ACE AVIATION

2010

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

February 9, 2011

Table of Contents

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.

On December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B voting shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 million (net proceeds of approximately $156 million). Following the offering, ACE beneficially owns 31,000,000 Class B voting shares of Air Canada representing 11.11% of the Class A variable voting shares and Class B voting shares of Air Canada issued and outstanding on a combined basis.

As at January 31, 2011, ACE's principal assets are cash and cash equivalents of approximately $363 million, an 11.11% equity interest in Air Canada and 2.5 million Air Canada warrants. Going forward, the Board will continue to review alternatives to maximize the return to its 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. ACE's results reflect the consolidation of Air Canada up to October 26, 2009. After that date, ACE's investment in Air Canada was accounted for using the equity method of accounting. Effective December 23, 2010, ACE ceased to have the ability to exercise significant influence over Air Canada. The retained investment was classified as an available-for-sale ("AFS") financial instrument.

This MD&A should be read in conjunction with ACE's audited consolidated financial statements and notes for 2010. 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 February 9, 2011.

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 "Risk Factors" of this MD&A.

The ACE Audit, Finance & Risk Committee has reviewed this MD&A and the 2010 audited 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 may 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, market, regulatory developments or proceedings, and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 14 “Risk Factors” of this MD&A. 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 net assets of ACE, on a per share basis, at fair value as at January 31, 2011 and December 31, 2010. 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)	January 31 2011	December 31 2010
Cash and cash equivalents	$ 363	$ 363
Air Canada shares [(1)]	99	107
Air Canada warrants[(1)]	4	5
Commodity taxes receivable[(2)]	1	6
	467	481
Commodity taxes payable[(2)]	-	(6)
Current obligations	(4)	(3)
Contingencies [(2)] [(3)]	-	-
	(4)	(9)
Net assets at fair value	**$ 463**	**$ 472**
Net assets at fair value per share – Basic	**$ 14.26**	**$ 14.55**

Net assets at fair value per share is non-GAAP information and 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.

(1) *As detailed in Section 4 of this MD&A, on December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B voting shares of Air Canada at an offering price of $3.70 per share. As at January 31, 2010, ACE held an 11.11% ownership interest in Air Canada consisting of 31,000,000 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 under the terms of the Credit Facility 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 $99 million as at January 31, 2011 and $107 million as at December 31, 2010 is based on the closing prices of $3.18 per Air Canada Class B share as at January 31, 2011 and $3.45 per Air Canada Class B share as at December 31, 2010, as quoted on the TSX.*

(2) *ACE has applied for Certificates of Discharge from the Canada Revenue Agency ("CRA") and Revenu Québec.*

ACE is assisting the CRA and Revenu Québec 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.

In late 2010, ACE received notices of reassessment from the CRA and Revenu Québec in the amount of $37.7 million. The reassessments primarily relate to audits of GST and QST in respect of ACTS LP, and its predecessor ACTS Limited Partnership, for periods prior to ACE's monetization of ACTS LP in October 2007. Of the amount of such reassessments, $5.7 million remains payable at December 31, 2010. This amount was paid in January 2011.

$35.4 million of the reassessments are recoverable from Air Canada and other parties. $29.2 million was recovered by December 31, 2010 leaving $6.2 million to be recovered at December 31, 2010. $5.3 million of this amount was recovered in January 2011. The total recoverable amount of $35.4 million includes $33.4 million recoverable from Air Canada and $1.1 million from Aveos following their filings of related Input Tax Credits from the Canada Revenue Agency. ACE has agreed to indemnify and hold harmless Air Canada and Aveos from loss should the additional ITC claims be reassessed in the future.

The net impact to ACE of the reassessments of $37.7 million above is expected to be $2.3 million, which was provisioned for by ACE in the Consolidated Statement of Operations.

It is possible that the ongoing audits of income tax returns and other taxes may lead to reassessments in the future.

(3) *Should ACE proceed to a liquidation in the future, additional costs and other liabilities may arise.*

4. ACE's Assets

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

- cash and cash equivalents of $363 million.
- a 11.11% (31,000,000 Class B Voting Shares) ownership interest in Air Canada; and
- 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.

Air Canada is Canada's largest domestic and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-US transborder market as well as the international markets to and from Canada. Certain of the scheduled passenger services offered on domestic and Canada-US transborder routes are provided by Jazz Aviation LP ("Jazz") (the successor to Jazz Air LP) through a capacity purchase agreement between Air Canada and Jazz. Through Air Canada's global route network, virtually every major market throughout the world is served either directly or through the Star Alliance network. In addition, Air Canada provides certain passenger charter services.

Investment in Air Canada (Class B voting shares)

The following table details the carrying value and fair value of ACE's investment in Air Canada until January 31, 2011:

Carrying value of ACE's investment in Air Canada as at October 27, 2009	**$**	**721**
Air Canada dilution loss		(411)
Carrying value of ACE's investment in Air Canada as at October 27, 2009 subsequent to the dilution loss		310
Proportionate share of loss from October 27 to December 31, 2009		(7)
Proportionate share of other comprehensive income from October 27 to December 31, 2009		15
Provision for loss on ACE's investment in Air Canada		(219)
Carrying value of ACE's investment in Air Canada as at December 31, 2009	**$**	**99**
Proportionate share of earnings from January 1 to December 23, 2010		43
Proportionate share of other comprehensive income from January 1 to December 23, 2010		50
Carrying value of ACE's investment in Air Canada as at December 23, 2010		192
Carrying value of Air Canada shares sold on December 23, 2010 (44 million Class B shares)		(113)
Carrying value of ACE's remaining investment in Air Canada (31 million Class B shares)		79
Unrealized gain on AFS investment in Air Canada (31 million Class B shares)		32
Fair value of ACE's investment in Air Canada as at December 23, 2010 *		111
Unrealized loss on AFS investment in Air Canada		(4)
Fair value of ACE's investment in Air Canada as at December 31, 2010 *	**$**	**107**
Fair value of ACE's investment in Air Canada as at January 31, 2011 *	**$**	**99**

** The fair value of ACE's holdings of Air Canada shares of $111 million as at December 23, 2010, $107 million as at December 31, 2010 and $99 million as at January 31, 2011 are based on the closing prices of $3.58 per Air Canada Class B share as at December 23, 2010 $3.45 per Air Canada Class B share as at December 31, 2010,and $3.18 per Air Canada Class B share as at January 31, 2011, as quoted on the TSX.*

Significant events during 2010

$163 million Bought Deal Secondary Offering of Class B Voting Shares of Air Canada

On December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 million (net proceeds of approximately $156 million). The carrying value of the Air Canada shares sold was $113 million and a gain of $43 million was recognized in Gain (loss) on ACE's investment in Air Canada.

Following the offering, ACE beneficially owns 31,000,000 Class B Voting Shares of Air Canada representing 11.11% of the Class A Variable Voting Shares and Class B Voting Shares of Air Canada issued and outstanding on a combined basis.

As a result of the reduction of ACE's ownership interest in Air Canada from 27% to 11.11% on December 23, 2010, ACE ceased to have the ability to exercise significant influence over Air Canada. The retained investment in Air Canada was classified as available-for-sale and was remeasured to fair value of $111 million (based on Air Canada's closing market price as at December 23, 2010 of $3.58 per Class B share as quoted on the TSX). An unrealized gain on AFS investment in Air Canada of $32 million ($27 million, net of taxes) was recognized in Other comprehensive income.

Financial instruments classified as AFS are carried at fair value and any gains or losses are recognized directly in other comprehensive income. For the period from December 23, 2010 to December 31, 2010, ACE's AFS investment in Air Canada fair value decreased to $107 million. The $4 million ($3 million, net of taxes) decrease was recorded as an other comprehensive loss.

Repayment of loan receivable from Air Canada

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 2009

Dilution of ACE's investment in Air Canada and resulting loss of control

During 2009, Air Canada entered into Pension funding agreements with all of Air Canada's Canadian-based unions (the "Pension MOUs"). Pursuant to the Pension MOUs, on October 26, 2009 Air Canada issued, to a trust, 17,647,059 Class B Voting Shares. This number of shares represented 15% of the shares of Air Canada issued and outstanding as at the date of the Pension MOUs and the date of issuance (in both cases after taking into account such issuance).

On October 27, 2009 Air Canada completed a bought deal public offering pursuant to which it sold to an underwriting syndicate 160,500,000 units (the "Units") of Air Canada at a price of $1.62 per Unit for aggregate gross proceeds to Air Canada of $260 million (net proceeds of $249 million after expenses and underwriter fees).

Each Unit was comprised of one Class A variable voting share or one Class B voting share (together the "Shares") of Air Canada, and one-half of one share purchase warrant. Each whole share purchase warrant is defined as a "Warrant". Each Warrant entitles the holder thereof to acquire one Class A variable voting share or one Class B voting share (each, a "Warrant Share") at an exercise price of $2.20 per Warrant Share, at any time prior to October 27, 2012. In the event that, prior to the time of expiry of the Warrants, the 20-day volume weighted average trading price of the Variable Voting Shares on the TSX is equal to or greater than $4.00 or the 20-day volume weighted average trading price of the Voting Shares on the TSX is equal to or greater than $4.00 (each, an "Acceleration Event"), Air Canada shall have the right, at its option, within 10 business days after the Acceleration Event, to accelerate the time of expiry of the Warrants.

As a result of the shares issued by Air Canada completed on October 26, 2009 and October 27, 2009, ACE's ownership interest in Air Canada was reduced from 75% to 27% such that ACE ceased to control Air Canada. As a result, ACE recorded a dilution loss of $411 million.

As of October 27, 2009, ACE no longer consolidated Air Canada's financial position, operating results and cash flows. ACE's investment in Air Canada was subsequently accounted for using the equity method of accounting (up to December 23, 2010) whereby the Air Canada investment carrying value was adjusted to include the Corporation's pro rata share of post-dilution earnings and other comprehensive income. An equity loss of $7 million was recorded representing ACE's pro rata share of post-dilution earnings through to December 31, 2009. The proportionate share of Air Canada other comprehensive income of $15 million was recorded representing ACE's pro rata share of post-dilution other comprehensive income through to December 31, 2009.

In December 2009, ACE recorded a Provision for loss on its Air Canada investment of $219 million as a result of adjusting the carrying value due to an other than temporary decline in the value of the Corporation's investment in Air Canada to $99 million based on Air Canada's closing market price as at December 31, 2009 ($1.32 per Class B share) as quoted on the TSX. The loss on ACE's investment in Air Canada of $630 million, included in the Consolidated statement of operations, is comprised of the Air Canada dilution loss of $411 million and the Provision for loss on Air Canada investment of $219 million.

Loan to Air Canada

On July 29, 2009, ACE participated in the $600 million Credit Facility with a number of other lenders providing financing of $150 million which represented 25% of the Credit Facility.

The terms of the Credit Facility permitted, on or before the first anniversary of the Credit Facility and subject to satisfaction of certain conditions, Air Canada to request an increase to the facility by up to an additional $100 million by obtaining new commitments from either the existing or new lenders. ACE's pro-rata share of the Credit Facility was repayable in 16 consecutive quarterly installments commencing in August 2010 of $7.5 million with the final installment of $30 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% (12.75% as at December 31, 2009). The Credit Facility was repayable at any time, in whole or in part, with the payment of applicable fees, subject to a minimum repayment of $10 million.

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. The Credit Facility contained customary representations and warranties and was subject to customary terms and conditions (including negative covenants, financial covenants and events of default). Financial covenants required Air Canada to maintain, as of the last business day of each month, a minimum liquidity level (as defined per the Credit Facility and generally based upon the balances as reported in Cash and cash equivalents and Short-term investments) of $800 million and a minimum EBITDAR (earnings before interest, income taxes, depreciation, amortization, aircraft rentals, certain non-operating income (expense) and special items) and an interest coverage ratio test determined as at the end of each fiscal quarter.

Air Canada was required under the Credit Facility to maintain securities of $800 million in accounts subject to securities control agreements which securities would become restricted if Air Canada defaulted on certain terms of the agreement.

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 on financial instruments recorded at fair value in the consolidated statement of operations. The fair value of the 2,500,000 warrants amounted to $5 million as at December 31, 2010 (nil as at December 31, 2009) using the Black-Scholes option valuation model.

ACTS Aero

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 had 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 ACTS Aero in 2010.

5. Accounting Policies

This MD&A should be read in conjunction with ACE's audited consolidated financial statements and notes for 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 was accounted for using the equity method of accounting. Effective December 23, 2010, ACE was deemed to have ceased to have the ability to exercise significant influence over Air Canada and as a result, the retained investment in Air Canada was classified as an available-for-sale financial instrument. Consequently, ACE's results of operations for 2010 are not directly comparable to its operating results for 2009.

For additional information on ACE's significant accounting policies and methods used in preparation of ACE's 2010 audited consolidated financial statements and notes, please refer to Note 2 to ACE's 2010 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 13 of this MD&A for a discussion of ACE's critical accounting estimates.

5.1 Update on the Progress of the International Financial Reporting Standards Conversion Plan

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the conversion 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 has developed a plan to convert its consolidated financial statements to IFRS. Updates regarding the progress of the conversion plan are provided to the Corporation's Audit, Finance and Risk Committee on a quarterly basis.

The plan addresses the impact of IFRS on accounting policies and implementation decisions, infrastructure, business activities and control activities. The IFRS conversion plan is progressing as anticipated.

The following information has been provided solely for the purpose of allowing investors and others to obtain a better understanding of the Corporation's IFRS conversion plan and the resulting expected effects on the Corporation's financial statements. Readers are cautioned that it may not be appropriate to use such information for any other purpose. The accounting policy differences identified in this MD&A should not be considered as complete or final as further changes, or other effects and other policy differences may be identified prior to the release of the Q1 2011 interim financial information in accordance with IFRS. In addition, the information provided reflects the Corporation's current assumptions, estimates and expectations, all of which are subject to change. Circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change these assumptions, estimates or expectations or the information provided.

First time adoption of IFRS

With regard to IFRS transition, the Corporation has essentially completed its analysis on the optional exemptions available under IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). IFRS 1, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs. The decisions about the optional exemptions available under IFRS 1 are preliminary and may be subject to change based on changes in circumstances.

The IFRS 1 exemptions that are expected to apply to the Corporation upon adoption are summarized in the following table:

Optional exemption under IFRS 1	Summary of Exemption Available	Policy Selection
Compound financial instruments	IAS 32 Financial Instruments: Presentation requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRS.	The Corporation has elected to apply the exemption and not separate the two portions of equity as the liability components are no longer outstanding at the date of transition to IFRS.
Business Combination	The Corporation may elect not to apply IFRS 3 (as amended in 2008) retrospectively to past business combinations prior to the date of transition to IFRS. Such election has the effect of leaving past business combinations as previously reported.	The Corporation has elected not to apply IFRS 3 (as amended in 2008) retrospectively to business combinations that occurred before October 27, 2009, the date on which ACE ceased to control Air Canada.

Summary of accounting policy changes under IFRS

The Corporation has identified the following differences between its current accounting policies and those required or expected to apply in preparing IFRS financial statements which are summarized in the following table:

Accounting policy	Accounting policy changes under IFRS and expected impact
Consolidation - Loss of Control	Under IAS 27 "Consolidated and separate financial statements", upon loss of control resulting in significant influence, any retained investment in a former subsidiary is remeasured at fair value and a gain or loss is recognised in profit or loss (comprised of a gain or loss on the interest disposed of, and a gain or loss from remeasurement to fair value of any retained non-controlling equity investment in the former subsidiary). The fair value of the retained investment is the deemed cost for the purposes of applying the equity method of accounting. **Policy choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Under existing Canadian GAAP, any retained non-controlling equity investment in the former subsidiary would not be remeasured to fair value and no remeasurement gain or loss would be recognised in profit or loss. **Expected impact to the opening balance sheet:** As a result of the shares issued by Air Canada on October 26, 2009 and October 27, 2009, ACE's ownership interest in Air Canada was reduced from 75% to 27% such that ACE ceased to control Air Canada. Refer to Note 3 of the Corporation's audited consolidated financial statements. Under IFRS, the equity investment in Air Canada was restated to fair value of $94 million as at October 27, 2009. Subsequently, for the period from October 27, 2009 to December 31, 2009, the carrying value was adjusted to include the Corporation's proportionate share of Air Canada's loss under IFRS of $13 million, other comprehensive income under IFRS of nil and other equity accounting adjustments reflecting additional amortization on ACE's proportionate fair value of Air Canada's assets acquired of $1 million. Under existing Canadian GAAP, the equity investment in Air Canada was $310 million as at October 27, 2009 following the recognition of a dilution loss. Subsequently, for the period from October 27, 2009 to December 31, 2009, the carrying value was adjusted to include the Corporation's proportionate share of Air Canada's loss of $7 million, other comprehensive income of $15 million and an impairment loss as at December 31, 2009 of $219 million. As a result, under IFRS, the carrying value of the equity investment in Air Canada is $80 million as at January 1, 2010. Under Canadian GAAP, the carrying value of the equity investment in Air Canada is $99 million as at January 1, 2010. The Corporation will decrease the carrying value of its equity investment in Air Canada by an amount of $19 million on transition to IFRS as at January 1, 2010. In addition, as at October 27, 2009, the cumulative amount deferred in other comprehensive loss relating to Air Canada of $50 million was reclassified to retained earnings (deficit). **Expected impact subsequent to transition:** The proportionate share of Air Canada's income from January 1, 2010 to December 23, 2010 will be adjusted to reflect amounts recognized under IFRS by Air Canada.

Accounting policy	Accounting policy changes under IFRS and expected impact
Investments Subject to Significant Influence	Investments subject to significant influence are accounted for using the equity method of accounting which reflects the costs of the investment and the Corporation's proportionate share of the investee's profits or losses, other comprehensive income or losses, capital transactions and dividends received. When an associate accounted for under the equity method of accounting incurs losses, the carrying amount of the investor's interest is reduced, but not below zero. Further losses are recognised by the investor only to the extent that the investor has an obligation to fund losses. There is no specific guidance related to investments subject to significant influence when a return to profitability is considered imminent. **Policy choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Under existing Canadian GAAP, investments subject to significant influence are accounted for using the equity method of accounting which reflects the costs of the investment and the Corporation's proportionate share of the investee's profits or losses, other comprehensive income or losses, capital transactions and dividends received. The Corporation does not record the losses of investee's when the Corporation is unlikely to share in such losses unless the Corporation has guaranteed the obligations of the investee, has committed to provide further financial support to the investee or the investee seem assured of imminently returning to profitability. **Expected impact to the opening balance sheet:** No expected impact other than the adjustments described in the Consolidation – Loss of Control section. **Expected impact subsequent to transition:** No expected impact.

Accounting policy	Accounting policy changes under IFRS and expected impact
Impairment	Under IAS 39, Financial Instruments – Recognition and Measurement, an investor must assess whether objective evidence of an impairment exists in its associate or equity accounted investee. If impairment testing is required then the investor would apply the guidance of IAS 36. IAS 36 impairment testing of assets is based on comparing the carrying amount of the asset or group of assets to their recoverable amount. Recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis. In addition, IAS 36 requires, under certain circumstances, the reversal of impairment losses. An equity accounted investment is written down if its carrying amount is impaired. Such write-downs may be reversed if there is a subsequent increase in value. **Policy choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Under existing Canadian GAAP, when there is a loss in value of an investment accounted for using the equity method of accounting that is other than a temporary, the investment is written down to its fair value with a loss recognized in the statement of operations. Such write-downs are not reversed if there is a subsequent increase in value. **Expected impact to the opening balance sheet:** As described in the Consolidation – Loss of Control section, as a result of the shares issued by Air Canada on October 26, 2009 and October 27, 2009, ACE's ownership interest in Air Canada was reduced from 75% to 27% such that ACE ceased to control Air Canada. Refer to Note 3 of the Corporation's audited consolidated financial statements. Under IFRS, the equity investment in Air Canada was restated to fair value of $94 million as at October 27, 2009. Subsequently, for the period from October 27, 2009 to December 31, 2009, the carrying value was adjusted to include the Corporation's proportionate share of Air Canada's loss under IFRS of $13 million, other comprehensive income under IFRS of nil and other equity accounting adjustments reflecting additional amortization on ACE's proportionate fair value of Air Canada's assets acquired of $1 million. Under existing Canadian GAAP, the equity investment in Air Canada was $310 million as at October 27, 2009 following the recognition of a dilution loss. Subsequently, for the period from October 27, 2009 to December 31, 2009, the carrying value was adjusted to include the Corporation's proportionate share of Air Canada's loss of $7 million, other comprehensive income of $15 million and an impairment loss as at December 31, 2009 of $219 million. As a result, under IFRS, the carrying value of the equity investment in Air Canada is $80 million as at January 1, 2010. Under Canadian GAAP, the carrying value of the equity investment in Air Canada is $99 million as at January 1, 2010. There was no impairment recognized under IFRS on transition. In addition, as at October 27, 2009, the cumulative amount deferred in other comprehensive loss relating to Air Canada of $50 million was reclassified to retained earnings (deficit). **Expected impact subsequent to transition:** Impairments may be recognized more frequently under IFRS, however they may be reversed in future periods.

Accounting policy	Accounting policy changes under IFRS and expected impact
Loss of Significant Influence	Under IAS 28 "Investments in Associates", upon the loss of significant influence, any retained investment is remeasured to fair value and a gain or loss is recognised in profit or loss. The fair value of the retained investment is the deemed cost for the purposes of applying the financial instruments standards. **Policy choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Under existing Canadian GAAP, upon the loss of significant influence, the retained interest represents carrying amount of the net assets of the investee and is adjusted for reclassification of items previously recognised in accumulated other comprehensive income. The adjusted carrying value of the retained investment is the deemed cost for the purposes of applying the financial instruments standards. **Expected impact to the opening balance sheet:** No expected impact. **Expected impact subsequent to transition:** On December 23, 2010, as a result of the reduction of ACE's ownership interest in Air Canada, ACE ceased to have the ability to exercise significant influence over Air Canada. The retained investment in Air Canada was classified as available-for-sale ("AFS") and remeasured to fair value of $111 million under Canadian GAAP and IFRS. The remeasurement to fair value on December 23, 2010 is recognized through other comprehensive income under existing Canadian GAAP and through the statement of operations under IFRS.

Accounting policy	Accounting policy changes under IFRS and expected impact
Provisions and contingent liabilities	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under IAS 37, there are a number of different estimation techniques to arrive at the best estimate, including the single most likely outcome, the weighted average of all possible outcomes or the midpoint where there is a range of equally possible outcomes. **Policy choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable" and estimable. Where there is a range of equally possible outcomes, the provision is recorded at the low point of the range. **Expected impact to the opening balance sheet:** No expected impact. **Expected impact subsequent to transition:** Provisions may be recognized more frequently under IFRS.

Estimated Adjustments to Shareholders' Equity on Adoption of IFRS

Unaudited (Canadian dollars in millions)	**Canadian GAAP 2010 January 1 2010**	**IFRS transitional adjustment January 1 2010**	**IFRS January1 2010**
Assets			
Cash and cash equivalents	$ 71		$ 71
Investment in Air Canada	99	(19)	80
Loan receivable from Air Canada	150		150
Interest receivable	3		3
	$ 323	**(19)**	**$ 304**
Liabilities			
Accounts payable and accrued liabilities	$ 3		$ 3
Shareholders' equity			
Share capital	104		104
Contributed surplus	358		358
Deficit	(92)	(69)	(161)
Accumulated other comprehensive income (loss)	(50)	50	-
	320	(19)	301
	$ 323	**(19)**	**$ 304**

* *The estimated adjustments to Shareholders' Equity on adoption of IFRS is intended to highlight areas which the Corporation expects, and should not be regarded as final.*

6. Results of Operations – Quarter 4 2010

(Canadian dollars in millions)	Quarter 4 2010
Operating revenue	$ -
Operating expenses	3
Operating loss	**(3)**
Non-operating income (expense)	
Interest income	1
Gain on ACE's investment in Air Canada	43
Proportionate share of Air Canada's income	40
Gain on financial instruments recorded at fair value	1
	85
Income before the following items	82
Recovery of income taxes	4
Income for the period	**$ 86**

The under-noted reconciliation provides supplementary information to separate CIE from Air Canada results included in the consolidated financial statements for the fourth quarter of 2009 when Air Canada's results were consolidated up to October 27, 2009.

	Quarter 4 2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE**
Operating revenue			
Passenger revenue	$ 727	$ -	$ 727
Cargo revenue	34	-	34
Other revenue	54	-	54
	815	-	815
Operating expenses			
Aircraft fuel	209	-	209
Wages, salaries and benefits	135	-	135
Airport and navigation fees	79	-	79
Capacity purchase with Jazz	79	-	79
Depreciation and amortization	55	-	55
Aircraft maintenance	68	-	68
Food, beverages and supplies	26	-	26
Communications and information technology	26	-	26
Aircraft rent	26	-	26
Commissions	16	-	16
Other operating expenses	100	1	101
	819	1	820
Operating loss	**(4)**	**(1)**	**(5)**
Non-operating income (expense)			
Interest income	-	3	3
Interest expense	(29)	-	(29)
Interest capitalized	-	-	-
Loss on ACE's investment in Air Canada	-	(630)	(630)
Loss on repurchase of ACE convertible senior notes	-	(1)	(1)
Gain on financial instruments recorded at fair value	21	-	21
Equity and other investment loss	-	(7)	(7)
	(8)	(635)	(643)
Loss before the following items	**(12)**	**(636)**	**(648)**
Non-controlling interest	(1)	8	7
Foreign exchange loss	(18)	-	(18)
Recovery of income taxes	-	3	3
Loss for the period	**$ (31)**	**$ (625)**	**$ (656)**

ACE's results reflect the consolidation of Air Canada only up to October 27, 2009. After that date, ACE's investment in Air Canada was accounted for using the equity method of accounting. On December 23, 2010, Air Canada was classified as an available-for-sale financial instrument. Consequently, ACE's results of operations for 2010 are not directly comparable to its results of operations for 2009.

ACE recorded an operating loss of $3 million in Quarter 4 2010 compared to an operating loss of $5 million in Quarter 4 2009. ACE's consolidated results for Quarter 4 2009 included an operating loss from Air Canada of $4 million.

ACE recorded operating revenues of nil and operating expenses of $3 million in Quarter 4 2010. In the same period in 2009, ACE recorded operating revenues of $815 million and operating expenses of $820 million mainly as a result of its consolidation of Air Canada results.

Non-operating income amounted to $85 million in Quarter 4 2010 compared to non-operating expense of $643 million in Quarter 4 2009. Included in Quarter 4 2010 non-operating income was a gain on ACE's investment in Air Canada of $43 million and ACE's proportionate share of Air Canada's income of $40 million for the period up to December 23, 2010. Refer to Section 4 of the MD&A for additional information. Included in Q4 2009 non-operating expense was a loss on ACE's investment in Air Canada of $630 million which is comprised of the Air Canada dilution loss of $411 million and the Provision for loss on Air Canada investment of $219 million.

ACE recorded an Income tax provision of $4 million against the Unrealized gain on available-for-sale investment in Air Canada of $28 million, resulting in an unrealized gain of $24 million, net of income taxes within the Consolidated Statement of Comprehensive Income. The related liability is offset by a recovery of valuation allowance of $4 million recorded in the Consolidated Statement of Operations (Quarter 4 2009 – Recovery of $3 million). As a result, no future income tax liability is presented on the Consolidated Statement of Financial Position.

Income in Quarter 4 2010, amounted to $86 million or $2.64 per diluted share. In Quarter 4 2009, ACE recorded a loss of $656 million or $(18.38) per diluted share.

7. Results of Operations – 2010

(Canadian dollars in millions)	2010
Operating revenue	$ -
Operating expenses	10
Operating loss	**(10)**
Non-operating income (expense)	
Interest income	14
Gain on ACE's investment in Air Canada	43
Proportionate share of Air Canada's income	43
Gain on financial instruments recorded at fair value	5
Loss on investment in ACTS Aero	(1)
	104
Income before the following items	94
Recovery (provision for) of income taxes	4
Income for the period	**$ 98**

The under-noted reconciliation provides supplementary information to separate CIE from Air Canada results included in the consolidated financial statements for the period up to October 27 2009 when Air Canada's results were consolidated.

	2009		
(Canadian dollars in millions)	**Air Canada**	**CIE**	**ACE**
Operating revenue			
Passenger revenue	$ 7,196	$ -	$ 7,196
Cargo revenue	282	-	282
Other revenue	729	(1)	728
	8,207	(1)	8,206
Operating expenses			
Aircraft fuel	2,056	-	2,056
Wages, salaries and benefits	1,468	4	1,472
Airport and navigation fees	822	-	822
Capacity purchase with Jazz	825	-	825
Depreciation and amortization	550	(5)	545
Aircraft maintenance	625	-	625
Food, beverages and supplies	248	-	248
Communications and information technology	255	-	255
Aircraft rent	276	-	276
Commissions	156	-	156
Other operating expenses	1,162	8	1,170
	8,443	7	8,450
Operating loss	**(236)**	**(8)**	**(244)**
Non-operating income (expense)			
Interest income	12	5	17
Interest expense	(316)	(5)	(321)
Interest capitalized	4	-	4
Loss on other assets	(70)	-	(70)
Loss on repurchase of ACE convertible senior notes and preferred shares	-	(44)	(44)
Loss on ACE's investment in Air Canada	-	(630)	(630)
Proportionate share of Air Canada's loss	-	(7)	(7)
Gain on financial instruments recorded at fair value	94	-	94
Other	(5)	-	(5)
	(281)	(681)	(962)
Loss before the following items	**(517)**	**(689)**	**(1,206)**
Non-controlling interest	(12)	(1)	(13)
Foreign exchange gain	531	-	531
Provision for income taxes	(1)	(3)	(4)
Net income (loss) for the period	**$ 1**	**$ (693)**	**$ (692)**

ACE's results reflect the consolidation of Air Canada up to October 26, 2009. After that date, ACE's investment in Air Canada was accounted for using the equity method of accounting. On December 23, 2010, Air Canada was classified as an available-for-sale financial instrument. Consequently, ACE's results of operations for 2010 are not directly comparable to its results of operations for 2009.

ACE recorded an operating loss of $10 million in 2010 compared to an operating loss of $244 million in 2009. ACE's consolidated results for 2009 included an operating loss from Air Canada of $236 million.

ACE recorded operating revenues of nil and operating expenses of $10 million in 2010. In the same period in 2009, ACE recorded operating revenues of $8,206 million and operating expenses of $8,450 million mainly as a result of its consolidation of Air Canada's results.

Non-operating income amounted to $104 million in 2010 compared to non-operating expense of $962 million in 2009. Included in 2010 non-operating income was a gain on ACE's investment of $43 million and ACE's proportionate share of Air Canada's income of $43 million. Refer to Section 4 of the MD&A for additional information. In 2009, ACE recorded a loss on its investment in Air Canada in the amount of $630 million. ACE recorded a loss on repurchase of the convertible senior notes and preferred shares within Non-operating expense in the amount of $44 million. The repurchase prices of these investments, allocated to the liability components of these compound instruments, exceeded the respective carrying values. The residual equity components of the instruments amounting to $199 million were transferred directly to Contributed surplus in the consolidated statement of changes in shareholders' equity. Included in 2009 was a non-operating expense of $281 million from Air Canada.

ACE recorded an Income tax provision of $4 million against the Unrealized gain on available-for-sale investment in Air Canada of $28 million, resulting in an unrealized gain of $24 million, net of income taxes within the Consolidated Statement of Comprehensive Income. The related liability is offset by a recovery of valuation allowance of $4 million recorded in the Consolidated Statement of Operations (2009 – Provision of $4 million). As a result, no future income tax liability is presented on the Consolidated Statement of Financial Position.

Income in 2010 amounted to $98 million or $3.00 per basic and diluted share. In 2009, ACE recorded a loss of $692 million or $(19.56) per basic and diluted share.

8. Financial and Capital Management

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

Consolidated Statement of Financial Position (Canadian dollars in millions)	**December 31, 2010**	**December 31, 2009**
Assets		
Cash and cash equivalents	$ 363	$ 71
Investment in Air Canada	107	99
Air Canada warrants	5	-
Loan receivable from Air Canada	-	150
Interest receivable	-	3
Commodity taxes receivable	6	-
	$ 481	**$ 323**
Liabilities		
Commodity taxes payable	$ 6	$ -
Accounts payable and accrued liabilities	3	3
	9	**3**
Shareholders' equity	**472**	**320**
	$ 481	**$ 323**

** Refer to Section 12 for Off-balance sheet arrangements.*

8.1 Analysis of Financial Position

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

Cash and cash equivalents

As at December 31, 2010, ACE's cash and cash equivalents amounted to $363 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 December 31, 2010.

Investment in Air Canada

On December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 million (net proceeds of approximately $156 million). See Section 4 of this MD&A for additional information. The net increase of $8 million in ACE's investment in Air Canada during 2010 was due to ACE's proportionate share of Air Canada's other comprehensive income during that period of $50 million, ACE's proportionate share of Air Canada's income during the period of $43 million, ACE's unrealized gain on AFS investment in Air Canada of $28 million offset by the carrying value of the Air Canada shares sold of $113 million.

Air Canada warrants

The fair value of the 2,500,000 warrants amounted to $5 million as at December, 2010 (nil as at December 31, 2009) using the Black-Scholes option valuation model.

Loan Receivable from Air Canada

As at December 31, 2009, ACE's Loan Receivable from Air Canada amounted to $150 million. 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.

Commodity taxes receivable and Commodity taxes payable

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.

In late 2010, ACE received notices of reassessment from Revenu Québec in the amount of $37.7 million. The reassessments primarily relate to audits of GST and QST in respect of ACTS LP, and its predecessor ACTS Limited Partnership, for periods prior to ACE's monetization of ACTS LP in October 2007. Of the amount of such reassessments, $5.7 million remains payable at December 31, 2010. This amount was paid in January 2011.

$35.4 million of the reassessments are recoverable from Air Canada and other parties. $29.2 million was recovered by December 31, 2010 leaving $6.2 million to be recovered at December 31, 2010. $5.3 million of this amount was recovered in January 2011. The total recoverable of $35.4 million includes $33.4 million recoverable from Air Canada and $1.1 million from Aveos following their filings of related Input Tax Credits from the Canada Revenue Agency. ACE has agreed to indemnify and hold harmless Air Canada and Aveos from loss should the additional ITC claims be reassessed in the future.

The net impact to ACE of the reassessments of $37.7 million above is expected to be $2.3 million, which was provisioned for by ACE in the Consolidated Statement of Operations.

It is possible that the ongoing audits of income tax returns and other taxes may lead to reassessments in the future.

Shareholders' equity

As at December 31, 2010, ACE's shareholders' equity amounted to $472 million, an increase of $152 million during 2010. This was due to income for the year of $98 million and other comprehensive income of $74 million, partially offset by the completion of a substantial issuer bid in Quarter 1 by ACE for the purchase and cancellation of 1.4 million Class A variable voting shares and 1.8 Class B voting 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 operating 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 4			
(Canadian dollars in millions)	**2010**	**2009**	**2010**	**2009**
Cash from (used for) operating activities	$ (4)	$ 19	$ 7	$ (168)
Cash from (used for) for financing activities	-	160	(20)	(409)
Cash from investing activities	156	(1,284)	305	(659)
Net change in cash and cash equivalents during the period	**152**	**(1,105)**	**292**	**(1,236)**
Cash and cash equivalents - Beginning of period	**211**	**1,176**	**71**	**1,307**
Cash and cash equivalents - End of period	**$ 363**	**$ 71**	**$ 363**	**$ 71**

The following summarizes significant transactions or factors which impacted ACE's cash and cash equivalents in 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.

- In December 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 million (net proceeds of approximately $156 million). Following the offering, ACE beneficially owns 31,000,000 Class B Voting Shares of Air Canada representing 11.11% of the Class A Variable Voting Shares and Class B Voting Shares of Air Canada issued and outstanding on a combined basis.

The following summarizes significant transactions or factors which impacted ACE's unconsolidated cash and cash equivalents in 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 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.

- In December 2009, ACE redeemed the remaining convertible senior notes for an aggregate purchase price of $64 million.

8.3 Capital Management

Capital managed by ACE, summarized from the consolidated statement of financial position, is as follows:

	2010	2009
Shareholders' equity	472	320
Capital	$ 472	$ 320

As at December 31, 2010, ACE's capital amounted to $472 million, an increase of $152 million during 2010.

ACE's business strategy, to maximize shareholder value and to return capital to its shareholders, has influenced its capital management objectives. Consistent with those objectives, during 2009 and 2010, the ACE Board of Directors authorized the return of capital to its shareholders and noteholders through the purchase and cancellation of ACE's Class A variable voting shares, Class B voting shares, convertible preferred shares and convertible senior notes and the redemption of its remaining convertible senior notes.

Going forward, the Board will continue to review alternatives to maximize the return to its shareholders.

8.4 Share Information

At January 31, 2011, the issued and outstanding common shares of ACE, along with common shares potentially issuable, were as follows:

Number of shares (000)	January 31, 2011	December 31, 2010
Issued and outstanding common shares		
Class A variable voting shares	26,049	26,049
Class B voting shares	6,424	6,424
Total issued and outstanding common shares (1)	**32,473**	**32,473**
Common shares potentially issuable		
Stock options (2)	38	38
Total outstanding and potentially issuable common shares	**32,511**	**32,511**

(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 5 to the 2010 annual audited consolidated financial statements. At January 31, 2011, a total of 37,500 stock options with a weighted exercise price of $15.36 were outstanding.

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)	Q1 2009	Q2 2009	Q3 2009	Q4(1) 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Operating revenues	$ 2,391	$ 2,330	$ 2,670	$ 815	$ -	$ -	$ -	$ -
Operating expenses	(2,583)	(2,445)	(2,602)	(820)	(2)	(3)	(1)	(3)
Operating income (loss)	**(192)**	**(115)**	**68**	**(5)**	**(2)**	**(3)**	**(1)**	**(3)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax(2)	(152)	225	130	(651)	(14)	(47)	79	89
Net income (loss)	**$ (344)**	**$ 110**	**$ 198**	**$ (656)**	**$ (16)**	**$ (50)**	**$ 78**	**$ 86**
Earnings (loss)(3)								
Per share – basic	**$ (9.87)**	**$ 3.16**	**$5.57**	**$(18.38)**	**$(0.48)**	**$(1.56)**	**$2.41**	**$2.64**
Per share – diluted	**$ (9.87)**	**$ 2.68**	**$5.15**	**$(18.38)**	**$(0.48)**	**$(1.56)**	**$2.41**	**$2.64**

(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. Quarter 4 2010 includes a gain of $43 million on ACE's sale of 44,000,000 Class B voting shares of Air Canada.

(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. Selected Annual Information

The following table provides selected annual information for ACE for the years 2010, 2009 and 2008. The information provided below may not be directly comparable as a result of changes in accounting policies relating to Air Canada.

($ millions, except per share figures)	**2010**	**2009** [1]	**2008**
Operating revenues	$ -	$ 8,206	$ 11,080
Operating expenses	(10)	(8,450)	(11,154)
Operating income (loss) before the provision for cargo investigations	**(10)**	**(244)**	**(74)**
Provision for cargo investigations [2]	-	-	(125)
Operating income (loss)	**(10)**	**(244)**	**(199)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax [3]	108	(448)	79
Net income (loss)	**$ 98**	**$ (692)**	**$ (120)**
Earning (loss) per share			
- Basic	**$3.00**	**$(19.56)**	**$ (2.59)**
- Diluted	**$3.00**	**$(19.56)**	**$ (2.59)**
Cash, cash equivalents and short-term investments	**$ 363**	**$ 71**	**$ 1,813**
Total assets	**$ 481**	**$ 323**	**$ 11,871**
Total long-term liabilities [4]	**$ -**	**$ -**	**$ 7,804**

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

(2) Air Canada recorded a provision for cargo investigations of $125 million in 2008.

(3) Non-operating income (expense) includes a gain of $43 million on ACE's sale of Air Canada shares in 2010, losses on ACE's investment in Air Canada of $630 million in 2009 and gains on assets which amounted to $946 million in 2008. Also included are net gains on foreign exchange of $531 million in 2009 and net losses on foreign exchange of $655 million in 2008.

(4) Total long-term liabilities include long-term debt (including current portion) and capital leases, convertible preferred shares, pension and other benefit liabilities and other long-term liabilities.

11. Financial Instruments and Risk Management

Risk Management

As at December 31, 2010, ACE's financial instruments include cash and cash equivalents in the amount of $363 million ($71 million as at December 31, 2009), Air Canada warrants of $5 million (nil as at December 31, 2009), commodity taxes receivable of $6 million (nil as at December 31, 2009), interest receivable of nil from Air Canada ($3 million as at December 31, 2009) and accounts payable of accrued liabilities of $3 million ($3 million as at December 31, 2009). At December 31, 2009, ACE had a secured loan receivable of $150 million from Air Canada. The risk exposure related to these holdings is described below.

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 December 31, 2010, the Corporation had Cash and cash equivalents of $363 million and accounts payable and accrued liabilities $3 million.

Credit Risk
Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. The Corporation is primarily exposed to credit risk from its cash and cash equivalents. The maximum exposure of which is represented by the carrying amounts reported on the balance sheet. This risk is mitigated by the fact that cash and cash equivalents are held by major Canadian banks. The Corporation's target is that no one financial institution holds more than 25% of the total.

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk. The Corporation is exposed to interest rate risk and equity 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 $363 million. The weighted average interest rate on ACE's cash and cash equivalents at December 31, 2010, is approximately 1.02%, which results in limited downside risk. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Corporation is exposed to equity risk from its holding of 31,000,000 Air Canada shares and 2,500,000 Air Canada warrants

Summary of Gain on Financial Instruments Recorded at Fair Value

	2010	2009 *
Air Canada warrants issued under the Credit Facility	$ 5	$ -
Fuel derivatives not under hedge accounting	-	98
Other	-	(4)
Gain on financial instruments recorded at fair value	$ 5	$ 94

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

12. 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.

Indemnification agreements

Refer to Note 4 of the consolidated financial statements for a description of indemnification agreements between ACE, Air Canada and Aveos related to certain commodity tax reassessments.

13. Critical Accounting Estimates

Effective October 27, 2009, the operating results, financial position and cash flows of Air Canada are not consolidated with ACE. Refer to Section 4 "ACE's Assets" in this MD&A.

Critical accounting estimates are those that are most important to the portrayal of the Corporation's financial condition and results of operations. They require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Actual results could differ from those estimates under different assumptions or conditions.

The Corporation has identified the following area that contains critical accounting estimates utilized in the preparation of its consolidated financial statements:

Income Taxes

The Corporation utilizes the assets and liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying value amount and the tax basis of assets and liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts in recording future taxes, giving consideration to timing and probability. Actual taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Corporation's tax assets and tax liabilities.

Future income tax assets are recognized to the extent that realization is considered more likely than not. The Corporation considers past results, current trends and outlooks for future years in assessing realization of income tax assets.

14. Risk Factors

The risks described herein may not be the only risks faced by the Corporation. Other risks which the Corporation is not aware of or which the Corporation currently deems to be immaterial may surface and have a material adverse impact on the Corporation's business, results from operations and financial condition.

A Substantial Portion of ACE's Cash is Invested in Cash Equivalents

A substantial portion of ACE's cash is invested in cash equivalents which are subject to credit exposure and interest rate fluctuations which could change the value of these investments. These investments are made in accordance with an investment policy approved by the Board of Directors. Although ACE's investment policy is designed to provide for short-term liquidity and low levels of risk, such investments are subject to credit exposure and interest rate fluctuations. Consequently, the value of such investments could increase or decrease accordingly. Any decrease in the fair value of these investments would reduce the amount available for distribution to stakeholders.

Shares and Warrants in Air Canada

The value of ACE's equity interests in Air Canada is subject to market conditions based on the financial performance of Air Canada and to any risks and uncertainties relating to Air Canada, as well as any, movements in the price of publicly-traded airline stocks and general market conditions. Any decrease in the market price of Air Canada shares will reduce the value of these shares and warrants which can be realized.

Tax Audits

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 assessments in the future. Also refer to Section 3 and 8.1 of this MD&A for a description of indemnification agreements between ACE, Air Canada and Aveos related to commodity tax assessments.

Liquidation

If ACE subsequently proceeds with the liquidation of its net assets, ACE will again adopt a liquidation basis of presentation which will result in net assets in liquidation being presented on a net realizable basis. As part of a liquidation process, a claims process would be initiated pursuant to which any claims against the corporation would be identified and resolved. It is possible, that through this process, additional liabilities could be identified.

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 will file 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 2011 Annual Information Form. In those filings, the Corporation's CEO and CFO will certify, 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, assessed the effectiveness of the Corporation's disclosure controls and procedures and concluded, as at December 31, 2010, that such disclosure controls and procedures 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, assessed the effectiveness of the Corporation's internal controls over financial reporting. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2010, the Corporation's internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporation's internal controls over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.