353	88
Non-controlling interest		-	(41)	(68)	(117)
Foreign exchange gain (loss)		104	(2)	297	119
Provision for income taxes					
Current		(10)	-	(16)	-
Future		(127)	(29)	(172)	(20)
Income for the period		**$ 273**	**$ 44**	**$ 394**	**$ 70**
Earnings per share					
Basic and diluted		$ 2.73	$ 0.50	$ 3.94	$ 0.79

** Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

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

Consolidated Statement of Financial Position

Unaudited		September 30 2007*	December 31 2006
(Canadian dollars in millions)			
ASSETS			
Current			
Cash and cash equivalents		$ 792	$ 1,447
Short-term investments		710	798
		1,502	2,245
Restricted cash		54	109
Accounts receivable		994	688
Spare parts, materials and supplies		111	148
Prepaid expenses and other current assets		158	124
Prepaid maintenance to ACTS		-	535
Future income taxes	note 1	-	345
		2,819	4,194
Property and equipment	note 2	7,155	5,946
Deferred charges		53	103
Intangible assets		994	1,194
Deposits and other assets	note 6	323	312
		$ 11,344	**$ 11,749**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,435	$ 1,521
Advance ticket sales		1,217	1,019
Aeroplan miles obligation	note 10	55	58
Current portion of long-term debt and capital leases		367	367
Note payable to ACTS		-	535
Current taxes payable	note 1	-	345
		3,074	3,845
Long-term debt and capital leases	note 3	3,425	3,196
Future income taxes		108	134
Pension and other benefit liabilities		1,855	1,876
Other long-term liabilities		361	472
		8,823	9,523
Non-controlling interest		181	374
SHAREHOLDERS' EQUITY			
Share capital		274	274
Contributed surplus		1,773	1,693
Retained earnings (deficit)		287	(115)
Accumulated other comprehensive income (loss)	note 1	6	-
		2,340	1,852
		$ 11,344	**$ 11,749**

** Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

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

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Nine Months Ended September 30 2007	2006
			(note 1)
Share capital			
Common shares (beginning and end of period)		$ 562	$ -
Special common shares (beginning and end of period)		-	325
Adjustment to shareholders' equity (beginning and end of period)		(288)	(303)
Total share capital		274	22
Contributed surplus			
Balance, beginning of period		1,693	1,037
Fair value of stock options issued to Corporation employees recognized as compensation expense		8	2
Contribution from ACE on transfer of investments		-	483
Allocation of corporate costs		-	9
Allocation of reduction to intangible assets		-	48
Purchase of Air Canada Vacations	note 1	(10)	-
Utilization of future income tax assets		-	(177)
Deconsolidation of Jazz	note 1	82	-
Total contributed surplus		1,773	1,402
Retained earnings (deficit)			
Balance, beginning of period		(115)	(41)
Cumulative effect of adopting new accounting policies	note 1	8	-
		(107)	(41)
Net income for the period		394	70
Retained earnings		287	29
Accumulated other comprehensive income (loss)			
Balance, beginning of period		-	-
Cumulative effect of adopting new accounting policies	note 1	(26)	-
Other comprehensive income		32	-
Total Accumulated other comprehensive income (loss)		6	-
Total shareholders' equity		**$ 2,340**	**$ 1,453**

Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended September 30 2007*	2006	Nine Months Ended September 30 2007*	2006
Comprehensive income					
Net income for the period		$ 273	$ 44	$ 394	$ 70
Other comprehensive income, net of taxes:					
Unrealized period change in fair value of fuel derivatives under hedge accounting	note 6	11	-	25	-
Reclassification of net realized losses (gains) on fuel derivatives to income	note 6	(3)	-	7	-
		8	-	32	-
Total comprehensive income		**$ 281**	**$ 44**	**$ 426**	**$ 70**

** Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

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

Consolidated Statement of Cash Flows

Unaudited (Canadian dollars in millions)		Three Months Ended September 30 2007*	Three Months Ended September 30 2006	Nine Months Ended September 30 2007*	Nine Months Ended September 30 2006
			(note 1)		(note 1)
Cash flows from (used for)					
Operating					
Income for the period		$ 273	$ 44	$ 394	$ 70
Adjustments to reconcile to net cash from operations					
Depreciation, amortization and obsolescence		144	130	417	374
Loss (gain) on disposal of assets		2	(1)	(19)	(4)
Foreign exchange loss (gain)		(139)	1	(326)	(129)
Future income taxes		127	29	172	20
Excess of employee future benefit funding over expense		(32)	(63)	(170)	(131)
Decrease (increase) in accounts receivable		(39)	(39)	(239)	(175)
Decrease (increase) in spare parts, materials and supplies		(12)	17	4	60
Increase (decrease) in accounts payable and accrued liabilities		(61)	108	(2)	166
Increase (decrease) in advance ticket sales, net of restricted cash		(173)	(265)	253	135
Decrease in Aeroplan miles obligation		(17)	(26)	(63)	(83)
Non-controlling interest		-	41	68	117
Special charge for Aeroplan miles		-	102	-	102
Allocation of corporate expenses	note 1	-	-	-	9
Aircraft lease payments less than (in excess of) rent expense		(1)	(5)	(10)	(13)
Unrealized period change in fair value of derivatives	note 6	23	11	(9)	15
Capitalized interest		(24)	(17)	(88)	(40)
Other		(17)	(15)	32	26
		54	**52**	**414**	**519**
Financing					
Issue of Jazz units		-	-	-	218
Transfer of Jazz investment to ACE	note 1	-	-	-	400
Promissory note paid by Jazz to ACE		-	-	-	(424)
Jazz – Credit facility borrowings		-	-	-	113
Aircraft and facility related borrowings	note 3	449	99	1,093	321
Distributions paid to non-controlling interest		-	(26)	(54)	(71)
Reduction of long-term debt and capital lease obligations		(138)	(58)	(305)	(207)
Reduction of non-controlling interest	note 3	-	-	(36)	-
Other		-	(1)	-	(1)
		311	**14**	**698**	**349**
Investing					
Short-term investments		171	52	88	(114)
Additions to capital assets		(580)	(209)	(1,684)	(675)
Proceeds from sale of assets		16	40	61	40
Deconsolidation of Jazz cash	note 1	-	-	(138)	-
Cash management with related parties		11	(7)	(23)	(8)
Cash collateralization of letters of credit		(4)	(11)	8	(15)
Purchase of Air Canada Vacations	note 1	(10)	-	(10)	
Other	note 6	(48)	-	(69)	-
		(444)	**(135)**	**(1,767)**	**(772)**
Increase (decrease) in cash and cash equivalents		**(79)**	**(69)**	**(655)**	**96**
Cash and cash equivalents, beginning of period		871	1,199	1,447	1,034
Cash and cash equivalents, end of period		**$ 792**	**$ 1,130**	**$ 792**	**$ 1,130**
Cash payments of interest		$ 60	$ 55	$ 179	$ 177
Cash payments of income taxes		$ 3	$ -	$ 6	$ -

** Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*
Cash and cash equivalents exclude Short-term investments of $710 as at September 30, 2007 ($416 as at September 30, 2006).
The accompanying notes are an integral part of the interim consolidated financial statements.

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

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements are of Air Canada (the "Corporation"), a majority-owned subsidiary of ACE Aviation Holdings Inc. ("ACE"). The term "Corporation" refers to, as the context may require, Air Canada and/or one or more of Air Canada's subsidiaries.

A) BASIS OF PRESENTATION

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2006 annual combined consolidated financial statements of the Corporation, with the exception of the changes in accounting policies described below in part B) Changes in Accounting Policies.

As described in Note 1 to the 2006 annual combined consolidated financial statements of the Corporation, for periods prior to the initial public offering of shares of the Corporation, which closed on November 24, 2006 (the "Air Canada IPO"), the financial statements of the Corporation are combined to include the financial position, results of operations and cash flows of a number of entities that subsequently became subsidiaries of the Corporation in conjunction with the Air Canada IPO.

In accordance with Canadian generally accepted accounting principles ("GAAP"), these interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the 2006 annual combined consolidated financial statements of the Corporation. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

The Corporation has historically experienced greater demand for its services in the second and third quarters of the calendar year and 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.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

Allocation of Corporate Expenses

For the period prior to November 24, 2006, these consolidated financial statements include an allocation of the general corporate expenses incurred by ACE based upon the proportion of the Corporation's consolidated revenues compared to ACE's consolidated revenues. The allocation of general corporate expenses to the Corporation includes its proportionate share of general corporate expenses incurred by ACE, including executive management, legal, investor relations, treasury, finance, financial reporting, tax, internal audit and human resources services as well as costs of governance, professional fees and regulatory filings, all of which amounted to nil for the third quarter of 2006 ($9 for the nine months ended September 30, 2006). This allocation of corporate expenses was recorded within what was then referred to as the "Air Canada Services" segment and is recorded as a credit to contributed surplus. The allocation of general corporate expenses ceased on November 24, 2006.

Excluded Inter-company Investments

Prior to the Air Canada IPO, the Corporation held, for tax planning purposes, certain investments in limited partnerships of which ACE owned directly or indirectly all of the limited partner units. These investments and related income and income tax effects have been excluded from these consolidated statements of financial positions and operations of the Corporation, as these activities did not relate to the operations of the Corporation. These investments were transferred to ACE during 2005 and 2006 in exchange for cash and a note receivable. For purposes of these consolidated financial statements, these exchanges of the investments for cash and a note receivable were recorded as related party transactions resulting in a contribution of cash and notes receivable to the Corporation. These contributions of cash have been reflected as financing activities in the consolidated statement of cash flows.

Income Taxes

As part of a tax loss utilization strategy that was planned in conjunction with the Air Canada IPO and corporate restructuring, a current tax payable of $345 was created in 2006. This tax payable arose upon a transaction to transfer tax assets from the Corporation to ACE. This tax payable was recoverable from future income tax assets of the Corporation and was settled during the first quarter of 2007. The Corporation recorded interest expense of $6, which was due on the tax balance prior to its recovery during the first quarter of 2007, in current income taxes on the consolidated statement of operations.

Accounting for Jazz

As a result of ACE's distribution of units of Jazz Air Income Fund on May 24, 2007 ACE's ownership interest in Jazz Air Income Fund was reduced from 58.8% to 49.0%. This ownership interest was further reduced to 20.1% subsequent to September 30, 2007. Jazz Air Income Fund holds all of the outstanding units of Jazz Air LP ("Jazz"). This distribution by ACE gave rise to a reconsideration of who should consolidate Jazz, and as a result, Jazz Air Income Fund was deemed to be the primary beneficiary of Jazz under AcG-15 Consolidation of Variable Interest Entities. As of the distribution date, the Corporation therefore no longer consolidates Jazz. Prospective from the date of deconsolidation, the Corporation has one reportable segment.

The consolidated statement of financial position as at September 30, 2007 does not include the financial position of Jazz. The comparative December 31, 2006 consolidated statement of financial position included the following items of Jazz:

- Cash and cash equivalents of $135 and Other current assets of $109;
- Long-lived assets of $239;
- Current liabilities of $213;
- Long-term debt of $115;
- Non-controlling interest of $162; and
- Other long-term liabilities of $71.

Consolidation adjustments recorded by the Corporation relating to accounting for income taxes and other items amounting to an aggregate adjustment of $82, has been recorded in contributed surplus during the second quarter of 2007 as a result of the deconsolidation.

The second quarter of 2007 cash flow impact of the Corporation's deconsolidation of Jazz of $138 reflects the Jazz cash being removed from the consolidated statement of financial position of the Corporation and is classified as a cash outflow from investing activities.

Also refer to Note 8 Related Party Transactions for a description of the transactions between the Corporation and Jazz and the related accounting presentation in the Corporation.

Purchase of ACE's Interest in Air Canada Vacations

During the third quarter of 2007 the Corporation purchased from ACE its 49% interest in Air Canada Vacations causing Air Canada Vacations to be wholly owned by the Corporation. Consideration for the units was $10 and was accounted for within contributed surplus. Air Canada Vacations still remains consolidated within the results of the Corporation.

B) CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Corporation adopted CICA accounting handbook section 3855, *Financial Instruments – Recognition and Measurement*, section 3861, *Financial Instruments – Disclosure and Presentation,* section 3865, *Hedges*, section 1530, *Comprehensive Income*, and section 3251, *Equity.*

Financial Instruments

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is dependent upon the classification of the financial instrument as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The held-for-trading classification is applied when an entity is "trading" in an instrument or alternatively the standard permits that any financial instrument be irrevocably designated as held-for-trading. The held-to-maturity classification is applied only if the asset has specified characteristics and the entity has the ability and intent to hold the asset until maturity. An asset can be classified as available-for-sale when it has not been classified as trading or held-to-maturity. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in non-operating income (expense). Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in Other Comprehensive Income ("OCI") as described below.

Derivative instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair values of derivative instruments are recognized in non-operating income (expense) with the exception of derivatives designated in effective cash flow hedges, as further described below.

For financial instruments measured at amortized cost, transaction costs or fees, premiums or discounts earned or incurred are recorded, at inception, net against the fair value of the financial instrument. Interest expense is recorded using the effective interest method. For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees*, the inception fair value of the obligation relating to the guarantee is recognized and amortized over the term of the guarantee. It is the Corporation's policy to not remeasure the fair value of the financial guarantee unless it qualifies as a derivative.

The Corporation has implemented the following classifications:

- Cash and cash equivalents are classified as held-for-trading and any period change in fair value is recorded through net income.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.
- Accounts payable, credit facilities, and bank loans are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The purpose of the section is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

The Corporation has designated its fuel derivatives as cash flow hedges. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the fuel derivatives, the effective gains and losses previously recognized in Accumulated OCI ("AOCI") are recorded in fuel expense.

When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to fuel expense during the periods when the variability in the cash flows of the hedged item affects net income.

Comprehensive Income

Section 1530 introduces Comprehensive income, which consists of net income and OCI. OCI represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources that are recognized in Comprehensive income, but excluded from net income. Period changes in the fair value of the effective portion of cash flow hedging instruments are recorded in OCI. Commencing in the first quarter of 2007 interim consolidated financial statements include the consolidated statement of comprehensive income; items affecting OCI are recorded prospectively commencing from January 1, 2007, including the transition adjustments noted below. Cumulative changes in OCI are included in AOCI, which is presented as a new category within Shareholders' equity on the consolidated statement of financial position. OCI and AOCI are presented net of tax.

Equity

Section 3251 establishes standards for the presentation of equity and the changes in equity during the period.

Impact Upon Adoption

In accordance with the transitional provisions of the standards, prior periods have not been restated for the adoption of these new accounting standards.

The transition adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value, other than financial assets classified as available-for-sale and hedging instruments designated as cash flow hedges, were recognized in the opening Deficit of the Corporation as at January 1, 2007.

For the Corporation's fuel-hedging relationship classified as a cash flow hedge, which qualifies for hedge accounting under the new standard, the effective portion of any gain or loss on the hedging instruments was recognized in AOCI and the cumulative ineffective portion was included in the opening Deficit of the Corporation as at January 1, 2007.

Upon adoption the Corporation recorded the following adjustments to the consolidated statement of financial position:

Increase (decrease)	
Deferred charges	$ (14)
Future income taxes ($6, net of valuation allowance $6)	-
Accounts payable and accrued liabilities	18
Long-term debt and capital leases	(14)
Deficit, net of nil tax	(8)
Accumulated other comprehensive income (loss), net of nil tax	$ (26)

Future Accounting Changes

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*. These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Corporation will adopt them on January 1, 2008. The Corporation is in the process of evaluating the disclosure and presentation requirements of the new standards, however, it is not anticipated that the results of the Corporation will be affected.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued section 3031, *Inventories*, which will replace section 3030, *Inventories*. This new standard is effective for fiscal years beginning on or after July 1, 2007, and the Corporation will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Corporation's accounting policy for inventories is currently in line with measurement requirements in the new standard, however, additional disclosures will be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories.

2. DISPOSAL OF PROPERTY

During the second quarter of 2007, a CRJ-100 aircraft owned by Air Canada and leased to Jazz was damaged beyond repair. As a result of insurance proceeds, Air Canada recorded a gain on disposal of $14 ($10 net of tax) in the second quarter of 2007. During the third quarter of 2007 the Corporation received insurance proceeds of $16 and the remaining $5 of the proceeds is expected to be received during the fourth quarter of 2007.

During the first quarter of 2007 the Corporation sold one of its commercial real estate properties for net proceeds of $42 with a carrying value of $37. The gain on sale of $5 ($4 net of tax) has been recorded in what was previously referred to as the "Air Canada Services" segment for the first quarter of 2007.

Also during the first quarter of 2007 the Corporation sold 18 parked aircraft for proceeds of $2 with a nil book value. The gain on sale of $2 ($1 net of tax) has been recorded in what was previously referred to as the "Air Canada Services" segment for the first quarter of 2007.

3. LONG-TERM DEBT AND CAPITAL LEASES

Boeing Aircraft Financing

On April 19, 2007, the Corporation received a final commitment for loan guarantee support, subject to the fulfillment of certain terms and conditions, from the Export-Import Bank of the United States ("EXIM") covering seven Boeing 777 aircraft under the Corporation's purchase agreement with Boeing (the "Boeing Purchase Agreement"), to be delivered in 2007. During the nine months ended September 30, 2007 the Corporation took delivery of seven Boeing 777 aircraft, six of which were purchased under the Boeing Purchase Agreement and financed under the loan guarantee support provided by EXIM, the other one being subject to an operating lease agreement with International Lease Finance Corporation ("ILFC"). An eighth Boeing 777 aircraft is expected for delivery in the fourth quarter of 2007; it will be the final of the seven Boeing 777 aircraft purchased under the Boeing Purchase Agreement and financed under the loan guarantee support provided by EXIM.

The following table summarizes the loans, which are secured by the delivered aircraft, related to the acquisition of Boeing aircraft financed under the loan guarantee support provided by EXIM:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 3 2007					
Boeing 777	2	5.493%	2019	$ 203	$ 214
Quarter 2 2007					
Boeing 777	4	5.435%	2019	415	441
Total	**6**			**$ 618**	**$ 655**

The interest rate above represents the weighted average fixed interest rate on the loans.

The following table summarizes the principal repayment requirements (in CDN$) of the Boeing aircraft financing obtained during the nine month period ended September 30, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012
Boeing aircraft financing	$ 13	$ 51	$ 51	$ 51	$ 51	$ 51

Embraer Aircraft Financing

The following table summarizes the loans, which are secured by the delivered aircraft, that the Corporation drew during the nine month period ended September 30, 2007 to finance the acquisition of Embraer aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 3 2007					
Embraer 190	8	7.135%	2019	$ 180	$ 186
Quarter 2 2007					
Embraer 190	4	7.161%	2019	90	96
Quarter 1 2007					
Embraer 190	4	6.813%	2019	90	105
Total	**16**			**$ 360**	**$ 387**

The interest rates above represent the weighted average fixed interest rate on the loans.

The following table summarizes the principal repayment requirements (in CDN$) of the Embraer aircraft financing obtained during the nine month period ended September 30, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012
Embraer aircraft financing	$ 4	$ 16	$ 17	$ 18	$ 21	$ 24

Reduction in Non-controlling Interest

During the first quarter of 2007, the Corporation refinanced five CRJ aircraft and the refinancing included a payment of the non-controlling interest portion of the leasing arrangement to third parties of $36.

4. POST-EMPLOYMENT EXPENSES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007*	**2006**	**2007***	**2006**
Pension benefit expense	$ 34	$ 47	$ 109	$ 138
Other employee future benefit expense	26	28	79	83
	60	**75**	**188**	**221**
Amount charged to related parties	(11)	(14)	(31)	(40)
Net pension benefit and other employee benefits expense	**$ 49**	**$ 61**	**$ 157**	**$ 181**

** Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

5. LABOUR RELATED PROVISIONS

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities for balances that existed upon the implementation of fresh start reporting on September 30, 2004 (current portion included in accounts payable and accrued liabilities):

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Beginning of period	$ 53	$ 99	$ 77	$ 121
Interest accretion	1	2	4	7
Amounts disbursed	(10)	(12)	(33)	(39)
Deconsolidation of Jazz (note 1)	-	-	(4)	-
End of period	44	89	44	89
Current portion	(12)	(32)	(12)	(32)
	$ 32	**$ 57**	**$ 32**	**$ 57**

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities for balances that have been created subsequent to the implementation of fresh start reporting on September 30, 2004 (current portion included in accounts payable and accrued liabilities):

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Beginning of period	$ 34	$ 39	$ 29	$ 13
Special charge for labour restructuring:				
2006 non-unionized reduction	-	-	-	28
Charges recorded in wages, salaries and benefits	5	2	16	5
Amounts disbursed	(2)	(3)	(8)	(8)
End of period	37	38	37	38
Current portion	(18)	(28)	(18)	(28)
	$ 19	**$ 10**	**$ 19**	**$ 10**

The Corporation offers severance programs to certain employees from time to time. The cost of these programs is recorded within operating expenses.

During the first quarter of 2006, a workforce reduction plan was announced to reduce non-unionized employee levels by 20 percent. A special charge of $28 was recorded in what was previously referred to as the "Air Canada Services" segment in the first quarter of 2006 relating to this program. During the fourth quarter of 2006, the estimated cost of this plan to what was previously referred to as the "Air Canada Services" segment was revised due to the favourable impact of attrition and other factors which reduced the cost of achieving the target. As a result, what was previously referred to as the "Air Canada Services" segment recorded a reduction of $8 in the fourth quarter of 2006 to the special charge for labour restructuring.

6. DERIVATIVE AND FINANCIAL INSTRUMENTS

Fuel Price Risk Management

The financial results of the Corporation are impacted by changes in jet fuel prices as a result of the Corporation's inherent dependence on energy for its operations. To manage its exposure to jet fuel prices, the Corporation enters into derivative contracts with financial intermediaries for the purpose of managing volatility in operating cash flows. The Corporation uses derivative contracts on jet fuel and also on other crude oil based commodities, such as heating oil and crude oil, due to the relative limited liquidity of jet fuel derivative instruments on a medium to longer term horizon, since jet fuel is not traded on an organized futures exchange. The Corporation does not purchase or hold any derivative financial instruments for trading purposes.

The Corporation designates its fuel derivatives as hedges and applies hedge accounting as prescribed under CICA section 3865, Hedges. Designated hedging items under cash flow hedges result in all period changes in the fair value of the hedging item that are considered effective being recorded in AOCI until the underlying jet fuel is consumed. Upon maturity of the hedging item, the effective gains and losses are recorded in fuel expense. The ineffective component of the change in fair value is recorded in non-operating income (expense).

Effectiveness is defined as the extent to which changes in the fair value of a hedged item relating to a risk being hedged is offset by changes in the fair value of the corresponding hedging item. The Corporation's accounting policy measures effectiveness based on the change in the intrinsic value of fuel derivatives compared to the change in the intrinsic value of the anticipated jet fuel purchase (based on the Corporation's weighted average price). As the Corporation's current policy does not take into account variables affecting fair value such as volatility and time value of money, a significant component of the change in fair value of outstanding fuel derivatives may be recorded as ineffective under the current policy.

Ineffectiveness is inherent in hedging diversified jet fuel purchases with derivative positions in crude oil and related commodities and in the differences between intrinsic values and fair market values of the derivative instruments, especially given the magnitude of volatility observed in oil market prices. As a result the Corporation is unable to predict the amount of ineffectiveness for each period. This may result, and has resulted, in increased volatility in the accounting results of the Corporation, but has no impact on the underlying cash flows.

If the hedge ceases to qualify for hedge accounting, any period change in fair value of the fuel derivative instrument is recorded in non-operating income (expense). For those fuel derivatives that do not qualify for hedge accounting, the period changes in fair value of the fuel derivative is recorded in non-operating income (expense).

During the third quarter of 2007, hedge accounting was discontinued for certain fuel hedge contracts where the hedging relationship ceased to satisfy the conditions for hedge accounting. The value of the AOCI balance recognized in connection with these derivatives will be taken into fuel expense upon the maturity of the contracts. During the quarter this amounted to an increase in fuel expense of $4. The Corporation still continues to hold these derivatives as it believes they continue to be good economic hedges in managing its exposure to jet fuel prices.

The following table provides the changes in fair value of derivatives designated under hedge accounting before the impact of tax during the nine month period ended September 30, 2007:

Increase (decrease)	Fair value of outstanding fuel derivatives	OCI / AOCI	Fuel expense	Non-operating income	Retained earnings	Cash on settlement	Fair value of dedesignated derivatives
January 1, 2007	$ (18)	$ (26)	$ -	$ -	$ 8	$ -	$ -
Unrealized period change in fair value	39	9	-	30	-	-	-
Realized period change on maturing contracts	14	8	8	-	-	(14)	-
March 31, 2007	**$ 35**	**$ (9)**	**$ 8**	**$ 30**	**$ 8**	**$ (14)**	**$ -**
Unrealized period change in fair value	6	13	-	(7)	-	-	-
Realized period change on maturing contracts	(5)	3	(3)	(7)	-	4	-
June 30, 2007	**$ 36**	**$ 7**	**$ 5**	**$ 16**	**$ 8**	**$ (10)**	**$ -**
Unrealized period change in fair value	6	15	-	(9)	-	-	-
Realized period change on maturing contracts	(9)	(4)	(8)	(3)	-	10	-
Dedesignation of fuel hedge contracts	(10)	-	-	-	-	-	10
September 30, 2007	**$ 23**	**$ 18**	**$ (3)**	**$ 4**	**$ 8**	**$ -**	**$ 10**

In summary from the table above:

- The fair value of outstanding fuel derivatives under hedge accounting at September 30, 2007 was $23
- The benefit to Fuel expense, as a result of fuel hedge accounting, for the third quarter of 2007 was $8 ($3 for the nine months ended September 30, 2007)
- The Non-operating income (loss) was ($12) for the third quarter of 2007 ($4 for the nine months ended September 30, 2007). The amount in Non-operating income (loss) represents the ineffective portion of the fair value change in items under hedge accounting.

OCI amounts for the three months ended September 30, 2007 are presented net of tax expense of $3 in the Consolidated Statement of Comprehensive Income ($12 for the nine months ended September 30, 2007).

Foreign Exchange Risk Management

The Corporation enters into certain foreign exchange forward contracts or currency swaps to manage the risks associated with foreign currency exchange rates. As at September 30, 2007, the Corporation had entered into foreign currency forward contracts and option agreements on US$2.3 billion of future purchases in 2007, 2008, and 2009. The fair value of these foreign currency contracts as at September 30, 2007 is $159 in favour of the counterparties (December 31, 2006 - $25 in favour of the Corporation on $503 of future purchases in 2007). These derivative instruments have not been designated as hedges for accounting purposes. The unrealized loss has been recorded in foreign exchange.

During the first quarter of 2007, currency swaps for five CRJ leases with third parties were settled at their fair value of $10 (which was equal to carrying value) upon the expiry of the lease term.

Asset-Backed Commercial Paper ("ABCP")

The Corporation has $37 ($32 net of a fair value adjustment) in non-bank sponsored ABCP which has been recorded in Deposits and other assets. These investments, which were scheduled to mature during the third quarter 2007, were previously recorded in Cash and cash-equivalents and the transfer to Deposits and other assets is reflected as an investing activity on the Consolidated Statement of Cash Flows. The restructuring deadline for the ABCP has been extended to December 2007. There is uncertainty as to when these investments will settle and the amount of the settlement.

During the third quarter 2007, the Corporation has recorded a charge of $5 ($3 after tax) in non-operating income (expense). The charge is based on a number of assumptions as to the fair value of the investments including factors such as estimated cash flow scenarios and risk adjusted discount rates. The assumptions used in estimating the fair value of the investments are subject to change, which may result in further adjustments to non-operating results in the future.

7. SEGMENT INFORMATION

A reconciliation of the total amounts reported by each business segment and geographic region to the applicable amounts in the consolidated statements follows:

	Three Months Ended September 30, 2007*				Three Months Ended September 30, 2006			
	Air Canada Segment	Jazz	Elimination	Consolidated Total	Air Canada Segment	Jazz	Elimination	Consolidated Total
Passenger revenue	$ 2,660	$ -	$ -	$ 2,660	$ 2,552	$ -	$ -	$ 2,552
Cargo revenue	132	-	-	$132	158	-	-	158
Other revenue	162	-	-	162	126	1	-	127
External revenue	2,954	-	-	2,954	2,836	1	-	2,837
Inter-segment revenue	-	-	-	-	25	368	(393)	-
	2,954	**-**	**-**	**2,954**	**2,861**	**369**	**(393)**	**2,837**
Special charge for Aeroplan miles	-	-	-	-	(102)	-	-	(102)
Total revenues	**2,954**	**-**	**-**	**2,954**	**2,759**	**369**	**(393)**	**2,735**
Wages, salaries and benefits	478	-	-	478	461	78	-	539
Aircraft fuel	716	-	-	716	761	86	(85)	762
Aircraft rent	66	-	-	66	80	35	(8)	107
Airport and navigation fees	284	-	-	284	275	49	(49)	275
Aircraft maintenance, materials and supplies	155	-	-	155	167	26	(1)	192
Communications and information technology	70	-	-	70	67	2	(1)	68
Food, beverages and supplies	88	-	-	88	91	4	(1)	94
Depreciation of property and equipment	132	-	-	132	110	5	-	115
Amortization of intangible assets	12	-	-	12	14	-	-	14
Obsolescence provisions	-	-	-	-	1	-	-	1
Commissions	54	-	-	54	61	-	-	61
Capacity purchase with Jazz	234	-	-	234	226	-	(226)	-
Other operating expenses	314	-	-	314	315	45	(22)	338
Total operating expenses	**2,603**	**-**	**-**	**2,603**	**2,629**	**330**	**(393)**	**2,566**
Operating income	**351**	**-**	**-**	**351**	**130**	**39**	**-**	**169**
Interest income	21	-	-	21	21	2	1	24
Interest expense	(82)	-	-	(82)	(78)	(2)	(1)	(81)
Interest capitalized	24	-	-	24	17	-	1	18
Gain on sale of assets	(2)	-	-	(2)	1	-	-	1
Gain (loss) on financial instruments recorded at fair value	(4)	-	-	(4)	(16)	-	-	(16)
Other non-operating income (expense)	(2)	-	-	(2)	2	-	(1)	1
Non-controlling interest	-	-	-	-	(1)	-	(40)	(41)
Foreign exchange gain	104	-	-	104	(3)	-	1	(2)
Provision for income taxes	(137)	-	-	(137)	(29)	-	-	(29)
	(78)	-	-	(78)	(86)	-	(39)	(125)
Segment income	**$ 273**	**$ -**	**$ -**	**$ 273**	**$ 44**	**$ 39**	**$ (39)**	**$ 44**

** Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

	Nine Months Ended September 30, 2007*				Nine Months Ended September 30, 2006			
	Air Canada Segment	Jazz	Elimination	Consolidated Total	Air Canada Segment	Jazz	Elimination	Consolidated Total
Passenger revenue	$ 7,133	$ -	$ -	$ 7,133	$ 6,816	$ -	$ -	$ 6,816
Cargo revenue	408	-	-	408	463	-	-	463
Other revenue	542	3	-	545	488	5	-	493
External revenue	8,083	3	-	8,086	7,767	5	-	7,772
Inter-segment revenue	50	610	(660)	-	76	1,024	(1,100)	-
	8,133	**613**	**(660)**	**8,086**	**7,843**	**1,029**	**(1,100)**	**7,772**
Special charge for Aeroplan miles	-	-	-	-	(102)	-	-	(102)
Total revenues	**8,133**	**613**	**(660)**	**8,086**	**7,741**	**1,029**	**(1,100)**	**7,670**
Wages, salaries and benefits	1,452	139	-	1,591	1,373	229	-	1,602
Aircraft fuel	1,937	125	(124)	1,938	1,961	216	(215)	1,962
Aircraft rent	220	57	(16)	261	258	100	(24)	334
Airport and navigation fees	784	80	(81)	783	750	132	(132)	750
Aircraft maintenance, materials and supplies	584	50	(8)	626	563	71	(7)	627
Communications and information technology	208	2	-	210	205	6	(2)	209
Food, beverages and supplies	246	6	-	252	246	11	(2)	255
Depreciation of property and equipment	376	9	-	385	316	16	-	332
Amortization of intangible assets	31	-	-	31	40	-	-	40
Obsolescence provisions	1	-	-	1	2	-	-	2
Commissions	164	-	-	164	188	-	-	188
Capacity purchase with Jazz	696	-	(386)	310	647	-	(647)	-
Special charge for labour restructuring	-	-	-	-	28	-	-	28
Other operating expenses	1,073	83	(45)	1,111	1,045	137	(71)	1,111
Total operating expenses	**7,772**	**551**	**(660)**	**7,663**	**7,622**	**918**	**(1,100)**	**7,440**
Operating income	**361**	**62**	**-**	**423**	**119**	**111**	**-**	**230**
Interest income	70	2	-	72	58	4	-	62
Interest expense	(259)	(3)	-	(262)	(225)	(6)	-	(231)
Interest capitalized	88	-	-	88	40	(1)	1	40
Gain on sale of assets	19	-	-	19	4	-	-	4
Gain (loss) on financial instruments recorded at fair value	24	-	-	24	(19)	-	-	(19)
Other non-operating income (expense)	(12)	1	-	(11)	3	-	(1)	2
Non-controlling interest	(6)	-	(62)	(68)	(9)	-	(108)	(117)
Foreign exchange gain	297	-	-	297	119	-	-	119
Provision for income taxes	(188)	-	-	(188)	(20)	-	-	(20)
	33	-	(62)	(29)	(49)	(3)	(108)	(160)
Segment income	**$ 394**	**$ 62**	**$ (62)**	**$ 394**	**$ 70**	**$ 108**	**$ (108)**	**$ 70**

* *Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

Geographic Information

Passenger revenues	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Canada	$ 1,139	$ 1,040	$ 2,998	$ 2,780
US Transborder	470	455	1,428	1,393
Atlantic	597	613	1,432	1,422
Pacific	310	308	758	728
Other	144	136	517	493
	$ 2,660	**$ 2,552**	**$ 7,133**	**$ 6,816**

Cargo revenues	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Canada	$ 28	$ 33	$ 80	$ 90
US Transborder	6	6	19	21
Atlantic	51	55	158	162
Pacific	38	55	122	160
Other	9	9	29	30
	$ 132	**$ 158**	**$ 408**	**$ 463**

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin or destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origin or destinations principally in Europe. Pacific refers to flights that cross the Pacific Ocean with origin or destinations principally in Asia. Other revenues are principally derived from services provided to customers located in Canada.

Segment Asset Information

	December 31 2006			
	Air Canada Segment	**Jazz**	**Elimination**	**Consolidated Total**
Cash and cash equivalents	$ 1,312	$ 135	$ -	$ 1,447
Short-term investments	798	-	-	798
	$ 2,110	**$ 135**	**$ -**	**$ 2,245**
Total assets	**$ 11,388**	**$ 483**	**$ (122)**	**$ 11,749**

The Corporation is a domestic and international carrier and for the purposes of segment reporting, flight equipment is attributed to Canada. As a result, substantially all of the Corporation's property and equipment are related to operations in Canada.

The Air Canada segment is comprised of the passenger and cargo transportation services business operated by the Corporation and related ancillary services.

The Jazz segment included up to May 24, 2007 is operating under the capacity purchase agreement ("Jazz CPA") with the Corporation.

The accounting policies for these two segments are as described in Note 2 of the 2006 annual combined consolidated financial statements of the Corporation. In addition, Jazz recognizes its revenue under the Jazz CPA as the services are provided to the Air Canada Services segment.

Pass-through costs, which are non-marked-up costs charged to the Corporation from Jazz include fuel, airport and user fees and other; these expenses are recorded in the applicable category within the operating expenses in the results of Air Canada Services.

Also refer to Note 8 *Related Party Transactions*.

8. RELATED PARTY TRANSACTIONS

As at September 30, 2007 ACE has a 75% ownership interest in the Corporation. The Corporation has various related party transactions with ACE and other ACE related entities, including Aeroplan LP ("Aeroplan"), Jazz, and ACTS LP ("ACTS"). Also refer to note 12 for a summary of transactions arising upon ACE's sale of ACTS during the fourth quarter of 2007.

Related party trade balances arise from the provision of services, as outlined in the table below, the allocation of employee related costs, and centralized cash management activities as described below.

The related party balances resulting from the application of the commercial and contractual practices were as follows:

	September 30, 2007*	December 31, 2006
Accounts receivable		
ACE	$ 4	$-
Aeroplan	35	6
ACTS	124	97
Jazz	92	-
	$ 255	**$ 103**
Accounts payable and accrued liabilities		
ACE	$ -	$12
ACTS	80	111
Jazz	70	-
	$ 150	**$ 123**

* *Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1).*

Revenues and expenses with related parties are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2007*	2006	2007*	2006
Revenues				
Revenues from Aeroplan related to Aeroplan rewards	$ 117	$ 114	$ 305	$ 274
Revenues offset from purchase of Aeroplan miles	(56)	(57)	(182)	(181)
Property rental revenues from related parties	12	12	35	37
Revenues from information technology services to related parties	7	6	21	19
Revenues from corporate services and other	10	5	22	12
Aircraft sublease revenues from Jazz	7	-	8	-
Air Canada Ground Handling revenues from related parties	13	-	17	-
Cargo revenues from related parties	2	1	3	3
	$ 112	**$ 81**	**$ 229**	**$ 164**
Expenses				
Maintenance expense for services from ACTS	$129	$136	$504	$456
Expense from CPA with Jazz	234	-	310	-
Pass through fuel expense from Jazz	84	-	113	-
Pass through airport expense from Jazz	54	-	71	-
Pass through other expense from Jazz	5	-	7	-
Call centre management and marketing fees for services from Aeroplan	2	2	7	7
Other expenses	2	7	2	29
Recovery of wages, salary and benefit expense for employees assigned to related parties	(93)	(100)	(315)	(307)
	$ 417	**$ 45**	**$ 699**	**$ 185**
Net interest expense (income) from related parties	**$ (1)**	**$ 1**	**$ (1)**	**$ 5**

* *Effective May 24, 2007, the results and financial position of Jazz are not consolidated within Air Canada (Note 1). The related party transactions above with Jazz are for the period from May 24, 2007.*

In addition to the above revenues and expenses with Jazz, the Corporation transfers fuel inventory and sub leases certain aircraft to Jazz on a flow through basis, which are reported net on the statement of operations.

During 2006, as described in Note 1 under Excluded Inter-company Investments, the Corporation received cash from ACE of $400 and a note receivable of $83 from ACE for the investments in Jazz and during the fourth quarter of 2006 the Corporation received cash of $673 for the investments in ACTS and $83 related to the settlement of the note receivable.

Related Party Agreements

A summary of significant related party agreements is provided in Note 18 to the 2006 annual combined consolidated financial statements of the Corporation. The following describes the significant terms of related party agreements with Jazz.

The Relationship between the Corporation and Jazz

The Corporation has no ownership interest in Jazz. Jazz is consolidated in these consolidated financial statements under AcG-15 up to May 24, 2007 (refer to Note 1). The Corporation and Jazz negotiate transactions between each other as if they were unrelated parties on an arm's length basis. The deconsolidation of Jazz does not impact any of the contractual arrangements between Air Canada and Jazz.

Jazz CPA

Under the Jazz CPA, the Corporation pays Jazz fees based on a variety of metrics and an estimate of various costs and expenses (marked-up by a specified percentage) to be incurred and paid by Jazz for the applicable period for flights operated by Jazz pursuant to the Jazz CPA and other services to aircraft. The fees include both a variable component that is dependent on Jazz aircraft utilization and a fixed component. The Corporation also reimburses Jazz for pass-through costs specified in the Jazz CPA. These pass-through costs, which are not marked-up, include fuel, airport and navigation fees.

Jazz MSA

The Corporation and Jazz are parties to the Jazz MSA pursuant to which the Corporation provides certain services to Jazz in return for a fee based on the fair market value of the services provided by the Corporation to Jazz. Pursuant to the Jazz MSA, the Corporation provides Jazz with infrastructure support consisting principally of administrative services in relation with information technology, corporate real estate, environmental affairs and legal services. Jazz benefits from the information technology available to the Corporation from third parties and from the Corporation's internal information technology resources.

The Corporation and Jazz may elect to terminate any services under the Jazz MSA (without terminating the whole Jazz MSA) or the entire Jazz MSA upon one year's prior written notice. The Jazz MSA shall terminate upon the termination of the Jazz CPA.

Jazz Trademark Agreements

Pursuant to the Jazz Trademark License Agreement, the Corporation has granted Jazz a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks owned or registered by the Corporation around the world including Jazz and those which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the Jazz business. The Jazz Trademark License Agreement can be terminated in the event that the Jazz CPA is terminated. However, the Corporation and Jazz have also entered into a Jazz Special Trademark Agreement which would grant all of the Corporation's rights to the Jazz trademark to Jazz (and preclude the Corporation from using the Jazz trademark or licensing the Jazz trademark to third parties) upon the occurrence of certain events involving (i) the expiration or termination of the Jazz CPA if, at such time, Jazz is no longer an affiliate of the Corporation; (ii) the occurrence of a change of control pursuant to which Jazz ceases to be an affiliate of the Corporation if, at or prior to such time, the Jazz CPA has expired or has been terminated; or (iii) the sale or transfer of all or substantially all of the assets or business of Jazz to a third party that is not an affiliate of the Corporation if, at or prior to such time, the Jazz CPA has expired or has been terminated.

9. COMMITMENTS

During the second quarter of 2007, the Corporation amended agreements with Boeing to cancel orders for two Boeing 777 aircraft scheduled for delivery in 2009. In addition, the Corporation increased its order for Boeing 787 aircraft by 23, bringing its total firm orders to 37 Boeing 787 aircraft. Following the amendment, the Corporation has options to acquire an additional 23 Boeing 787 aircraft. The deliveries of the 37 Boeing 787 aircraft committed to by the Corporation are scheduled to be completed by 2014.

In conjunction with the amended agreements, the Corporation received additional financing commitments from Boeing for seven of the additional Boeing 787 aircraft (21 Boeing 787 aircraft in total) on the same terms and conditions as described in Note 15 – Commitments in the 2006 annual combined consolidated financial statements. Should the Corporation not utilize any of the financing commitments on the Boeing 777 aircraft, the financing commitments for the Boeing 787 aircraft will be increased to 31 aircraft of which the terms for 28 aircraft would be revised to cover 80% of the aircraft delivery price and the term to maturity would be reduced to 12 years with straight-line principal repayments over the term to maturity.

The timing of certain planned and committed capital expenditures has changed from that which was disclosed in the December 31, 2006 consolidated financial statements. Based on September 30, 2007 exchange rates and the changes identified above, the revised commitments by year are as follows:

Remainder of year 2007	$ 430
2008	1,359
2009	123
2010	853
2011	947
Thereafter	2,548
	$ 6,260

Final aircraft delivery prices include estimated escalation and deferred price delivery payment interest calculated based on the 90-day USD LIBOR rate at September 30, 2007.

10. SPECIAL CHARGE FOR AEROPLAN MILES

In 2001, Air Canada established Aeroplan Limited Partnership as a limited partnership wholly owned by Air Canada. The Aeroplan loyalty program was previously a division of Air Canada.

Under the Commercial Participation and Services Agreement (CPSA) between Air Canada and Aeroplan, Air Canada retained responsibility for the 103 billion Miles to be redeemed from accumulations up to December 31, 2001. Aeroplan assumed responsibility for all Miles issued beginning January 1, 2002. On December 31, 2001, there were 171 billion Miles outstanding of which, after considering breakage, management estimated that 103 billion Miles would be redeemed.

In 2006, with the assistance of independent actuaries, management of Air Canada and Aeroplan re-estimated the number of Miles expected to be redeemed from accumulations up to December 31, 2001. As a result, management of Air Canada and Aeroplan concluded that they expected that 112 billion Miles would be redeemed compared to the original estimate of 103 billion. Pursuant to the terms of the CPSA, dated June 9, 2004, as amended, the management of Air Canada and Aeroplan agreed to further amend the terms of the CPSA. Effective October 13, 2006, by amendment, Air Canada assumed responsibility for the redemption of up to 112 billion Miles and, as a result, recorded a special charge of $102 for the incremental 9 billion Miles against Operating revenues in the three months ended September 30, 2006 and increased Aeroplan deferred revenues. This amendment to the CPSA represented full and final settlement with Aeroplan of Air Canada's obligations for the redemption of pre-2002 Miles. Aeroplan is responsible for any redemption of Miles in excess of the re-estimated 112 billion Miles. The amount of the additional liability was determined by valuing the incremental Miles at fair value.

11. CONTINGENCIES

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including the Corporation. Competition authorities have sought or requested information from the Corporation as part of their investigations. The Corporation is cooperating with these investigations which are likely to lead to proceedings against the Corporation and a number of airlines and other cargo operators in certain jurisdictions. The Corporation is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations. It is not possible at this time to predict with any degree of certainty the outcome of these proceedings, but these proceedings may result in liability to the Corporation which may be material. It is the Corporation's policy to conduct its business in full compliance with all applicable competition laws.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against certain defendants including Porter Airlines Inc. after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport. On October 26, 2007, the defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850 in damages. Air Canada views the defendants' counterclaim as frivolous and without merit.

12. SUBSEQUENT EVENTS

On October 16, 2007 ACE announced that it had completed the monetization of ACTS, its wholly owned maintenance, repair and overhaul subsidiary, pursuant to which ACTS sold substantially all its assets to a new ACTS entity established to purchase the assets ("New ACTS") with ACE retaining a 23% interest in the New ACTS.

On closing of the ACTS Monetization, the following transactions were recorded by Air Canada:

- Proceeds of $28 for the sale of a building to the New ACTS.
- Proceeds of $17 for the settlement of a related party receivable with ACTS.
- Proceeds of $20 pursuant to the Repair Schemes and Non-Compete Agreement described below
- The funding of a letter of credit in the amount of $102 related to the "Pension and Benefits Agreement" as described below.

The above transactions will be recorded by the Corporation during the fourth quarter of 2007.

The ACTS Maintenance Agreements, the ACTS Master Services Agreement, the ACTS Trademark License Agreement, and the General Services Agreements, all between Air Canada and ACTS and previously identified in Note 18 to the 2006 annual combined consolidated financial statements of the Corporation, and the Repair Schemes and Non-Compete Agreement described below were assigned from ACTS to the New ACTS upon closing of the ACTS Monetization.

Pension and Benefits Agreement

The Corporation, ACTS and the New ACTS entered into a Pension and Benefits Agreement effective as of October 16, 2007 ("Pension and Benefits Agreement"), relating to pension and benefits arrangements pertaining to non-unionized and unionized employees of Air Canada who were assigned to the New ACTS operation pursuant to general services agreements between Air Canada and ACTS for the assignment of unionized and non-unionized employees from Air Canada to ACTS (these agreements were assigned to the New ACTS upon closing of the ACTS Monetization). On October 16, 2007, non-unionized employees of Air Canada who were previously assigned to the ACTS operation became employees of the New ACTS. New defined benefit and defined contribution pension plans as well as other employee and retiree benefit arrangements (including health, life and disability) are to be established by the New ACTS (the "ACTS Benefit Arrangements"). Subject to regulatory approval where required and based upon valuations of the relevant pension and benefit arrangements of Air Canada (the "Air Canada Benefit Arrangements") as at October 16, 2007, the assets and obligations under the Air Canada Benefit Arrangements pertaining to the transferring non-unionized employees will be transferred to the New ACTS or the ACTS Benefit Arrangements, as applicable. Any solvency deficiency in the defined benefit pension plans as at October 16, 2007 related to transferring non-unionized employees will be funded by Air Canada through quarterly payments to the New ACTS until 2014. The accounting liability as at October 16, 2007 in respect of retiree and disability benefits related to transferring non-unionized employees will be funded by Air Canada through quarterly payments to the New ACTS until 2012.

In addition, the Pension and Benefits Agreement contemplates similar asset and liability transfer and compensation arrangements in respect of unionized employees, which arrangements would take effect at such future time as those unionized employees may be transferred from Air Canada to the New ACTS. However, the solvency deficiencies in respect of transferring unionized employees for which the future quarterly compensation payments would be made are determined as at October 16, 2007, subject to certain adjustments, and the discount rate used to compute the accounting liability for the unionized employees' retiree and disability benefits is fixed as at October 16, 2007. The compensation payments in respect of these solvency deficiencies and accounting liabilities would be made quarterly during the five years beginning after the unionized employees are transferred to the New ACTS, but only if such a transfer occurs. Until such future time as the unionized employees may be transferred to the New ACTS, the current service pension cost and the current service and interest costs for other employee benefits in respect of Air Canada employees providing services to the New ACTS are charged to the New ACTS.

The Pension and Benefits Agreement also required that Air Canada provide letters of credit to the New ACTS on October 16, 2007, to secure the above-described payment obligations in respect of the solvency deficiencies of the defined benefit pension plans and accounting liabilities for other retiree and disability benefit arrangements. The letters of credit total $102, subject to adjustment once the exact amounts of the relevant solvency deficiencies and accounting liabilities as at October 16, 2007 are determined by actuarial valuations. The face amounts of the letters of credit decrease as the related quarterly funding payments described above are made. The New ACTS may call the letters of credit in whole or in part, in the event of a default as defined in the Pension and Benefits Agreement.

<u>Non-Compete and Repair Schemes Transfer Agreement</u>

Generally described, repair schemes are processes and methods which may be used in the maintenance and repair of aircraft and related equipment. Effective October 16, 2007 the Corporation entered into a non-compete and repair schemes transfer agreement (the "Repair Schemes and Non-Compete Agreement"). The agreement provides for the sale from Air Canada to ACTS of an undivided joint ownership interest in repair schemes owned by Air Canada or approved under Air Canada's airworthiness engineering organization as well as the sale from ACTS to Air Canada of an undivided joint ownership interest in the repair schemes owned or developed by ACTS and applicable to airframe heavy maintenance services provided by ACTS to Air Canada under the parties' airframe heavy maintenance services agreement.

This agreement also restricts Air Canada's ability to own any equity interest in an entity (other than entities in which Air Canada may have then held interests), or to carry on a business activity, related to the following commercial maintenance, repair and overhaul services in the airline industry, namely, airframe heavy maintenance and paint services, engine and auxiliary power unit ("APU") overhaul maintenance services, and component maintenance services. The applicable non-compete periods are as follows:

- With respect to airframe heavy maintenance services and paint services, the non-compete period ends one year after the current heavy maintenance services agreement is terminated or expires (the current term of the heavy maintenance services agreement expires October 2011);
- With respect to engine and APU overhaul maintenance services, the non-compete period ends on September 30, 2015;
- With respect to component maintenance services, the non-compete period ends on September 30, 2016;

The non-compete agreement does not restrict Air Canada from holding interests in any entities in which it held interests at the time of concluding the agreement nor does it limit Air Canada's line maintenance activities which it continues to operate.

In consideration for entering into this agreement, Air Canada will receive $20 during the fourth quarter of 2007.

The Repair Schemes and Non-Compete Agreement was assigned to the New ACTS upon closing of the ACTS Monetization.

ACTS Trademark License Agreement

In addition to the above transactions, the ACTS Trademark License Agreement described above was amended on closing of the ACTS Monetization on October 16, 2007 to provide for the termination of the agreement on October 16, 2008.