AIR CANADA

Second Quarter 2008
Interim Unaudited
Consolidated Financial Statements and Notes

August 8, 2008

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended June 30 2008	Three Months Ended June 30 2007*	Six Months Ended June 30 2008	Six Months Ended June 30 2007*
Operating revenues					
Passenger		$ 2,454	$ 2,336	$ 4,765	$ 4,473
Cargo		139	135	263	276
Other		189	151	481	383
		2,782	2,622	5,509	5,132
Operating expenses					
Wages, salaries and benefits		480	531	961	1,113
Aircraft fuel		848	637	1,563	1,222
Aircraft rent		69	91	132	195
Airport and navigation fees		255	256	496	499
Aircraft maintenance, materials and supplies		172	222	375	471
Communications and information technology		72	69	145	140
Food, beverages and supplies		81	81	158	164
Depreciation and amortization	Note 6	173	140	344	273
Commissions		47	51	100	110
Capacity purchase with Jazz	Note 11	233	76	468	76
Other		345	354	772	797
		2,775	2,508	5,514	5,060
Operating income (loss) before under-noted item		**7**	**114**	**(5)**	**72**
Provision for cargo investigations	Note 9	-	-	(125)	-
Operating income (loss)		**7**	**114**	**(130)**	**72**
Non-operating income (expense)					
Interest income		15	24	33	51
Interest expense		(78)	(87)	(159)	(180)
Interest capitalized		8	28	25	64
Gain (loss) on disposal of assets	Note 2	7	14	(29)	21
Gain (loss) on financial instruments recorded at fair value	Note 5	176	(6)	153	28
Other		-	(5)	(2)	(9)
		128	(32)	21	(25)
Income (loss) before the following items		**135**	**82**	**(109)**	**47**
Non-controlling interest		(3)	(31)	(6)	(68)
Foreign exchange gain (loss)		48	160	(41)	193
Provision for income taxes					
Current		-	-	-	(6)
Future		(58)	(56)	(10)	(45)
Income (loss) for the period		**$ 122**	**$ 155**	**$ (166)**	**$ 121**
Income (loss) per share					
Basic and Diluted		$ 1.22	$ 1.55	$ (1.66)	$ 1.21

**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 interim consolidated financial statements.

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		**June 30 2008**	**December 31 2007**
ASSETS			
Current			
Cash and cash equivalents		$ 719	$ 527
Short-term investments		778	712
		1,497	1,239
Restricted cash		42	124
Accounts receivable		943	750
Aircraft fuel inventory		117	98
Fuel derivatives	Note 5	382	68
Prepaid expenses and other current assets		131	182
		3,112	2,461
Property and equipment	Note 2	7,496	7,919
Deferred charges		49	51
Intangible assets		962	952
Deposits and other assets		568	437
		$ 12,187	**$ 11,820**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,159	$ 1,226
Advance ticket sales		1,722	1,245
Aeroplan Miles obligation		55	55
Current portion of long-term debt and capital leases		396	413
		3,332	2,939
Long-term debt and capital leases		3,863	4,006
Future income taxes		88	88
Pension and other benefit liabilities		1,738	1,824
Other long-term liabilities		509	336
		9,530	9,193
Non-controlling interest		190	184
SHAREHOLDERS' EQUITY			
Share capital		274	274
Contributed surplus		1,793	1,791
Retained earnings		156	322
Accumulated other comprehensive income		244	56
		2,467	2,443
		$ 12,187	**$ 11,820**

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)	Six Months Ended June 30 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	2	6
Deconsolidation of Jazz	-	82
Total contributed surplus	1,793	1,781
Retained earnings		
Balance, beginning of period	322	(107)
Net income (loss) for the period	(166)	121
Total retained earnings	156	14
Accumulated other comprehensive income (loss)		
Balance, beginning of period	56	(26)
Other comprehensive income	188	24
Total accumulated other comprehensive income (loss)	244	(2)
Total retained earnings and accumulated other comprehensive income	400	12
Total shareholders' equity	**$ 2,467**	**$ 2,067**

**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 interim consolidated financial statements.

Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended June 30 2008	2007*	Six Months Ended June 30 2008	2007*
Comprehensive income					
Income (loss) for the period		$ 122	$ 155	$ (166)	$ 121
Other comprehensive income, net of taxes:					
Net gains on fuel derivatives under hedge accounting	Note 5	173	8	273	14
Reclassification of net realized (gains) losses on fuel derivatives to income	Note 5	(62)	2	(85)	10
		111	10	188	24
Total comprehensive income		**$ 233**	**$ 165**	**$ 22**	**$ 145**

**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 interim consolidated financial statements.

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended June 30 2008	Three Months Ended June 30 2007*	Six Months Ended June 30 2008	Six Months Ended June 30 2007*
Cash flows from (used for)					
Operating					
Income (loss) for the period		$ 122	$ 155	$ (166)	$ 121
Adjustments to reconcile to net cash from operations					
Depreciation and amortization		173	140	344	273
Loss (gain) on disposal of assets		(7)	(14)	29	(21)
Foreign exchange (gain) loss		(64)	(154)	1	(187)
Future income taxes		58	56	10	45
Excess of employee future benefit funding over expense		(31)	(69)	(82)	(138)
Decrease in Aeroplan miles obligation		(13)	(21)	(29)	(46)
Provision for cargo investigations	Note 9	-	-	125	-
Non-controlling interest		3	31	6	68
Changes in non-cash working capital balances		149	(18)	401	315
Financial instruments and other		(176)	34	(195)	(13)
		214	**140**	**444**	**417**
Financing					
Aircraft related borrowings		126	532	313	644
Distributions paid to non-controlling interest		-	(21)	-	(54)
Reduction of long-term debt and capital lease obligations		(319)	(89)	(641)	(167)
Reduction of non-controlling interest		-	-	-	(36)
		(193)	**422**	**(328)**	**387**
Investing					
Short-term investments		(165)	44	(66)	(83)
Additions to capital assets		(225)	(735)	(628)	(1,168)
Proceeds from sale of assets		-	1	27	45
Deconsolidation of Jazz cash		-	(138)	-	(138)
Proceeds from sale-leaseback transactions	Note 2	297	-	708	-
Cash management with related parties		-	(21)	-	(34)
Other		10	(18)	35	(2)
		(83)	**(867)**	**76**	**(1,380)**
Increase (decrease) in cash and cash equivalents		**(62)**	**(305)**	**192**	**(576)**
Cash and cash equivalents, beginning of period		781	1,176	527	1,447
Cash and cash equivalents, end of period		**$ 719**	**$ 871**	**$ 719**	**$ 871**
Cash payments of interest		$ 74	$ 64	$ 142	$ 120
Cash payments of income taxes		$ -	$ 3	$ -	$ 3

**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 interim consolidated financial statements.
Cash and cash equivalents exclude Short-term investments of $778 as at June 30, 2008 ($880 as at June 30, 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 (the "Jazz CPA") with Jazz Air LP ("Jazz"). 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, the Corporation 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.

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Corporation is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements.

2. FINANCING AND INVESTING ACTIVITIES

Revolving Credit Facility

Air Canada has a secured revolving credit facility of $400, as further described in Note 8 to the 2007 annual consolidated financial statements of the Corporation, which is not available to the Corporation until and unless the Corporation and the lenders conclude amendments satisfactory to each of them relating to a financial covenant and other business terms. Subsequent to June 30, 2008, the Corporation and the lenders have entered into an amending agreement pursuant to which the parties undertake to negotiate such further amendments to the facility and the Corporation agrees not to request any funding under the facility until such further amendments are agreed. The outcome of the negotiations remain uncertain such that there can be no assurance that amendments satisfactory to the parties will be concluded, that amounts under the facility will ever be available to the Corporation, that the Corporation will not decide to terminate the facility, or that a replacement facility will be concluded.

Sale-Leaseback

During the second quarter of 2008 the Corporation received delivery of three Boeing 777 aircraft. One aircraft was financed with guarantee support from the Export-Import Bank of the United States ("EXIM"), as outlined below. Two of the aircraft were financed under sale and leaseback transactions with proceeds of $297. The resulting gain on sale of $30 has been deferred and will be recognized as a reduction to Aircraft rent expense over the term of the leases. The leases are accounted for as operating leases with 12 year terms, paid monthly.

During the first quarter of 2008 the Corporation received delivery of four Boeing 777 aircraft. One aircraft was financed with guarantee support from 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 as a reduction to Aircraft rent expense over the term of the leases. The leases are accounted for as operating leases with 12 year terms, paid monthly.

Borrowings

<u>Boeing</u>

The following table summarizes the Japanese Yen (JPY) denominated loans, secured by the delivered aircraft, that Air Canada drew during the six month period ended June 30, 2008 to finance the acquisition of two Boeing aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original JPY Loan Amount	Original CDN$ Loan Amount
Quarter 2 2008					
Boeing 777 - 300	1	1.05%	2020	11,199	$ 106
Quarter 1 2008					
Boeing 777 - 200	1	1.03%	2020	10,387	$ 98

During the second quarter of 2008, financing fees of $3 were recorded for these borrowings ($4 recorded during the first quarter of 2008). These fees are capitalized for periods preceding the dates that the assets are available for service.

The following table summarizes the principal repayment requirements (in CDN$) of the Boeing aircraft financing obtained during the six month period ended June 30, 2008, based upon the foreign exchange rate as at June 30, 2008:

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Boeing aircraft financing	$ 9	$ 17	$ 17	$ 17	$ 17	$ 127	$ 204

Embraer

During the first quarter of 2008 the Corporation received delivery of three Embraer 190 aircraft. The following table summarizes the loans, secured by the delivered aircraft, that Air Canada drew during the six month period ended June 30, 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

During the first quarter of 2008, financing fees of $1 were recorded for these borrowings. These fees are capitalized for periods preceding the dates that the assets are available for service.

The following table summarizes the principal repayment requirements (in CDN$) of the Embraer aircraft financing obtained during the six month period ended June 30, 2008, based upon the foreign exchange rate as at June 30, 2008:

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Embraer aircraft financing	$ 2	$ 3	$ 3	$ 3	$ 4	$ 53	$ 68

Disposals of and Provisions for Assets

During the second quarter of 2008:

- There were no significant disposals or provisions during the quarter.

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 second quarter of 2007:

- A CRJ-100 aircraft owned by Air Canada and leased to Jazz was damaged beyond repair. Given estimated insurance proceeds, Air Canada recorded a gain on disposal of $14 in Quarter 2 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) 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 second quarter of 2008:

- The Corporation drew an additional amount of $13 and made repayments of $197 on the predelivery financing as described in Note 8 to the 2007 annual consolidated financial statements of the Corporation.

During the first quarter of 2008:

- The Corporation drew an additional amount of $26 and made repayments of $238 on the predelivery financing, which is described in Note 8 to the 2007 annual consolidated financial statements of the Corporation.

Commitments

Refer to Note 8 for a discussion of the Corporation's aircraft commitments.

3. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS EXPENSE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007*	2008	2007*
Pension benefit expense	$ 28	$ 37	$ 45	$ 75
Other employee future benefits expense	26	23	52	53
	54	**60**	**97**	**128**
Amount charged to ACTS Aero and Aeroplan	(11)	(10)	(20)	(20)
Net pension benefit and other employee future benefits expense	**$ 43**	**$ 50**	**$ 77**	**$ 108**

** 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 June 30		Six Months Ended June 30	
		2008	2007*	2008	2007*
Beginning of period		$ 58	$ 95	$ 66	$ 106
Interest accretion		1	2	2	3
Charges recorded in wages, salaries, and benefits		13	9	13	11
Amounts disbursed		(10)	(15)	(19)	(29)
Deconsolidation of Jazz	Note 1	-	(4)	-	(4)
End of period		62	87	62	87
Current portion		(25)	(45)	(25)	(45)
		$ 37	**$ 42**	**$ 37**	**$ 42**

** 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.

In response to record high fuel prices, on June 17, 2008, Air Canada announced a reduction in capacity which will impact fleet and staffing levels effective with the implementation of its fall and winter schedule. The expected reduction in flying will require fewer employees to operate the airline resulting in a decrease in staff levels of up to 2,000 positions across all levels of the organization. Air Canada recorded an expense of $8 in Wages, salaries and benefits expense related to the reduction of non-unionized employees under this plan in the second quarter of 2008. Costs related to the planned unionized staff reductions are not yet determinable.

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					
	June 30, 2008					December 31 2007
	Financial instruments classification					
	Held for trading	Held to maturity	Loans and receivables	Liabilities at amortized cost	Total	
Financial Assets						
Cash & cash equivalents	$ 719	$ -	$ -	$ -	$ 719	$ 527
Short-term investments	778	-	-	-	778	712
Restricted cash	42	-	-	-	42	124
Accounts receivable	-	-	943	-	943	750
Deposits and other assets						
Restricted cash	91	-	-	-	91	84
Asset backed commercial paper	29	-	-	-	29	29
Aircraft related and other deposits	-	321	-	-	321	307
Derivative instruments						
Fuel derivatives	37	-	-	-	37	10
Foreign exchange derivatives	1	-	-	-	1	-
Interest rate swaps	7	-	-	-	7	7
	$ 1,704	$ 321	$ 943	$ -	$ 2,968	$ 2,550
Financial Liabilities						
Accounts payable	$ -	$ -	$ -	$ 1,064	$ 1,064	$ 1,119
Current portion of long-term debt and capital leases	-	-	-	396	396	413
Long-term debt and capital leases	-	-	-	3,863	3,863	4,006
Derivative instruments						
Foreign exchange derivatives	-	-	-	-	-	124
Cross-currency interest rate swaps	13	-	-	-	13	-
Interest rate swaps	-	-	-	-	-	2
	$ 13	$ -	$ -	$ 5,323	$ 5,336	$ 5,664

(1) The fuel derivatives above relate to the current and long-term portion of fuel derivatives not designated under fuel hedge accounting. Fuel derivatives under hedge accounting have a fair value of $463 ($67 as at December 31, 2007) and are described further below.

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 $14, which approximates fair value, as security for certain aircraft leased and sub-leased to third parties. Of these deposits, $9 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 (Losses) on Financial Instruments Recorded at Fair Value

	Three Months Ended June 30		Six Months Ended June 30	
	2008	**2007**	**2008**	**2007**
Ineffective portion of fuel hedges	$ 115	$ (14)	$ 82	$ 16
Fuel derivatives not under hedge accounting	79	2	85	4
Cross currency interest rate swaps	(19)	-	(13)	-
Other	1	6	(1)	8
Gain (loss) on financial instruments recorded at fair value	**$ 176**	**$ (6)**	**$ 153**	**$ 28**

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 60% fixed and 40% 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 six months of 2008:

- The Corporation entered into three cross-currency interest rate swap agreements with terms of March 2019, May 2019, and June 2019 respectively, relating to Boeing 777 financing with an aggregate notional value of $294 (US$289) as at June 30, 2008. 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 June 30, 2008, the fair value of these contracts was $13 in favour of the counterparty. The Corporation recorded a loss of $19 during the three months ended June 30, 2008 ($13 loss for the six months ended June 30, 2008).

- 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.

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. As at June 30, 2008, the Corporation had entered into foreign currency forward contracts and option agreements converting US dollars and Euros into Canadian dollars on $1,993 (US$1,958) and $30 (EUR 19) which mature in 2008, 2009, and 2010. The fair value of these foreign currency contracts as at June 30, 2008 is $1 in favour of the Corporation (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 three months ended June 30, 2008, a gain of $4 was recorded in foreign exchange gain (loss) related to these derivatives ($83 for the six months ended June 30, 2008). 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 $294 (US$289) as at June 30, 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, monitoring the condition and value of assets available to be used as security in financing arrangements, and maintaining flexibility in financing arrangements.

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 (2)		Other price risk (3)		Other price risk (3)	
	Income	Income		Income	OCI, net	Income	OCI, net
	1% change	5% increase	5% decrease	10% decrease		10% increase	
Cash and cash equivalents	$ 6	$ -	$ -	$ -	$ -	$ -	$ -
Short-term investments	$ 8	$ -	$ -	$ -	$ -	$ -	$ -
Aircraft related deposits	$ -	$ (8)	$ 8	$ -	$ -	$ -	$ -
Long-term debt and capital leases	$ 14	$ 210	$ (210)	$ -	$ -	$ -	$ -
Foreign exchange derivatives	$ -	$ (135)	$ 139	$ -	$ -	$ -	$ -
Fuel derivatives	$ -	$ -	$ -	$ (117)	$ (44)	$ 123	$ 41
Cross-currency interest rate swaps	$ 15	$ (17)	$ 17	$ -	$ -	$ -	$ -

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

(2) Increase in foreign exchange relates to a strengthening of the Canadian dollar.

(3) Other price risk relates to the Corporation's fuel derivatives. The sensitivity analysis is based upon a 10% decrease or increase in the price of the underlying commodity. It also assumes 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

In order to manage its exposure to jet fuel prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. 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 long 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.

Fuel derivatives include both derivatives designated and not designated under fuel hedge accounting. The current portion of the derivative asset of $382 is included in Fuel derivatives and the long term portion of the derivative asset of $118 is included in Deposits and other assets on the Consolidated statement of financial position.

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 June 30, 2008 was $463 in favour of the Corporation.

- The change in fair value of derivatives during the second quarter of 2008 was $370 ($483 for the six months ended June 30, 2008):

    - The unrealized effective change in the fair value of derivatives recorded in Other comprehensive income ("OCI") during the second quarter of 2008 was $213 before tax expense of $68 ($347 before tax expense of $110 for the six months ended June 30, 2008). The realized effective change in the fair value of derivatives recorded in OCI during the second quarter of 2008 was $42 before tax expense of $14 ($54 before tax expense of $18 for the six months ended June 30, 2008). OCI amounts for the three and six months ended June 30, 2008 of $173 and $273, respectively, are presented net of tax expense on Air Canada's Consolidated Statement of Comprehensive Income.

- o The ineffective change in the fair value of derivatives recorded in non-operating income (expense) for the second quarter of 2008 was a gain of $115 ($82 for the six months ended June 30, 2008). The ineffective portion is calculated as the difference between the change in intrinsic value and change in fair market value of the derivatives as well as the difference between the Air Canada proxy derivative value and the counterparty derivative value. The gain in non-operating income (expense) is due to the change in fair market value of the derivatives being higher than the change in intrinsic value.

- 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. Certain of these contracts were redesignated under hedge accounting during the second quarter of 2008. 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 Accumulated other comprehensive income ("AOCI") balance recognized in connection with these derivatives will be taken into fuel expense upon the maturity of the contracts. No further dedesignations were required during the second quarter of 2008.

- During the second quarter of 2008, fuel derivative contracts matured with fair values in favour of the Corporation for $93.

- During the second quarter of 2008, the benefit to fuel expense was $92 before tax expenses of $30 ($126 for the six months ended June 30, 2008 before tax expenses of $41). This benefit was recognized through the removal of the amount from AOCI. The after tax amount of $62 is shown in Reclassification of net realized (gains) losses on fuel derivatives to income on the Consolidated statement of comprehensive income ($85 for the six months ended June 30, 2008).

- During the second quarter of 2008, the net impact to AOCI was an increase of $163 before tax expense of $52 ($275 before tax expense of $87 for the six months ended June 30, 2008). As at June 30, 2008, the balance in AOCI was $359 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 $308 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 second quarter of 2008, fuel derivative contracts matured in favour of the Corporation for $12 ($19 for the six months ended June 30, 2008).

- The fair value of outstanding fuel derivatives not under hedge accounting at June 30, 2008 was $37 in favour of the Corporation.

- The change in fair value of the derivative contracts for the period was a gain of $79 ($85 for the six months ended June 30, 2008) 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. 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 June 30, 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 adjustments to the carrying value were recorded during the first six months 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 June 30, 2008.

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt obligations	$ 153	$ 299	$ 278	$ 283	$ 287	$ 2,009	$ 3,309
Debt consolidated under AcG-15	101	106	153	338	93	304	1,095
Capital lease obligations	119	161	157	151	192	604	1,384
	$ 373	**$ 566**	**$ 588**	**$ 772**	**$ 572**	**$ 2,917**	**$ 5,788**

Maturities also include Accounts payable and accrued liabilities of $1,159 which are expected to be settled within one year.

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 June 30				
	2008				2007*
	Air Canada	Air Canada Segment	Jazz	Elimination	Consolidated Total
Passenger revenue	$ 2,454	$ 2,336	$ -	$ -	$ 2,336
Cargo revenue	139	135	-	-	135
Other revenue	189	150	1	-	151
External revenue	2,782	2,621	1	-	2,622
Inter-segment revenue	-	18	248	(266)	-
Total revenues	**2,782**	**2,639**	**249**	**(266)**	**2,622**
Wages, salaries and benefits	480	475	56	-	531
Aircraft fuel	848	636	54	(53)	637
Aircraft rent	69	75	22	(6)	91
Airport and navigation fees	255	257	33	(34)	256
Aircraft maintenance, materials and supplies	172	205	20	(3)	222
Communications and information technology	72	67	1	1	69
Food, beverages and supplies	81	78	2	1	81
Depreciation and amortization	173	136	4	-	140
Commissions	47	51	-	-	51
Capacity purchase with Jazz	233	232	-	(156)	76
Other	345	339	31	(16)	354
Total operating expenses	**2,775**	**2,551**	**223**	**(266)**	**2,508**
Operating income before under noted item	**7**	**88**	**26**	**-**	**114**
Provision for cargo investigation	**-**	**-**	**-**	**-**	**-**
Operating income (loss)	**7**	**88**	**26**	**-**	**114**
Interest income	15	23	1	-	24
Interest expense	(78)	(86)	(1)	-	(87)
Interest capitalized	8	28	-	-	28
Gain on disposal of assets	7	14	-	-	14
Gain (loss) on financial instruments recorded at fair value	176	(6)	-	-	(6)
Other non-operating income (expense)	-	(6)	1	-	(5)
Non-controlling interest	(3)	(4)	-	(27)	(31)
Foreign exchange gain	48	160	-	-	160
Provision for income taxes	(58)	(56)	-	-	(56)
Segment income	**$ 122**	**$ 155**	**$ 27**	**$ (27)**	**$ 155**

** 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 second quarter of 2008 of $161 (2007 - $130). In 2007, this was broken down as Air Canada $126 and Jazz $4.

	Six Months Ended June 30				
	2008				2007*
	Air Canada	Air Canada Segment	Jazz	Elimination	Consolidated Total
Passenger revenue	$ 4,765	$ 4,473	$ -	$ -	$ 4,473
Cargo revenue	263	276	-	-	276
Other revenue	481	380	3	-	383
External revenue	5,509	5,129	3	-	5,132
Inter-segment revenue	-	50	610	(660)	-
Total revenues	**5,509**	**5,179**	**613**	**(660)**	**5,132**
Wages, salaries and benefits	961	974	139	-	1,113
Aircraft fuel	1,563	1,221	125	(124)	1,222
Aircraft rent	132	154	57	(16)	195
Airport and navigation fees	496	500	80	(81)	499
Aircraft maintenance, materials and supplies	375	429	50	(8)	471
Communications and information technology	145	138	2	-	140
Food, beverages and supplies	158	158	6	-	164
Depreciation and amortization	344	264	9	-	273
Commissions	100	110	-	-	110
Capacity purchase with Jazz	468	462	-	(386)	76
Other	772	759	83	(45)	797
Total operating expenses	**5,514**	**5,169**	**551**	**(660)**	**5,060**
Operating income (loss) before under noted item	**(5)**	**10**	**62**	**-**	**72**
Provision for cargo investigation	(125)	-	-	-	-
Operating income (loss)	**(130)**	**10**	**62**	**-**	**72**
Interest income	33	49	2	-	51
Interest expense	(159)	(177)	(3)	-	(180)
Interest capitalized	25	64	-	-	64
Gain (loss) on capital assets	(29)	21	-	-	21
Gain (loss) on financial instruments recorded at fair value	153	28	-	-	28
Other non-operating income (expense)	(2)	(10)	1	-	(9)
Non-controlling interest	(6)	(6)	-	(62)	(68)
Foreign exchange gain (loss)	(41)	193	-	-	193
Provision for income taxes	(10)	(51)	-	-	(51)
Segment income (loss)	**$ (166)**	**$ 121**	**$ 62**	**$ (62)**	**$ 121**

** 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 six months ended June 30, 2008 of $320 (2007 - $253). In 2007, this was broken down as Air Canada $244 and Jazz $9.

Geographic Information

Passenger revenues	Three Months Ended June 30 2008	Three Months Ended June 30 2007*	Six Months Ended June 30 2008	Six Months Ended June 30 2007*
Canada	$ 1,076	$ 1,011	$ 1,998	$ 1,859
US Transborder	458	469	988	958
Atlantic	488	477	858	835
Pacific	242	236	447	448
Other	190	143	474	373
	$ 2,454	**$ 2,336**	**$ 4,765**	**$ 4,473**

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

Cargo revenues	Three Months Ended June 30 2008	Three Months Ended June 30 2007*	Six Months Ended June 30 2008	Six Months Ended June 30 2007*
Canada	$ 27	$ 26	$ 50	$ 52
US Transborder	4	6	9	13
Atlantic	60	50	118	107
Pacific	36	44	64	84
Other	12	9	22	20
	$ 139	**$ 135**	**$ 263**	**$ 276**

**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. Passenger revenues includes revenues from Aeroplan related to Aeroplan rewards net of purchase of Aeroplan miles of $30 for the three months ended June 30, 2008 ($70 for the six months ended June 30, 2008) and $29 for the three months ended June 30, 2007 ($62 for the six months ended June 30, 2007).

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7. RELATED PARTY TRANSACTIONS

At June 30, 2008, ACE has a 75% ownership interest in Air Canada. Air Canada has various related party transactions with ACE and ACTS Aero Technical Support & Services Inc. ("ACTS Aero"). ACTS Aero conducts the business previously 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.

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:

	June 30 2008	December 31 2007
Accounts receivable		
ACE	$ 4	$ 9
ACTS Aero	91	75
	$ 95	**$ 84**
Prepaid Maintenance		
ACTS Aero	$ 8	$ 24
	$ 8	**$ 24**
Accounts payable and accrued liabilities		
ACTS Aero	$ 37	$ 88
	$ 37	**$ 88**

Revenues and expenses with related parties are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	**2007**	**2008**	**2007**
Revenues				
Property rental revenues from ACE and ACTS / ACTS Aero	$ 9	$ 12	$ 18	$ 21
Revenues from information technology services to ACTS / ACTS Aero	4	4	7	7
Revenues from corporate services and other to ACE and ACTS / ACTS Aero	6	5	19	10
Cargo revenues from ACTS / ACTS Aero	-	1	-	1
	$ 19	**$ 22**	**$ 44**	**$ 39**
Expenses				
Maintenance expense for services from ACTS / ACTS Aero	$ 134	$ 187	$ 275	$ 375
Recovery of wages, salary and benefit expense for employees assigned to ACE and ACTS / ACTS Aero	(73)	(111)	(155)	(196)
	$ 61	**$ 76**	**$ 120**	**$ 179**

8. COMMITMENTS

The table below provides Air Canada's current contractual obligations as at June 30, 2008 related to operating lease obligations and committed capital expenditures.

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Operating lease commitments	$ 148	$ 300	$ 289	$ 226	$ 208	$ 718	$ 1,889
Committed capital expenditures	195	75	84	83	453	3,745	4,635
	$ 343	**$ 375**	**$ 373**	**$ 309**	**$ 661**	**$ 4,463**	**$ 6,524**

Boeing 787

Boeing has notified Air Canada that its first Boeing 787 aircraft originally scheduled for delivery in February 2010 is scheduled for delivery in January 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.

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, which is related to future deliveries, 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, 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 capital utilized, including purchase versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling current aircraft options, 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 June 30, 2008 and December 31, 2007 is calculated as follows:

	June 30 2008	December 31 2007
Long-term debt and capital lease obligations	$ 3,863	$ 4,006
Current portion of long-term debt and capital lease obligations	396	413
	4,259	4,419
Non-controlling interest	190	184
Capitalized operating leases	1,950	2,115
Less predelivery financing included in long-term debt	(135)	(521)
Adjusted debt and non-controlling interest	6,264	6,197
Shareholders' equity	2,467	2,443
Total Capital	**$ 8,731**	**$ 8,640**
Adjusted debt and non-controlling interest	$ 6,264	$ 6,197
Less cash, cash equivalents and short-term investments	(1,497)	(1,239)
Adjusted net debt and non-controlling interest	**$ 4,767**	**$ 4,958**
Adjusted net debt to adjusted net debt plus shareholders' equity ratio	**65.9%**	**67.0%**

The improvement from December 31, 2007 in the ratio is attributable, in part, to the increase in cash, cash equivalents and short-term investments recorded during the six months ended June 30, 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 June 30		Six Months Ended June 30	
	2008	**2007**	**2008**	**2007**
Expenses from CPA with Jazz	$ 233	$ 232	$ 468	$ 462
Pass through fuel expense from Jazz	115	81	208	152
Pass through airport expense from Jazz	50	52	100	99
Pass through other expense from Jazz	6	7	21	20
	$ 404	**$ 372**	**$ 797**	**$ 733**