`

ACE AVIATION

QUARTER 3 2010

Management's Discussion and Analysis of Results of Operations and Financial Condition

November 4, 2010

Table of Contents

1. **Preface** 1
2. **Caution Regarding Forward-Looking Information** 1
3. **ACE's Assets, Obligations and Net Assets at Fair Value** 3
4. **ACE's Assets** 4
5. **Accounting Policies** 6
   5.1 International Financial Reporting Standards 6
6. **Results of Operations – Quarter 3 2010** 7
7. **Results of Operations – First Nine Months of 2010** 9
8. **Financial and Capital Management** 11
   8.1 Analysis of Financial Position 11
   8.2 Cash Flows 12
   8.3 Share Information 14
9. **Quarterly Financial Information** 14
10. **Financial Instruments and Risk Management** 15
11. **Off-Balance Sheet Arrangements** 16
12. **Related Party Transactions** 16
13. **Critical Accounting Estimates** 17
14. **Risk Factors** 17
15. **Controls and Procedures** 17

1. Preface

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment holding company of aviation interests. ACE is listed on the Toronto Stock Exchange ("TSX") where its Class A variable voting shares and Class B voting shares are traded under the symbols ACE.A and ACE.B, respectively.

On January 6, 2010, ACE completed a substantial issuer bid for the purchase and cancellation of 3.2 million shares at $6.20 per share for an aggregate purchase price of $20 million.

On August 3, 2010, Air Canada repaid to ACE its share of the outstanding debt under Air Canada's secured credit facility (the "Credit Facility") in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million. This prepayment followed the completion of Air Canada's offerings of approximately $1.1 billion, consisting of two series of senior secured first lien notes and one series of senior secured second lien notes, which closed on August 3, 2010.

As at October 31, 2010, ACE's principal assets are a 27% equity interest in Air Canada and cash and cash equivalents of approximately $210 million. Going forward, the Board will actively review alternatives to maximize shareholder value and to return assets to shareholders.

ACE's financial statements have been prepared on a going concern basis of presentation. The going concern basis of presentation assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. Effective October 27, 2009, ACE no longer consolidates Air Canada's financial position, operating results and cash flows. ACE's investment in Air Canada has since been accounted for using the equity method whereby the Air Canada investment carrying value is adjusted to include the Corporation's proportionate share of Air Canada's earnings and other comprehensive income.

This MD&A should be read in conjunction with ACE's interim unaudited consolidated financial statements and notes for Quarter 3 2010, its annual audited consolidated financial statements and notes and its annual MD&A for 2009. Reference to "Corporation" in this MD&A refers to, as the context may require, ACE and its aviation interests collectively, ACE and one or more of its aviation interests, one or more of ACE's aviation interests, or ACE itself. Except as otherwise noted, all monetary amounts are stated in Canadian dollars. Except as otherwise noted, this MD&A is current as of November 4, 2010.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" in section 2 of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to ACE, see section 14 of this MD&A and see section 15 "Risk Factors" of ACE's 2009 MD&A dated February 11, 2010 which can be found on SEDAR at www.sedar.com.

The ACE Audit, Finance & Risk Committee has reviewed this MD&A and the Quarter 3 2010 interim unaudited consolidated financial statements and notes and ACE's Board of Directors approved these documents prior to their release. For further information on ACE's public disclosure file, including ACE's Annual Information Form, please consult SEDAR at www.sedar.com, or ACE's website at www.aceaviation.com.

2. Caution Regarding Forward-Looking Information

ACE's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this MD&A and may be included in other filings with regulatory authorities and securities regulators. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 14 of this MD&A and section 15 "Risk Factors" of ACE's 2009 MD&A dated February 11, 2010. The forward-looking statements contained in this MD&A represent ACE's expectations as of the date of this MD&A, and are subject to change after such date. However, ACE disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

3. ACE's Assets, Obligations and Net Assets at Fair Value

The following table presents the assets and obligations of ACE at fair value as at October 31, 2010 and September 30, 2010. The objective of this information is to present information on the assets and obligations of ACE as certain of ACE's shareholders use this information to assess ACE's financial position. This non-GAAP information including net assets at fair value is not prepared in accordance with standards prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to other similar information provided by other companies. This is not presented as a substitute for the balance sheet of ACE which has been prepared in accordance with Canadian GAAP and has been prepared on a going concern basis. Further, this presentation is not intended to reflect ACE's net asset value on a liquidation basis and does not purport to represent the fair value of ACE as a whole or per share.

(Canadian dollars in millions)	October 31 2010	September 30 2010
Air Canada shares [(1)]	$ 283	$ 216
Cash and cash equivalents	210	211
Commodity taxes receivable[(2)]	37	37
Air Canada warrants [(1)]	6	4
	536	468
Commodity taxes payable[(2)]	(39)	(39)
Current obligations	(2)	(2)
Contingencies [(3)]	-	-
	(41)	(41)
Net assets at fair value	**$ 495**	**$ 427**
Net assets at fair value per share – Basic	**$15.25**	**$ 13.15**

(1) *As at October 31, 2010, ACE held a 27.0% ownership interest in Air Canada consisting of 75 million Class B Voting Shares. Under the Credit Facility, ACE had received 1,250,000 warrants on July 30, 2009, for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.51 per share, exercisable at any time, and expiring four years after the date of issuance. An additional 1,250,000 warrants for the purchase of Air Canada Class B voting shares were issued to ACE on October 19, 2009 with an exercise price of $1.44 per share, exercisable at any time, and expiring four years after the date of issuance. The fair value of ACE's holdings of Air Canada shares of $283 million as at October 31, 2010 and $216 million as at September 30, 2010 is based on the closing prices of $3.77 per Air Canada Class B share as at October 29, 2010 and $2.88 per Air Canada Class B share as at September 30, 2010, as quoted on the TSX.*

(2) *In late October 2010, ACE received commodity tax reassessments from Revenu Québec in the amount of $32 million (including interest and penalties of $2 million). Further related reassessments of $7 million are expected. All of these reassessments relate to audits of GST and QST with respect to ACTS LP, and its predecessor ACTS Limited Partnership, for periods prior to ACE's monetization of ACTS LP in October 2007. The total of the reassessments of $39 million is included in the statement of financial position at September 30, 2010 as a liability.*

Reassessments of $37 million are recoverable from Air Canada and other parties. This includes $35 million recoverable from Air Canada following its filing of related Input Tax Credit claims from the Canada Revenue Agency. This receivable of $37 million is included in the statement of financial position as an asset at September 30, 2010.

The net impact to ACE is expected to be $2 million, which had been provisioned for by ACE in prior quarters during 2010.

(3) *ACE has applied for Certificates of Discharge from the Canada Revenue Agency and Revenu Québec. ACE is assisting them with their audits of ACE's income tax returns for the years 2005 to 2009. In addition to the audits of income tax returns, audits in respect of other taxes, including GST and QST, are ongoing. It is possible that the audits, which relate to ACE and its subsidiaries, may lead to some reassessments in the future. Should ACE proceed to a liquidation in the future, additional costs and other liabilities may arise.*

4. ACE's Assets

As at October 31, 2010, ACE's principal assets are:

- a 27.0% (75 million Class B Voting Shares) ownership interest in Air Canada;
- 2.5 million warrants for the purchase of Air Canada Class B voting shares at exercise prices of $1.44 (1.25 million warrants) and $1.51 (1.25 million warrants) per share; and
- cash and cash equivalents of $210 million.

As at October 31, 2010, ACE also has Commodity taxes receivable of $37 million (Refer to Section 8.1 of this MD&A for details).

Air Canada

27% ownership interest in Air Canada
ACE's investment in Air Canada is accounted for using the equity method whereby the Air Canada investment carrying value is adjusted to include the Corporation's proportionate share of Air Canada's earnings and other comprehensive income. For the three months and nine months ended September 30, 2010, equity income of $74 million and $3 million respectively, was recorded representing ACE's proportionate share of Air Canada's earnings, after adjustments. For the three months and nine months ended September 30, 2010, other comprehensive income of $11 million and $41 million respectively, was recorded representing ACE's proportionate share of Air Canada's other comprehensive income.

The following table details the carrying value and fair value of ACE's investment in Air Canada:

Carrying value of ACE's investment in Air Canada as at December 31, 2009	$	99
Proportionate share of earnings during the nine months ended September 30, 2010		3
Proportionate share of other comprehensive income during the nine months ended September 30, 2010		41
Carrying value of ACE's investment in Air Canada as at September 30, 2010	**$**	**143**
Fair value of ACE's investment in Air Canada as at September 30, 2010	**$**	**216**
Air Canada total assets as at September 30, 2010	$	10,686
Air Canada total liabilities as at September 30, 2010	$	8,948
Air Canada net loss for the nine months ended September 30, 2010	$	(27)

Secured loan of $150 million to Air Canada (repaid on August 3, 2010)

Significant events during Quarter 3 2010

On July 15, 2010, ACE reached an agreement with Air Canada with respect to the prepayment terms associated with Air Canada's secured credit facility whereby, under certain conditions, the applicable percentage payable in respect of a prepayment was reduced from 3.0% to 1.0%. Air Canada entered into similar agreements with the other lenders who participated in the $600 million Credit Facility in July 2009.

On August 3, 2010, Air Canada repaid to ACE its share of the outstanding debt under the Credit Facility in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million. This prepayment followed the completion of Air Canada's offerings of approximately $1.1 billion, consisting of two series of senior secured first lien notes and one series of senior secured second lien notes, which closed on August 3, 2010.

Significant events during Quarter 2 2010

Air Canada recorded a charge of $54 million in Interest expense ($43 million after tax) related to the repayment of the Credit Facility in Quarter 2 2010. ACE's proportionate share of Air Canada's loss in Quarter 2 2010, on an equity basis, included $12 million attributable to this charge.

Significant events during Quarter 1 2010

In accordance with the terms of the Credit Facility, during Quarter 1 2010, Air Canada entered into arrangements with a new lender, comprised of a group of entities that are related to each other, to obtain a $100 million increase to the $600 million Credit Facility. The addition to the facility increased, on a pro rata basis, the scheduled repayments, including the final payment. Air Canada received financing proceeds of $100 million, less financing fees of $2 million, in February 2010. No additional warrants were issued as a result of the increase to the Credit Facility. ACE and the other lenders under the Credit Facility did not participate in the increase to the facility.

On July 29, 2009, ACE had participated in the $600 million Credit Facility with a number of other lenders, providing financing of $150 million. Such facility is further described in Note 3 to the 2009 annual audited consolidated financial statements of the Corporation. The Credit Facility was repayable in 16 consecutive quarterly installments commencing in August 2010 of $30 million with the final installment of $120 million due in July 2014. The Credit Facility bore interest at a rate based upon the greater of the bankers' acceptance rate or 3.00% plus 9.75%. Air Canada's obligations under the Credit Facility were secured by a first priority security interest and hypothec over substantially all the present and after-acquired property of Air Canada and its subsidiaries, subject to certain exclusions and permitted liens.

2.5 million warrants

Under the Credit Facility, ACE received 1,250,000 warrants on July 30, 2009 for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.51 per share, exercisable at any time, and expiring four years after the date of issuance. On October 19, 2009, ACE received an additional 1,250,000 warrants for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.44 per share, exercisable at any time, and expiring four years after the date of issuance.

The warrants are presented as Air Canada warrants issued under the Credit Facility and any changes in fair value are recorded within Gain (loss) on financial instruments recorded at fair value in the consolidated statement of operations. The fair value of the 2,500,000 warrants amounted to $4 million as at September 30, 2010 (nil as at December 31, 2009) using the Black-Scholes option valuation model.

ACTS Aero

As described in Section 5 of ACE's 2009 MD&A, on January 22, 2010, ACE entered into a Restructuring and Lockup Agreement with Aveos, Aero Technical Support & Services Holdings sarl ("ACTS Aero"), lenders and other shareholders. The restructuring was completed on March 12, 2010. Under the terms of the restructuring, ACE transferred its shares in ACTS Aero to a newly formed company, in which ACE has no interest, for nil consideration. Under the terms of a Release Agreement entered into on March 12, 2010, ACE and ACTS LP were released from substantially any claims that may arise under the Asset Purchase Agreement relating to the monetization of ACTS on October 16, 2007, in return for a payment of $1.25 million which is recorded as a Loss on investment in Quarter 1 2010.

5. Accounting Policies

This MD&A should be read in conjunction with ACE's interim unaudited consolidated financial statements and notes for the third quarter 2010. ACE prepares its financial statements, on a going concern basis of presentation, in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

ACE's results reflect the consolidation of Air Canada only up to October 27, 2009. After that date, ACE's investment in Air Canada is accounted for using the equity method. Consequently, ACE's results of operations for Quarter 3 2010 are not directly comparable to its operating results for Quarter 3 2009.

Significant accounting policies and methods used in preparation of ACE's Quarter 3 2010 interim unaudited consolidated financial statements and notes are described in Note 2 to ACE's 2009 audited consolidated financial statements.

The preparation of ACE's financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent liabilities and reported amounts of revenues and expenses for the period of the financial statements. ACE evaluates these estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual amounts could differ materially from those estimates and assumptions. Refer to section 14 of ACE's 2009 MD&A dated February 11, 2010 for a discussion of ACE's critical accounting estimates.

5.1 International Financial Reporting Standards

The Canadian Accounting Standards Board has 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.

As a result, the Corporation developed a plan to convert its consolidated financial statements to IFRS. The plan addresses the impact of IFRS on the Corporation and is progressing as planned.

Although the review has not been finalized, the Corporation does not expect to identify significant differences between its current accounting policies and those required or expected to apply in preparing IFRS financial statements due to the current nature of ACE's business, assets and liabilities. The Corporation will continue to monitor any developments with respect to any new standards.

6. Results of Operations – Quarter 3 2010

ACE had two reportable segments: Air Canada and Corporate Items and Eliminations ("CIE") until October 27, 2009, after which time only one segment, ACE (formerly CIE), remains.

(Canadian dollars in millions)	Quarter 3 2010
Operating revenue	$ -
Operating expenses	1
Operating loss	**(1)**
Non-operating income (expense)	
Interest income	3
Gain on financial instruments recorded at fair value	2
Proportionate share of Air Canada's income	74
	79
Income before the following items	78
Recovery of (provision for) income taxes	-
Income for the period	**$ 78**

The under-noted reconciliation provides supplementary information to separate CIE from Air Canada results included in the consolidated financial statements for Quarter 3 2009 when Air Canada's results were consolidated.

	Quarter 3 2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE**
Operating revenue			
Passenger revenue	$ 2,400	$ -	$ 2,400
Cargo revenue	92	-	92
Other revenue	178	-	178
	2,670	-	2,670
Operating expenses			
Aircraft fuel	682	-	682
Wages, salaries and benefits	437	-	437
Airport and navigation fees	272	-	272
Capacity purchase with Jazz	246	-	246
Depreciation and amortization	171	(1)	170
Aircraft maintenance	183	-	183
Food, beverages and supplies	82	-	82
Communications and information technology	70	-	70
Aircraft rent	81	-	81
Commissions	51	-	51
Other operating expenses	327	1	328
	2,602	-	2,602
Operating Income	**68**	**-**	**68**
Non-operating income (expense)			
Interest income	2	1	3
Interest expense	(87)	-	(87)
Interest capitalized	1	-	1
Gain on other assets	1	-	1
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(10)	(10)
Gain on financial instruments recorded at fair value	4	-	4
Other	(4)	-	(4)
	(83)	(9)	(92)
Loss before the following items	**(15)**	**(9)**	**(24)**
Non-controlling interest	(3)	(69)	(72)
Foreign exchange gain	295	-	295
Provision for income taxes	-	(1)	(1)
Net income (loss) for the period	**$ 277**	**$ (79)**	**$ 198**

ACE's results from operations include the consolidation of Air Canada's operations up to October 27, 2009 within the Air Canada column. After that date, Air Canada is accounted for using the equity method. Consequently, ACE's results of operations for Quarter 3 2010 are not directly comparable to its operating results for Quarter 3 2009.

ACE recorded an operating loss of $1 million in Quarter 3 2010 compared to operating income of $68 million in Quarter 3 2009. ACE's consolidated results for Quarter 3 2009 included an operating income from Air Canada of $68 million.

ACE recorded operating revenues of nil and operating expenses of $1 million in Quarter 3 2010. In the same period in 2009, ACE recorded operating revenues of $2,670 million and operating expenses of $2,602 million.

Non-operating income amounted to $79 million in Quarter 3 2010 compared to non-operating expense of $92 million in Quarter 3 2009. Included in Quarter 3 2010 non-operating income was ACE's proportionate share of Air Canada's income of $74 million. Included in Q3 2009 was a non-operating expense of $83 million from Air Canada.

Income in Quarter 3 2010 amounted to $78 million or $2.41 per basic and diluted share. In Quarter 3 2009, ACE recorded net income of $198 million or $5.57 per basic and $5.15 per diluted share.

7. Results of Operations – First Nine Months of 2010

ACE had two reportable segments: Air Canada and Corporate Items and Eliminations ("CIE") until October 27, 2009, after which time only one segment, ACE (formerly CIE), remains.

(Canadian dollars in millions)	First Nine Months of 2010
Operating revenue	$ -
Operating expenses	6
Operating loss	**(6)**
Non-operating income (expense)	
Interest income	13
Loss on investment	(1)
Gain on financial instruments recorded at fair value	4
Proportionate share of Air Canada's income	3
Other	(1)
	18
Income before the following items	12
Recovery (provision for) of income taxes	-
Income for the period	**$ 12**

The under-noted reconciliation provides supplementary information to separate CIE from Air Canada results included in the consolidated financial statements for the first nine months 2009 when Air Canada's results were consolidated.

	First Nine Months of 2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE**
Operating revenue			
Passenger revenue	$ 6,469	$ -	$ 6,469
Cargo revenue	248	-	248
Other revenue	674	-	674
	7,391	-	7,391
Operating expenses			
Aircraft fuel	1,847	-	1,847
Wages, salaries and benefits	1,333	4	1,337
Airport and navigation fees	743	-	743
Capacity purchase with Jazz	746	-	746
Depreciation and amortization	495	(5)	490
Aircraft maintenance	557	-	557
Food, beverages and supplies	222	-	222
Communications and information technology	229	-	229
Aircraft rent	250	-	250
Commissions	140	-	140
Other operating expenses	1,062	7	1,069
	7,624	6	7,630
Operating loss	**(233)**	**(6)**	**(239)**
Non-operating income (expense)			
Interest income	12	2	14
Interest expense	(286)	(6)	(292)
Interest capitalized	4	-	4
Loss on other assets	(70)	-	(70)
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(43)	(43)
Gain on financial instruments recorded at fair value	73	-	73
Other	(5)	-	(5)
	(272)	(47)	(319)
Loss before the following items	**(505)**	**(53)**	**(558)**
Non-controlling interest	(11)	(9)	(20)
Foreign exchange gain	549	-	549
Provision for income taxes	(1)	(6)	(7)
Net income (loss) for the period	**$ 32**	**$ (68)**	**$ (36)**

ACE's results from operations include the consolidation of Air Canada's operations up to October 27, 2009 within the Air Canada column. After that date, Air Canada is accounted for using the equity method. Consequently, ACE's results of operations for Quarter 3 2010 are not directly comparable to its operating results for Quarter 3 2009.

ACE recorded an operating loss of $6 million in the first nine months of 2010 compared to an operating loss of $239 million in the first nine months of 2009. ACE's consolidated results for the first nine months 2009 included an operating loss from Air Canada of $233 million.

ACE recorded operating revenues of nil and operating expenses of $6 million in the first nine months 2010. In the same period in 2009, ACE recorded operating revenues of $7,391 million and operating expenses of $7,630 million.

Non-operating income amounted to $18 million in the first nine months of 2010 compared to non-operating expense of $319 million in the same period in 2009. Included in the first nine months of 2010 non-operating income was ACE's proportionate share of Air Canada's income of $3 million. In the first nine months of 2009, ACE recorded a Loss on repurchase of convertible senior notes and preferred shares within non-operating expense in the amount of $43 million. Included in the first nine months of 2009 was a non-operating expense of $272 million from Air Canada.

Income in the first nine months of 2010 amounted to $12 million or $0.38 per basic and diluted share. In the first nine months of 2009, ACE recorded a loss of $36 million or $1.01 per basic and diluted share.

8. Financial and Capital Management

The following table summarizes ACE's statement of financial position as at September 30, 2010 and as at December 31, 2009.

Condensed Consolidated Statement of Financial Position (Canadian dollars in millions)	**September 30, 2010**	**December 31, 2009**
Assets		
Cash and cash equivalents	$ 211	$ 71
Commodity taxes receivable	37	-
Interest receivable on Air Canada loan	-	3
Equity investment in Air Canada	143	99
Loan Receivable from Air Canada	-	150
Air Canada warrants issued under the Credit Facility	4	-
	$ 395	**$ 323**
Liabilities		
Commodity taxes payable	39	-
Accounts payable and accrued liabilities	$ 2	$ 3
	41	**3**
Shareholders' equity	**354**	**320**
	$ 395	**$ 323**

** Refer to Section 11 for Off-balance sheet arrangements.*

8.1 Analysis of Financial Position

The following discussion is based upon ACE's statement of financial position as at September 30, 2010, versus ACE's statement of financial position as at December 31, 2009.

Cash and cash equivalents

As at September 30, 2010, ACE's cash and cash equivalents amounted to $211 million. As at December 31, 2009, ACE's cash and cash equivalents was $71 million. Refer to section 8.2 of this MD&A for a discussion of the change in cash and cash equivalents up to September 30, 2010.

Commodity taxes receivable and Commodity taxes payable

In late October 2010, ACE received commodity tax reassessments from Revenu Quebec in the amount of $32 million (including interest and penalties of $2 million). Further related reassessments of $7 million are expected. All of these reassessments relate to audits of GST and QST with respect to ACTS LP, and its predecessor ACTS Limited Partnership, for periods prior to ACE's monetization of ACTS LP in October 2007. The total of the reassessments of $39 million is included in the statement of financial position at September 30, 2010 as a liability.

Reassessments of $37 million are recoverable from Air Canada and other parties. This includes $35 million recoverable from Air Canada following its filing of related Input Tax Credit claims from the Canada Revenue Agency. This receivable of $37 million is included in the statement of financial position as an asset at September 30, 2010.

The net impact to ACE is expected to be $2 million, which had been provisioned for by ACE in prior quarters during 2010.

Interests in Air Canada

As at September 30, 2010, the carrying value of ACE's equity investment in Air Canada amounted to $143 million, an increase of $44 million during the first nine months of 2010, representing ACE's proportionate share of Air Canada's income during the period of $3 million, and ACE's proportionate share of Air Canada's other comprehensive income during that period of $41 million.

Loan Receivable from Air Canada

As at September 30, 2010, ACE's Loan Receivable from Air Canada amounted to nil ($150 million as at December 31, 2009). During the quarter, Air Canada repaid to ACE its share of the outstanding debt under the Credit Facility in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million.

Shareholders' equity

As at September 30, 2010, ACE's shareholders' equity amounted to $354 million, an increase of $34 million during the first nine months of 2010. This was due to income for the period of $12 million and other comprehensive income of $42 million, partially offset by the completion of a substantial issuer bid in Quarter 1 by ACE for the purchase and cancellation of 3.2 million shares at $6.20 per share for an aggregate purchase price of $20 million. This was recorded as a reduction in share capital of $9 million and contributed surplus of $11 million.

8.2 Cash Flows

Effective October 27, 2009, the results, financial position and cash flows of Air Canada are not consolidated with ACE.

The following table summarizes ACE's cash flows for the indicated periods.

	Quarter 3		First Nine Months	
(Canadian dollars in millions)	**2010**	**2009**	**2010**	**2009**
Cash from (used for) operating activities	$ 5	$ (240)	$ 11	$ (188)
Cash from (used for) for financing activities	-	107	(20)	(569)
Cash from investing activities	150	458	149	626
Net change in cash and cash equivalents during the period	**155**	**325**	**140**	**(131)**
Cash and cash equivalents - Beginning of period	**56**	**851**	**71**	**1,307**
Cash and cash equivalents - End of period	**$ 211**	**$ 1,176**	**$ 211**	**$ 1,176**

** Cash and cash equivalents exclude Short-term investments of $167 million as at September 30, 2009.*

The following summarizes significant transactions or factors which impacted ACE's cash and cash equivalents in the first nine months of 2010:

- In January 2010, the Corporation completed a substantial issuer bid to purchase for cancellation 1.4 million of its Class A variable voting shares and 1.8 million of its Class B voting shares at $6.20 per share. On January 6, 2010, the Corporation paid an aggregate purchase price of $20 million for the shares tendered.

- In August 2010, Air Canada repaid to ACE its share of the outstanding debt under the Credit Facility in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million. Refer to Section 4 of this MD&A for additional information.

The following summarizes significant transactions or factors which impacted ACE's unconsolidated cash and cash equivalents in first nine months of 2009:

- In January 2009, the Corporation completed a substantial issuer bid to purchase for cancellation 80% of its convertible senior notes outstanding as at December 31, 2008, at a purchase price of $900 dollars in cash for each $1,000 dollars principal amount of notes. The aggregate principal amount of the repurchased Convertible senior notes was $259 million. On January 21, 2009, the Corporation paid an aggregate purchase price of $233 million for the notes tendered.

- In January 2009, the Corporation completed a substantial issuer bid to purchase for cancellation 8.3 million of its convertible preferred shares at a purchase price of $20 dollars per preferred share. On January 21, 2009, the Corporation paid an aggregate purchase price of $166 million for the shares tendered.

- In March 2009, the Corporation completed a substantial issuer bid to purchase for cancellation 1.0 million of its convertible preferred shares at a purchase price of $20 dollars per preferred share. On March 23, 2009, the Corporation paid an aggregate purchase price of $20 million for the shares tendered.

- In July 2009, ACE participated in the Air Canada credit facility providing financing of $150 million, which represented 25% of the Credit Facility entered into at that time. The Credit Facility was a five-year facility repayable in sixteen (16) consecutive quarterly installments commencing in August 2010 with the final balloon installment due in July 2014. The Credit Facility bore an interest at a rate based upon the greater of the bankers' acceptance rate or 3.00% plus 9.75%. On August 3, 2010, Air Canada repaid to ACE its share of the outstanding debt under the Credit Facility in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million.

- In September 2009, ACE entered into an agreement with Morgan Stanley Canada Limited pursuant to which ACE indirectly purchased for cancellation all of its remaining 3.2 million preferred shares at a price of $23.00 per share for an aggregate purchase price of $74 million.

8.3 Share Information

At October 31, 2010, the issued and outstanding common shares of ACE, along with common shares potentially issuable, were as follows:

Number of shares (000)	October 31, 2010	December 31, 2009
Issued and outstanding common shares		
Class A variable voting shares	26,094	25,643
Class B voting shares	6,371	10,048
Total issued and outstanding common shares (1)	**32,465**	**35,691**
Common shares potentially issuable		
Stock options (2)	45	48
Total outstanding and potentially issuable common shares	**32,510**	**35,739**

(1) On January 6, 2010, ACE accepted for purchase and cancellation a total of 1,401,094 Class A variable voting shares and 1,824,711 Class B voting shares at $6.20 per share for an aggregate purchase price of $20 million in accordance with the terms of a substantial issuer bid.

(2) The Corporation's stock option plan is described in Note 11 to the 2009 annual audited consolidated financial statements. At October 31, 2010, a total of 44,736 stock options with a weighted exercise price of $14.66 were outstanding (47,812 stock options with a weighted exercise price of $14.61 outstanding as at December 31, 2009). The decrease of 3,076 stock options since December 31, 2009 is due to forfeitures.

9. Quarterly Financial Information

The quarterly information presented below is not directly comparable as a result of ACE's investment in Air Canada being changed on October 27, 2009 from consolidation to the equity method of accounting.

($ millions, except per share amounts)	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4(1) 2009	Q1 2010	Q2 2010	Q3 2010
Operating revenues	$ 2,496	$ 2,391	$ 2,330	$ 2,670	$ 815	$ -	$ -	$ -
Operating expenses	(2,646)	(2,583)	(2,445)	(2,602)	(820)	(2)	(3)	(1)
Operating income (loss)	**(150)**	**(192)**	**(115)**	**68**	**(5)**	**(2)**	**(3)**	**(1)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax(2)	(483)	(152)	225	130	(651)	(14)	(47)	79
Net income (loss)	**$ (633)**	**$ (344)**	**$ 110**	**$ 198**	**$ (656)**	**$ (16)**	**$ (50)**	**$ 78**
Earnings (loss)(3)								
Per share – basic	**$ (18.12)**	**$ (9.87)**	**$ 3.16**	**$5.57**	**$(18.38)**	**$(0.48)**	**$(1.56)**	**$2.41**
Per share – diluted	**$ (18.12)**	**$ (9.87)**	**$ 2.68**	**$5.15**	**$(18.38)**	**$(0.48)**	**$(1.56)**	**$2.41**

(1) *The results, financial position and cash flows of Air Canada are not consolidated with ACE effective October 27, 2009.*

(2) *Quarter 1 2009 includes a loss on repurchase of the convertible senior notes and preferred shares of $33 million relating to the substantial issuer bids completed in January 2009 and March 2009. Quarter 3 2009 includes a loss on repurchase of the preferred shares of $10 million relating to the acquisition for cancellation of the remaining preferred shares in September 2009. Quarter 4 2009 includes a dilution loss of $411 million as a result of the shares issued by Air Canada reducing ACE's ownership interest from 75% to 27% and includes a provision for loss on ACE's Air Canada investment*

of $219 million as a result of adjusting the carrying value of ACE's investment in Air Canada to $99 million based on Air Canada's market price as at December 31, 2009.

(3) *Earnings (loss) per share includes the impact of a substantial issuer bid completed by ACE on January 6, 2010 whereby ACE accepted for purchase and cancellation a total of 1,401,094 Class A variable voting shares and 1,824,711 Class B voting shares.*

10. Financial Instruments and Risk Management

Risk Management

As at September 30, 2010, ACE's financial instruments include cash and cash equivalents in the amount of $211 million ($71 million as at December 31, 2009), a secured loan receivable of nil from Air Canada ($150 million as at December 31, 2009), warrants issued under the Credit Facility of $4 million (nil as at December 31, 2009), commodity taxes receivable of $37 million (nil as at December 31, 2009), interest receivable of nil from Air Canada ($3 million as at December 31, 2009), commodity taxes payable of $39 million (nil as at December 31, 2009) and other financial liabilities of $2 million ($3 million as at December 31, 2009).

ACE's risk exposure related to its assets as at October 31, 2010, is as follows:

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 is exposed to interest rate risk from its holding in cash and cash equivalents of $210 million. The weighted average interest rate on ACE's cash and cash equivalents at September 30, 2010, is approximately 0.97%, which results in limited downside risk.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. This risk is mitigated by the fact that as at October 31, 2010, the Corporation had cash and cash equivalents of $210 million and financial liabilities of approximately $41 million.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. The Corporation is exposed to credit risk from its cash and cash equivalents. This risk is mitigated by the fact that cash and cash equivalents are held by credit worthy institutions only and the Corporation's target is that no one financial institution holds more than 25% of the total.

Summary of gain (loss) on financial instruments recorded at fair value

	Quarter 3		First Nine Months	
	2010 (1)	**2009**	**2010** (1)	**2009**
Fuel derivatives not under hedge accounting	$ -	$ 2	$ -	$ 78
Air Canada warrants issued under the Credit Facility	2	-	4	-
Other	-	2	-	(5)
Gain on financial instruments recorded at fair value	**$ 2**	**$ 4**	**$ 4**	**$ 73**

(1) *Effective October 27, 2009, the results and financial position of Air Canada are not consolidated with ACE. Refer to Section 4 "Investments" in this MD&A.*

11. Off-Balance Sheet Arrangements

Guarantees

On May 7, 2009, ACE intervened into the employment agreement between Air Canada and Mr. Calin Rovinescu, its President and Chief Executive Officer, to guarantee the payments required of Air Canada under the agreement. In addition, ACE agreed to cause to be issued an irrevocable bank letter of credit to a maximum of $5 million.

On March 11, 2010, the subject agreement was amended such that the guarantee shall automatically terminate upon the earlier of (i) April 1, 2014 and (ii) the date on which the shareholders of ACE approve the winding-up and liquidation of ACE, in the event that such approval is requested by ACE of its shareholders. Notwithstanding the foregoing, in the event of such approval by ACE's shareholders and that a liquidator is not appointed within 180 days of the shareholders' vote approving the winding-up and liquidation of ACE, the guarantee shall automatically resume and continue in full force and effect, and shall thereafter automatically terminate upon the earlier of (i) April 1, 2014 and (ii) the date on which such a liquidator shall have been appointed for the winding-up and liquidation of ACE. This agreement was also further amended such that ACE is not required to issue the bank letter of credit.

12. Related Party Transactions

At September 30, 2010, ACE Aviation Holdings Inc. ("ACE") holds a 27% ownership interest in Air Canada. Air Canada has various related party transactions with ACE and Aveos, (a subsidiary of ACTS Aero), as further described below and in the 2009 annual audited consolidated financial statements of the Corporation.

Aveos Restructuring Plan

During Quarter 1 2010, Aveos reached an agreement with its lenders and equity holders on the terms of a consensual restructuring plan to recapitalize the company. As part of this recapitalization, Air Canada and Aveos entered into agreements to settle certain issues and modify the terms of certain contractual arrangements in exchange for Air Canada receiving a minority equity interest in Aveos. This restructuring modified the terms of certain commercial agreements between Air Canada and Aveos, including terms of the Pension and Benefits Agreement and the Agreement with Aveos on Revised Payment Terms described in the 2009 annual audited consolidated financial statements of the Corporation and below. The modified terms relating to maintenance agreements are not expected to have a material impact on maintenance expense over their terms.

As part of these agreements, Air Canada also agreed to extend repayment terms on $22 million of receivables (as further described in Section 13 of ACE's 2009 MD&A dated February 11, 2010 under Agreement with Aveos on Revised Payment Terms), due in 2010, over six years with annual repayments on a non-interest bearing basis, with such payments subject to satisfaction of certain conditions. This agreement is now referred to as the Term Note.

The terms of the Pension and Benefits Agreement were also modified to defer the determination of pension assets and related solvency deficiencies of transferring unionized employees performing airframe maintenance services to April 2011. This has the result of Air Canada assuming responsibility for changes in the solvency deficiency for those affected employees from the date of the Pension and Benefits Agreement, which was entered into as of October 16, 2007, to the date of their transfer to Aveos, scheduled for April 2011. As part of the amendment, all letters of credit issued under the Pension and Benefits Agreement were cancelled and a new letter of credit in the amount of $20 million was issued by Air Canada in favour of Aveos to secure the payment of all compensation payments owing by Air Canada to Aveos in respect of pension, disability, and retiree liabilities for which Air Canada is liable under the Pension and Benefits Agreement. This modification resulted in a reduction to the outstanding deposit under Air Canada's letter of credit facility of $23 million during the first quarter of 2010. Until such future time as the assets and obligations under the Air Canada pension and other employee and retiree benefit arrangements pertaining to unionized employees may be transferred to Aveos, the current service pension cost and the current service and interest costs for other employee benefits in respect of Air Canada employees providing services to Aveos are charged by Air Canada to Aveos, and as such, the modifications to the Pension and Benefits Agreement have no accounting consequence in the current period. Refer to Note 17 to the 2009 annual audited consolidated financial statements for further information on the Pension and Benefits Agreement.

As described in Section 4, ACE transferred its shares in ACTS Aero to a newly formed company, in which ACE has no interest, for nil consideration. As a result, Aveos and ACE are no longer related parties. In addition, Aveos and Air Canada are no longer related parties.

13. Critical Accounting Estimates

Information on ACE's critical accounting estimates is disclosed in Section 14 of ACE's 2009 MD&A dated February 11, 2010. There have been no material changes to ACE's critical accounting estimates from what was disclosed at that time.

14. Risk Factors

For a detailed description of the risk factors associated with the Corporation, refer to Section 15 "Risk Factors" of ACE's 2009 MD&A dated February 11, 2010. Certain risk factors in ACE's 2009 MD&A are revised to provide for the following updates:

On August 3, 2010, Air Canada repaid to ACE its proportionate share of the outstanding debt under the Credit Facility in the amount of $150 million. Refer to Section 4 of this MD&A for additional information. As a result, the composition of ACE's assets has changed and the aggregate amount of ACE's exposure to Air Canada has been reduced.

ACE has applied for Certificates of Discharge from the Canada Revenue Agency and Revenu Québec. ACE is assisting them with their audits of ACE's income tax returns for the years 2005 to 2009. In addition to the audits of income tax returns, audits in respect of other taxes, including GST and QST, are ongoing. It is possible that the audits, which relate to ACE and its subsidiaries, may lead to some reassessments in the future.

15. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Corporation's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

The Corporation filed certifications, signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), with the Canadian Securities Administrators ("CSA") upon filing of the Corporation's 2010 Annual Information Form. In those filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporation's CEO and CFO also certify the appropriateness of the financial disclosures in the Corporation's interim filings with securities regulators. In those interim filings, the Corporation's CEO and CFO certify the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

Management's Report on Disclosure Controls and Procedures

Management, with the participation of the Corporation's CEO and CFO, concluded, as at September 30, 2010, that such disclosure controls and processes were designed to provide reasonable assurance that:

(i) material information relating to the Corporation was made known to its Disclosure Policy Committee by others; and

(ii) information required to be disclosed by the Corporation in its annual filings, interim filings and other reports filed or submitted by the Corporation under securities legislation was recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management's Report on Internal Controls over Financial Reporting

Management, with the participation of the Corporation's CEO and CFO, concluded, as at September 30, 2010, that the Corporation's internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

Management and the CEO and CFO use the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework to design the Corporation's control framework.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporation's internal controls over financial reporting during Quarter 3 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.