AIR CANADA

First Quarter 2008
Interim Unaudited
Consolidated Financial Statements and Notes

May 8, 2008

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2008	2007*
Operating revenues			
Passenger		$ 2,311	$ 2,137
Cargo		124	141
Other		292	232
		2,727	2,510
Operating expenses			
Wages, salaries and benefits		481	582
Aircraft fuel		715	585
Aircraft rent		63	104
Airport and navigation fees		241	243
Aircraft maintenance, materials and supplies		203	249
Communications and information technology		73	71
Food, beverages and supplies		77	83
Depreciation and amortization	Note 6	171	133
Commissions		53	59
Capacity purchase with Jazz	Note 7 & 11	235	-
Other		427	443
		2,739	2,552
Operating loss before the under-noted item		**(12)**	**(42)**
Provision for cargo investigations	Note 9	(125)	-
Operating loss		**(137)**	**(42)**
Non-operating income (expense)			
Interest income		18	27
Interest expense		(81)	(93)
Interest capitalized		17	36
Gain (loss) on capital assets	Note 2	(36)	7
Gain (loss) on financial instruments recorded at fair value	Note 5	(23)	34
Other		(2)	(4)
		(107)	7
Loss before the following items		**(244)**	**(35)**
Non-controlling interest		(3)	(37)
Foreign exchange gain (loss)		(89)	33
Recovery of (provision for) income taxes			
Current		-	(6)
Future		48	11
Loss for the period		**$ (288)**	**$ (34)**
Loss per share			
Basic and Diluted		$ (2.88)	$ (0.34)

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

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

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		March 31 2008	December 31 2007
ASSETS			
Current			
Cash and cash equivalents		$ 781	$ 527
Short-term investments		613	712
		1,394	1,239
Restricted cash		55	124
Accounts receivable		835	750
Aircraft fuel inventory		72	98
Fuel derivatives	Note 5	135	68
Prepaid expenses and other current assets		153	199
Future income tax		12	-
		2,656	2,478
Property and equipment	Note 2	7,737	7,919
Deferred charges		51	51
Intangible assets		954	952
Deposits and other assets		463	437
		$ 11,861	**$ 11,837**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,149	$ 1,243
Advance ticket sales		1,437	1,245
Aeroplan miles obligation		55	55
Current portion of long-term debt and capital leases		424	413
		3,065	2,956
Long-term debt and capital leases		4,035	4,006
Future income taxes		88	88
Pension and other benefit liabilities		1,773	1,824
Other long-term liabilities		480	336
		9,441	9,210
Non-controlling interest		187	184
SHAREHOLDERS' EQUITY			
Share capital		274	274
Contributed surplus		1,792	1,791
Retained earnings		34	322
Accumulated other comprehensive income		133	56
		2,233	2,443
		$ 11,861	**$ 11,837**

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

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)	Three Months Ended March 31 2008	2007
Share capital		
Common shares	$ 274	$ 274
Total share capital	274	274
Contributed surplus		
Balance, beginning of period	1,791	1,693
Fair value of stock options issued to Corporation employees recognized as compensation expense	1	4
Total contributed surplus	1,792	1,697
Retained earnings (deficit)		
Balance, beginning of period	322	(107)
Net loss for the period	(288)	(34)
Retained earnings (deficit)	34	(141)
Accumulated other comprehensive income (loss)		
Balance, beginning of period	56	(26)
Other comprehensive income	77	14
Total accumulated other comprehensive income (loss)	133	(12)
Total retained earnings and accumulated other comprehensive income (loss)	167	(153)
Total shareholders' equity	**$ 2,233**	**$ 1,818**

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

Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2008	2007*
Comprehensive income (loss)			
Net loss for the period		$ (288)	$ (34)
Other comprehensive income, net of taxes:			
Net gains on fuel derivatives under hedge accounting (net of taxes of ($46), 2007 - ($3))	Note 5	100	6
Reclassification of net realized losses (gains) on fuel derivatives to income (net of taxes of $11, 2007 - nil)	Note 5	(23)	8
		77	14
Total comprehensive loss		**$ (211)**	**$ (20)**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

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

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2008	2007*
Cash flows from (used for)			
Operating			
Net loss for the period		$ (288)	$ (34)
Adjustments to reconcile to net cash from operations			
Depreciation and amortization		171	133
Loss (gain) on disposal of assets		36	(7)
Foreign exchange loss (gain)		80	(33)
Future income taxes		(48)	(11)
Excess of employee future benefit funding over expense		(51)	(69)
Decrease in Aeroplan miles obligation		(16)	(25)
Provision for cargo investigations	Note 9	125	-
Non-controlling interest		3	37
Changes in non-cash working capital balances		237	333
Other		(19)	(44)
		230	**280**
Financing			
Aircraft and facility related borrowings		187	112
Distributions paid to non-controlling interest		-	(33)
Reduction of long-term debt and capital leases		(322)	(78)
Other		-	(36)
		(135)	**(35)**
Investing			
Short-term investments		99	(127)
Additions to capital assets		(403)	(433)
Proceeds from sale of assets		27	44
Proceeds from sale-leaseback transactions	Note 2	411	-
Cash management with related parties		-	(13)
Other		25	13
		159	**(516)**
Increase (decrease) in cash and cash equivalents		**254**	**(271)**
Cash and cash equivalents, beginning of period		527	1,447
Cash and cash equivalents, end of period		**$ 781**	**$ 1,176**
Cash payments of interest		**$ 68**	**$ 56**
Cash payments of income tax		**$ -**	**$ -**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

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

Cash and cash equivalents exclude Short-term investments of $613 as at March 31, 2008 ($925 as at March 31, 2007)

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 2007 annual consolidated financial statements of the Corporation, with the exception of the changes in accounting policies described below in part B) Changes in Accounting Policies.

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 2007 annual 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.

Accounting for Jazz

Air Canada is party to a capacity purchase agreement with Jazz Air LP ("Jazz"), (the "Jazz CPA"). The Corporation does not hold any partnership units of Jazz. Due to the terms of the Jazz CPA, Jazz is deemed to be a variable interest entity. The Corporation was deemed to be the primary beneficiary of Jazz up until May 24, 2007. 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 reported to be reduced from 58.8% to 49.0%. This ownership interest was, as reported, further reduced to 20.1% on October 22, 2007 and to 9.5% on January 24, 2008. Jazz Air Income Fund holds all of the outstanding units of Jazz. The May 24, 2007 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 May 24, 2007 distribution date, the Corporation therefore no longer consolidates Jazz. Prospective from the date of deconsolidation, the Corporation has one reportable segment. Refer to Note 1 of the 2007 annual consolidated financial statements of the Corporation.

B) CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments – Presentation and Disclosure

Effective January 1, 2008 Air Canada adopted three new CICA accounting standards: section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Refer to Note 10 for the Corporation's Section 1535 disclosures.

Sections 3862 and 3863 replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements in certain areas, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Refer to Note 5 for the Corporation's financial instruments disclosures. Where the disclosure requirements of the new standards did not change from the previous standard and where there have been no significant updates from the disclosures in Note 17 of the 2007 annual consolidated financial statements of the Corporation, no additional disclosure has been provided.

Inventories

Effective January 1, 2008, the Corporation adopted CICA section 3031, *Inventories*, which replaced section 3030, *Inventories*. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Corporation's accounting policy for aircraft fuel inventory is consistent with measurement requirements in the new standard and as a result, no adjustment was recorded on transition; however, additional disclosures are required. The additional disclosure requirements will be applied as described below.

The main features of the new standard, which impact the Corporation, include:

- Measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of costs.
- Consistent use of either a first-in first-out or weighted average formula to measure the cost of other inventories. The Corporation uses a weighted average formula to measure cost.
- Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.
- Disclosure of the accounting polices used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses.

Future Accounting Standard Changes

In February 2008, the CICA issued section 3064, *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Corporation is in the process of evaluating the impact of this new standard for adoption on January 1, 2009.

2. FINANCING AND INVESTING ACTIVITIES

Boeing

Sale Lease-back

During the first quarter of 2008 the Corporation took delivery of four Boeing 777 aircraft. One aircraft was financed with guarantee support from the Export-Import Bank of the United States ("EXIM"), as outlined below. Three of the aircraft were financed under sale and leaseback transactions with proceeds of $411. The resulting gain on sale of $47 has been deferred and will be recognized in Aircraft rent expense over the term of the leases. The leases are accounted for as operating leases with 12 year terms, paid monthly. The operating lease commitments for these deliveries were included in Note 16 - Commitments in the 2007 annual consolidated financial statements of the Corporation.

Borrowings

The following table summarizes the Japanese Yen (JPY) denominated loan, secured by the delivered aircraft, that Air Canada drew during the three month period ended March 31, 2008 to finance the acquisition of one Boeing aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original JPY Loan Amount	Original CDN$ Loan Amount
Quarter 1 2008					
Boeing 777 - 200	1	1.03%	2020	10,387	$ 98

The following table summarizes the principal repayment requirements (in CDN$) of the Boeing aircraft financing obtained during the three month period ended March 31, 2008, based upon the foreign exchange rate as at March 31, 2008:

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Boeing aircraft financing	$ 6	$ 9	$ 9	$ 9	$ 9	$ 65	$ 107

Embraer

The following table summarizes the loans, secured by the delivered aircraft, that Air Canada drew during the three month period ended March 31, 2008 to finance the acquisition of Embraer aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 1 2008					
Embraer 190	3	4.97 - 6.39%	2020	$ 68	$ 67

The following table summarizes the principal repayment requirements (in CDN$) of the Embraer aircraft financing obtained during the three month period ended March 31, 2008, based upon the foreign exchange rate as at March 31, 2008:

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Embraer aircraft financing	$ 2	$ 3	$ 3	$ 4	$ 4	$ 53	$ 69

Disposals of and Provisions for Assets

During the first quarter of 2008:

- The Corporation recorded an impairment charge of $38 ($26 net of tax) on its fleet of B767-200 aircraft due to the revised retirement date of the aircraft.
- The Corporation sold an A319 aircraft for proceeds of $23 with a book value of $21, resulting in a gain on sale of $2 ($1 net of tax).

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) was recorded in the Air Canada segment for Quarter 1 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) was recorded in the Air Canada segment for Quarter 1 2007.

Predelivery Financing

During the first quarter of 2008, the Corporation drew an additional amount of $26 and made repayments of $238 on the predelivery financing as described in Note 8 to the 2007 annual consolidated financial statements of the Corporation.

3. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS EXPENSE

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

	Three Months Ended March 31	
	2008	**2007***
Pension benefit expense	$ 17	$ 38
Other employee future benefit expense	26	30
	43	**68**
Amount charged to related parties	(9)	(10)
Net pension benefit and other employee future benefits expense	**$ 34**	**$ 58**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

4. LABOUR RELATED PROVISIONS

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities (current portion included in Accounts payable and accrued liabilities):

	Three Months Ended March 31	
	2008	**2007***
Beginning of period	$ 66	$ 106
Interest accretion	1	1
Charges recorded in wages, salaries, and benefits	-	2
Amounts disbursed	(9)	(14)
End of period	58	95
Current portion	(26)	(48)
	$ 32	**$ 47**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

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

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As described in Note 1, the Corporation adopted CICA Section 3862 and 3863 effective January 1, 2008. These new standards enhance disclosure with respect to financial instruments.

Summary of Financial Instruments

	Carrying Amounts				
	March 31, 2008				December 31, 2007
	Financial instruments classified as held for trading	Financial instruments classified as held to maturity	Loans and receivables	Financial liabilities at amortized cost	
Financial assets					
Cash & cash equivalents	$ 781	$ -	$ -	$ -	$ 527
Restricted cash	55				124
Short-term investments	613	-	-	-	712
Accounts receivable	-	-	835	-	750
Deposits and other assets					
Restricted cash	75	-	-	-	84
Asset backed commercial paper	29	-	-	-	29
Aircraft related and other deposits	-	326	-	-	307
Derivative instruments					
Fuel derivatives	156	-	-	-	77
Cross-currency interest rate swaps	6	-	-	-	-
Interest rate swaps	12	-	-	-	7
	$ 1,727	**$ 326**	**$ 835**	**$ -**	**$ 2,617**
Financial Liabilities					
Accounts Payable	$ -	$ -	$ -	$ 1,127	$ 1,119
Current portion of long-term debt and capital leases	-	-	-	424	413
Long-term debt and capital leases	-	-	-	4,035	4,006
Derivative instruments					
Foreign exchange derivatives	22	-	-	-	124
Interest rate swaps	-	-	-	-	2
	$ 22	**$ -**	**$ -**	**$ 5,586**	**$ 5,664**

There have been no changes in classification of financial instruments since December 31, 2007.

For cash flow purposes, the Corporation may settle, from time to time, certain short-term investments prior to their original maturity. For this reason, these financial instruments do not meet the criteria of held to maturity and are therefore designated as held for trading. They are recorded at fair value with changes in fair value recorded in interest income.

Collateral held in leasing arrangements

The Corporation holds security deposits with a carrying value of $9, which approximates fair value, as security for certain aircraft leased and sub-leased to third parties. Of these deposits, $5 has been assigned as collateral to secure the Corporation's obligations to the lessors of the aircraft. Any collateral held by the Corporation is returned to the lessee or sub-lessee, as the case may be at the end of the lease or sub-lease term provided there have been no events of default under the leases or sub-leases.

Summary of Gains and Losses on Financial Instruments Recorded at Fair Value

	Three Months Ended March 31	
	2008	2007
Ineffective portion of fuel hedges	$ (38)	$ 30
Fuel derivatives not under hedge accounting	6	2
Interest rate swaps	3	2
Cross currency interest rate swaps	6	-
Gain (loss) on financial instruments recorded at fair value	**$ (23)**	**$ 34**

Risk Management

The Corporation is exposed to the following risks as a result of holding financial instruments: interest rate risk, foreign exchange risk, liquidity risk, market risk, and fuel price risk. The following is a description of these risks and how they are managed.

Interest Rate Risk

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

The Corporation enters into both fixed and floating rate debt and also leases certain assets where the rental amount fluctuates based on changes in short term interest rates. The Corporation manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Corporation. The temporary investment portfolio which earns a floating rate of return is an economic hedge for a portion of the floating rate debt.

The ratio of fixed to floating rate debt outstanding is designed to maintain flexibility in the Corporation's capital structure and is based upon a long term objective of 60% fixed and 40% floating. The current ratio is 66% fixed and 34% floating, including the effects of interest rate swap positions.

The following are the current derivatives employed in interest rate risk management activities and the adjustments recorded during the first quarter of 2008:

- The Corporation's one remaining Embraer 190 aircraft interest rate swap contract matured, with a fair value of $2 in favour of the counterparty. No gain or loss was recorded during the period.

- The Corporation recorded a gain of $5 on its interest rate swaps related to two B767 aircraft. These interest rate swaps convert the lease payments on the two aircraft leases from fixed to floating rates.

- The Corporation entered into two cross-currency interest rate swap agreements with terms of March 2019 and May 2019, respectively, relating to Boeing 777 financing with an aggregate notional value of $202 (US$197). These swaps convert US denominated debt principal and interest payments into Canadian denominated debt at a foreign exchange rate of par (US$1/CAD$1) and convert from a fixed rate of 5.208% to a floating rate. These derivative instruments have not been designated as hedges for accounting purposes and are fair valued on a quarterly basis. As at March 31, 2008, the fair value of these contracts was $6 in favour of the Corporation.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The majority of the Corporation's outstanding debt is denominated in US dollars. The US dollar debt acts as an economic hedge against the related aircraft, which is routinely purchased and sold by Air Canada in US dollars.

The Corporation is also exposed to foreign exchange risk on foreign currency denominated trade receivables and foreign currency denominated net cash flows.

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation enters into certain foreign exchange forward contracts or currency swaps to manage the risks associated with foreign currency exchange rates. As at March 31, 2008, the Corporation had entered into foreign currency forward contracts and option agreements converting US dollars and Euros into Canadian dollars on $1,632 (US$1,588) and $24 (EUR 15) which mature in 2008 and 2009. The fair value of these foreign currency contracts as at March 31, 2008 is $22 in favour of third parties (December 31, 2007 - $124 in favour of third parties on $2,132 (US $2,158) and $26 (EUR 18) which mature in 2008 and 2009). During the first quarter of 2008, a gain of $79 was recorded in foreign exchange gain (loss) related to these derivatives. These derivative instruments have not been designated as hedges for accounting purposes.

The cross-currency swap as described above under interest rate risk management acts as an economic hedge of the foreign exchange risk on the financing related to two Boeing 777 aircraft with a principal amount of $202 (US$197) as at March 31, 2008.

The Corporation had also entered into currency swap agreements for 11 CRJ aircraft. These agreements matured in January 2008 with a nominal fair value. No gain or loss was recorded during the period.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The long-term debt issued by the Corporation generally has fixed principal and interest repayment requirements over the term of the instrument.

The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts, maintaining flexibility in financing arrangements and having available its $400 revolving credit facility. Refer to the Maturity Analysis below for additional information.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk, which includes commodity price risk. Refer to the asset-backed commercial paper section below for information regarding these instruments held by the Corporation and the associated market risks.

The Corporation is exposed to market risks through the derivative instruments entered into. The Corporation uses derivative instruments only for risk management purposes and not for generating trading profit. As such, any change in cash flows associated with derivative instruments due to their exposure to market risks is designed to be offset by changes in cash flows related to the risk being hedged.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by the Corporation. The sensitivity analysis is based on a reasonably possible movement within the forecast period, being one year. These assumptions may not be representative of actual movements in these risks and should not be relied upon.

	Interest rate risk(1)	Foreign exchange rate risk		Other price risk (2)	
	Income	Income		Income	OCI, net
	1% change	5% increase	5% decrease	10% change	
Cash and cash equivalents	$ 8	$ -	$ -	$ -	$ -
Short-term investments	$ 6	$ -	$ -	$ -	$ -
Aircraft related deposits	$ -	$ (8)	$ 8	$ -	$ -
Long-term debt and capital leases	$ 16	$ 195	$ (195)	$ -	$ -
Foreign exchange derivatives	$ -	$ (131)	$ 87	$ -	$ -
Fuel derivatives	$ -	$ -	$ -	$ 90	$ 19
Interest rate swaps	$ 10	$ (10)	$ 10	$ -	$ -

(1) Changes in interest rates and other price risk will impact income favourably or unfavourably by approximately the same amount, based on current price levels and assumptions.

(2) Other price risk relates to the Corporation's fuel derivatives. The sensitivity analysis is based upon the assumption that hedge accounting is 100% effective for the period and that changes in the fair value for derivatives that mature within one year are recorded in income whereas derivatives maturing beyond one year are recorded in OCI.

Fuel Price Risk

The following information summarizes the financial statement impact of derivatives designated under fuel hedge accounting, before the impact of tax:

- The fair value of outstanding fuel derivatives under hedge accounting at March 31, 2008 was $147 in favour of the Corporation.

- The change in fair value of derivatives during the period was $112:

  - The unrealized effective change in the fair value of derivatives recorded in OCI during the first quarter of 2008 was $134 before tax expense of $42. The realized effective change in the fair value of derivatives recorded in OCI during the first quarter of 2008 was $12 before tax expense of $4. OCI amounts for the three months ended March 31, 2008 are presented net of this tax expense on Air Canada's Consolidated Statement of Comprehensive Income.

  - The ineffective change in the fair value of derivatives recorded in non-operating income (expense) for the first quarter of 2008 was $(38). The ineffective portion is calculated as the difference between the intrinsic value and fair market value of the derivatives as well as the difference between the Air Canada proxy derivative and the counterparty derivative. The increasing amount being recorded in non-operating income (expense) is due to the intrinsic value of the derivatives being higher than the fair market value caused by the rising market price of fuel in comparison to the exercise prices of Air Canada derivatives.

  - The depreciation of the Canadian dollar during the first quarter of 2008 resulted in a foreign exchange gain of $4 on USD denominated fuel derivative contracts, which was recorded in Foreign exchange gain (loss) on the Consolidated Statement of Operations.

- During the first quarter of 2008 hedge accounting was discontinued for certain fuel hedge contracts, with a fair value of $8, where the hedging relationship ceased to satisfy the conditions for hedge accounting. The fair value of the contracts that have not settled are now included in derivatives not under hedge accounting. 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 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 first quarter of 2008, fuel derivative contracts matured with fair values in favour of the Corporation for $32. This maturity amount includes $8 for dedesignated contracts.

- During the first quarter of 2008, the benefit to fuel expense was $34 before tax expenses of $11. This benefit was recognized through the removal of the amount from AOCI. Included in this amount is $7 related to de-designated contracts.

- During the first quarter of 2008, the net impact to AOCI was an increase of $112 before tax expense of $35. As at March 31, 2008, the balance in AOCI was $196 before tax. The estimated net amount of existing gain and losses reported in AOCI that is expected to be reclassified to net income (loss) during the following 12 months is $172 before tax.

The following information summarizes the financial statement impact of derivatives not designated under fuel hedge accounting, but held as economic hedges, before the impact of tax:

- During the first quarter of 2008, fuel derivative contracts matured in favour of the Corporation for $7.

- The fair value of outstanding fuel derivatives not under hedge accounting at March 31, 2008 was $9 in favour of the Corporation.

- The change in fair value of the derivative contracts for the period was $6 and was recorded in non-operating income (expense).

Asset-Backed Commercial Paper ("ABCP")

The Corporation has $37 ($29 net of a fair value adjustment) in non-bank sponsored ABCP which has been recorded in Deposits and other assets. These investments were scheduled to mature during the third quarter 2007. An agreement in principle to restructure the ABCP investments was approved by the Pan-Canadian Committee for Third Party Structured ABCP ("Committee") on December 23, 2007 and approved by vote, which occurred on April 25, 2008. The process is subject to a court hearing as to whether the plan is fair, which is expected in early May 2008. Under the terms of the restructuring, all of the ABCP would be exchanged for longer-term notes that will match the maturity of the underlying assets in the proposed structure. Air Canada is not accruing interest on these investments at this time.

The carrying value as at March 31, 2008 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. No adjustment to the carrying value was recorded during the first quarter of 2008.

Maturity Analysis

The following is a maturity analysis, based on contractual undiscounted cash flows, for selected financial liabilities. The analysis includes both the principal and interest component of the payment obligations on long-term debt and is based on interest rates and the applicable foreign exchange rate effective as at March 31, 2008.

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt obligations	$ 228	$ 293	$ 272	$ 278	$ 281	$ 2,155	$ 3,507
Debt consolidated under AcG-15	122	105	153	340	93	193	1,006
Capital lease obligations	204	152	147	142	184	588	1,417
Foreign exchange derivatives	22	-	-	-	-	-	22
	$ 576	**$ 550**	**$ 572**	**$ 760**	**$ 558**	**$ 2,936**	**$ 5,952**

6. SEGMENT INFORMATION

Effective May 24, 2007, as described in Note 1, Air Canada has one reportable segment. A reconciliation of the total amounts reported by each business segment and geographic region to the applicable amounts in the consolidated statements is as follows:

	Three Months Ended March 31				
	2008	2007*			
	Air Canada	Air Canada Segment	Jazz	Elimination	Consolidated Total
Passenger revenue	$ 2,311	$ 2,137	$ -	$ -	$ 2,137
Cargo revenue	124	141	-	-	141
Other revenue	292	230	2	-	232
External revenue	2,727	2,508	2	-	2,510
Inter-segment revenue	-	32	362	(394)	-
Total revenues	**2,727**	**2,540**	**364**	**(394)**	**2,510**
Wages, salaries and benefits	481	499	83	-	582
Aircraft fuel	715	585	71	(71)	585
Aircraft rent	63	79	35	(10)	104
Airport and navigation fees	241	243	47	(47)	243
Aircraft maintenance, materials and supplies	203	224	30	(5)	249
Communications and information technology	73	71	1	(1)	71
Food, beverages and supplies	77	80	4	(1)	83
Depreciation and amortization	171	128	5	-	133
Commissions	53	59	-	-	59
Capacity purchase with Jazz	235	230	-	(230)	-
Other	427	420	52	(29)	443
Total operating expenses	**2,739**	**2,618**	**328**	**(394)**	**2,552**
Operating loss before under-noted item	**(12)**	**(78)**	**36**	**-**	**(42)**
Provision for cargo investigations	(125)	-	-	-	-
Operating loss	**(137)**	**(78)**	**36**	**-**	**(42)**
Interest income	18	26	1	-	27
Interest expense	(81)	(91)	(2)	-	(93)
Interest capitalized	17	36	-	-	36
Gain (loss) on capital assets	(36)	7	-	-	7
Gain (loss) on financial instruments recorded at fair value	(23)	34	-	-	34
Other non-operating income (expense)	(2)	(4)	-	-	(4)
Non-controlling interest	(3)	(2)	-	(35)	(37)
Foreign exchange gain (loss)	(89)	33	-	-	33
Recovery of income taxes	48	5	-	-	5
	(151)	44	(1)	(35)	8
Segment income (loss)	**$ (288)**	**$ (34)**	**$ 35**	**$ (35)**	**$ (34)**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

Included within Depreciation and amortization is depreciation of property and equipment for the three months ended March 31, 2008 of $159 (2007 - $123). In 2007, this was broken down as Air Canada $118 and Jazz $5.

Geographic Information

Passenger revenues	Three Months Ended March 31 2008	2007*
Canada	$ 922	$ 848
US Transborder	530	489
Atlantic	370	358
Pacific	205	212
Other	284	230
	$ 2,311	**$ 2,137**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

Cargo revenues	Three Months Ended March 31 2008	2007*
Canada	$ 23	$ 26
US Transborder	5	7
Atlantic	58	57
Pacific	28	40
Other	10	11
	$ 124	**$ 141**

** Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1)*

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

Also refer to Note 7 *Related Party Transactions*.

7. RELATED PARTY TRANSACTIONS

At March 31, 2008, ACE has a 75% ownership interest in Air Canada. Air Canada has various related party transactions with ACE and other ACE-related entities, including Aeroplan Limited Partnership ("Aeroplan"), Jazz and ACTS Aero Technical Support & Services Inc. ("ACTS Aero"). During the quarter, ACE's ownership interest in Jazz was reduced to 9.5%. Refer to Note 11 – Capacity Purchase Agreement for a summary of transactions under the Jazz CPA. ACTS Aero conducts the business operated by ACTS LP ("ACTS") prior to the sale of ACTS announced by ACE and completed on October 16, 2007. Refer to Note 20 of the 2007 annual consolidated financial statements of the Corporation for additional information on ACTS Aero.

Related party trade balances, as outlined below, mainly arise from the provision of services, including the allocation of employee related costs, and centralized cash management activities as described below. Trade balances between the related parties have trade terms which generally require payment 30 days after receipt of invoice.

The related party balances resulting from the application of the related party agreements were as follows:

	March 31, 2008	December 31, 2007
Accounts receivable		
ACE	$ 4	$ 9
Aeroplan	43	20
ACTS / ACTS Aero	104	75
	$ 151	**$ 104**
Prepaid Maintenance		
ACTS Aero	$ 15	$ 24
	$ 15	**$ 24**
Accounts payable and accrued liabilities		
ACTS / ACTS Aero	$ 94	$ 88
	$ 94	**$ 88**

Revenues and expenses with related parties are summarized as follows:

	Three Months Ended March 31	
	2008	**2007**
Revenues		
Passenger revenues from Aeroplan related to Aeroplan rewards, net of purchase of Aeroplan miles	$ 40	$ 33
Property rental revenues from related parties	9	10
Revenues from information technology services to related parties	6	6
Revenues from corporate services and other	14	6
Cargo revenues from related parties	-	1
	$ 69	**$ 56**
Expenses		
Maintenance expense for services from ACTS / ACTS Aero	$ 140	$ 188
Other expenses	4	4
Recovery of wages, salary and benefit expense for employees assigned to related parties	(96)	(99)
	$ 48	**$ 93**

8. COMMITMENTS

Boeing 787

Boeing has notified Air Canada that its first Boeing 787 aircraft originally scheduled for delivery in February 2010 is now scheduled for delivery in 2012, with additional deliveries, originally scheduled for completion between 2010 and 2014, being delayed by approximately two to two and a half years. Air Canada's capital expenditure projections, including the predelivery payments, have been amended to reflect this delay.

Contractual Obligations

The table below provides Air Canada's current contractual obligations as at March 31, 2008 for the remainder of 2008 and for the next four years and after 2012.

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Operating lease obligations	$ 220	$ 290	$ 278	$ 214	$ 196	$ 624	$ 1,822
Committed capital expenditures	291	29	53	84	457	3,779	4,693
	$ 511	**$ 319**	**$ 331**	**$ 298**	**$ 653**	**$ 4,403**	**$ 6,515**

9. CONTINGENCIES

Investigations by Competition Authorities Relating to Cargo

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, a number of whom, including the Corporation, have received a statement of objections from the European Commission that sets out the European Commission's preliminary assessment in relation to such matter. Air Canada has provided its reply to the statement of objections. 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.

During the first quarter of 2008, the Corporation recorded a provision of $125 as a preliminary estimate. This estimate is based upon the current status of the investigations and proceedings and the Corporation's assessment as to the potential outcome for certain of them. This provision does not address the proceedings in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings. Additional material provisions may be required.

10. CAPITAL DISCLOSURES

The Corporation views capital as the sum of long-term debt, non-controlling interest, capitalized operating leases and shareholders' equity. The Corporation currently has predelivery financing arranged, and as the aircraft have not yet been delivered, this debt is excluded from the capital base. The Company includes capitalized operating leases, which is a measure commonly used in the industry ascribing a value to obligations under operating leases. The value is based on annualized aircraft rent expense multiplied by 7.5 as an estimate of the present value of operating lease obligations, which is a factor commonly used in the airline industry. The measure used may not necessarily reflect the fair value or net present value related to the future minimum lease payments as the measure is not based on the remaining contractual payments and the factor may not recognize discount rates implicit in the actual leases or current rates for similar obligations with similar terms and risks. This definition of capital is used by management and may not be comparable to measures presented by other public companies.

The Corporation also monitors its ratio of adjusted net debt to net debt plus shareholders' equity. Adjusted net debt is calculated as the sum of long-term debt, non-controlling interest and capitalized operating leases less cash, cash equivalents and short-term investments.

The Corporation's main objectives when managing capital are:

- to structure repayment obligations in line with the expected life of the Corporation's principal revenue generating assets;
- to ensure the Corporation has access to capital to fund the Corporation's fleet renewal and refurbishment program and to ensure adequate cash levels to withstand deteriorating economic conditions that may arise;
- to maintain an appropriate balance between debt supplied capital versus investor supplied capital as measured by the adjusted net debt to net debt plus equity ratio; and
- to maintain the Corporation's credit ratings to facilitate access to capital markets at competitive interest rates.

In order to maintain or adjust the capital structure, the Corporation may adjust the type of aircraft financing utilized, including purchase versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling current aircraft options, drawing upon the available revolving credit facility to meet liquidity requirements and issuing debt or equity securities, all subject to market conditions and the terms of the underlying third party agreements.

The total capital as at March 31, 2008 and December 31, 2007 is calculated as follows:

	March 31 2008	December 31 2007
Long-term debt and capital lease obligations	$ 4,035	$ 4,006
Current portion of long-term debt and capital lease obligations	424	413
	4,459	4,419
Non-controlling interest	187	184
Capitalized operating leases	1,995	2,115
Less Predelivery financing included in long-term debt	(324)	(521)
Adjusted debt and non-controlling interest	6,317	6,197
Shareholders' equity	2,233	2,443
Total Capital	**$ 8,550**	**$ 8,640**
Adjusted debt and non-controlling interest	6,317	6,197
Less cash, cash equivalents and short-term investments	(1,394)	(1,239)
Adjusted net debt and non-controlling interest	**$ 4,923**	**$ 4,958**
Adjusted net debt to adjusted net debt plus shareholders' equity ratio	**68.8%**	**67.0%**

There was no significant change in the amount of total capital or the ratio of adjusted net debt to net debt plus shareholders' equity during the period. The deterioration from December 31, 2007 in the ratio is attributable, in part, to the net loss recorded during the first quarter, 2008.

11. JAZZ CAPACITY PURCHASE AGREEMENT

Air Canada and Jazz are parties to the Jazz CPA pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates, in addition to reimbursing Jazz, without mark-up, for certain pass-through costs as defined in the Jazz CPA which include fuel, airport and user fees and other. The fees include both a variable component that is dependent on Jazz aircraft utilization and a fixed component and are recorded in the applicable category within the operating expenses in the results of Air Canada. Refer to Note 19 – Related Party Transactions in the 2007 annual consolidated financial statements of the Corporation for further details regarding the Jazz CPA. Up until May 24, 2007, the results of Jazz are consolidated within Air Canada (Note 1).

The following table outlines CPA and pass-through costs for the period:

	Three Months Ended March 31	
	2008	**2007**
Expenses from CPA with Jazz	$ 235	$ 230
Pass through fuel expense from Jazz	93	71
Pass through airport expense from Jazz	50	47
Pass through other expense from Jazz	15	13
Total Jazz CPA and pass through costs	**$ 393**	**$ 361**