ACE AVIATION

First Quarter 2011
Interim Unaudited
Condensed Consolidated Financial Statements and Notes

May 10, 2011

Consolidated Statement of Income (Loss)

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2011	2010
Operating expenses		$ (3)	$ (2)
Interest income		1	5
Proportionate share of Air Canada's loss	Note 4	-	(32)
Gain (loss) on financial instruments recorded at fair value	Note 4	(2)	2
Loss on investment in ACTS Aero	Note 4	-	(1)
Loss before the following items		**(4)**	**(28)**
Recovery of (provision for) income taxes	Note 6		
Current		-	-
Deferred		-	-
Loss for the period		**$ (4)**	**$ (28)**
Loss per share			
Basic and Diluted		$ (0.13)	$ (0.87)

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income (Loss)

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2011	2010
Comprehensive loss			
Loss for the period		$ (4)	$ (28)
Other comprehensive income (loss), net of taxes:			
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities		-	17
Unrealized loss on available-for-sale ("AFS") investment in Air Canada	Note 4	(31)	-
Total comprehensive loss		**$ (35)**	**$ (11)**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		March 31 2011	December 31 2010	January 1 2010
ASSETS				
Cash and cash equivalents		$ 362	$ 363	$ 71
Investment in Air Canada	Note 4	76	107	80
Air Canada warrants	Note 4	3	5	-
Loan receivable from Air Canada	Note 4	-	-	150
Interest receivable		-	-	3
Commodity taxes receivable	Note 6	1	6	-
		$ 442	**$ 481**	**$ 304**
LIABILITIES				
Commodity taxes payable	Note 6	$ -	$ 6	$ -
Accounts payable and accrued liabilities	Note 6	5	3	3
		5	9	3
SHAREHOLDERS' EQUITY				
Share capital		95	95	104
Contributed surplus		347	347	358
Retained earnings (deficit)		30	34	(161)
Accumulated other comprehensive loss		(35)	(4)	-
		437	472	301
		$ 442	**$ 481**	**$ 304**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2011	Year Ended December 31 2010	Three Months Ended March 31 2010
Share capital				
Common shares, beginning of period		$ 95	$ 104	$ 104
Repurchase and cancellation of common shares	Note 5	-	(9)	(9)
Total share capital		95	95	95
Contributed surplus				
Balance, beginning of period		347	358	358
Repurchase and cancellation of common shares	Note 5	-	(11)	(11)
Total contributed surplus		347	347	347
Retained earnings (deficit)				
Balance, beginning of period		34	(161)	(161)
Income (loss) for the period		(4)	39	(28)
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities		-	156	17
Retained earnings (deficit)		30	34	(172)
Accumulated other comprehensive income (loss)				
Balance, beginning of period		(4)	-	-
Unrealized loss on available-for-sale ("AFS") investment in Air Canada		(31)	(4)	-
Total accumulated other comprehensive income (loss)		(35)	(4)	-
Total retained earnings (deficit) and accumulated other comprehensive income (loss)		(5)	30	(172)
Total shareholders' equity		**$ 437**	**$ 472**	**$ 270**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2011	2010
Cash flows from (used for)			
Operating			
Loss for the period		$ (4)	$ (28)
Adjustments to reconcile to net cash from operations			
Proportionate share of Air Canada's loss	Note 4	-	32
Loss (gain) on financial instruments recorded at fair value	Note 4	2	(2)
Loss on investment in ACTS Aero	Note 4	-	1
Changes in non-cash working capital balances		1	-
		(1)	**3**
Financing			
Repurchase and cancellation of ACE common shares	Note 5	-	(20)
		-	**(20)**
Investing			
Loss on investment in ACTS Aero	Note 4	-	(1)
		-	**(1)**
Decrease in cash and cash equivalents		**(1)**	**(18)**
Cash and cash equivalents, beginning of period		363	71
Cash and cash equivalents, end of period		**$ 362**	**$ 53**

The accompanying notes are an integral part of these financial statements.

Condensed notes to the Interim Consolidated Financial Statements (unaudited) (Canadian dollars in millions)

1. BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements (the "financial statements") are of ACE Aviation Holdings Inc. ("ACE"). ACE is incorporated and domiciled in Canada. The address of its registered office is 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2, Canada.

ACE, which was incorporated on June 29, 2004, is an investment holding company of aviation interests. Reference to the "Corporation" in the following notes to the financial statements refers to ACE and its aviation interests collectively. Refer to Note 4 for a description of ACE's investments. These financial statements include the accounts of ACE and certain inactive subsidiaries.

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook"). The CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), and requires publicly accountable enterprises to apply IFRS effective for years beginning on or after January 1, 2011, with retroactive restatement of comparative figures for 2010. Accordingly, the Corporation has commenced reporting on this basis in these financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

These financial statements are expressed in millions of Canadian dollars and have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards". Subject to certain transition elections disclosed in Note 3, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Corporation's reported financial position, statement of income (loss) and cash flows, including the nature and effects of significant changes in accounting policies from those used in the Corporation's consolidated financial statements as at January 1, 2010, for the quarter ended March 31, 2010 and for the year ended December 31, 2010.

The policies applied in these financial statements are based on IFRS effective May 10, 2011, the date the Board of Directors of the Corporation approved the statements and are consistent with those disclosed in Note 2. Any subsequent changes to IFRS, that are given effect to in the Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in revisions to these financial statements, including the transition adjustments recognized on change-over to IFRS.

These financial statements have been prepared on a going concern basis of presentation.

From January 1, 2010 to December 23, 2010, ACE's investment in Air Canada was accounted for using the equity method whereby the carrying value of the investment in Air Canada was adjusted to include the Corporation's proportionate share of Air Canada's earnings and other comprehensive income.

As described in Note 4, effective December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada. ACE's ownership interest in Air Canada was reduced from 27% to 11.11%. ACE ceased to have the ability to exercise significant influence over Air Canada and its retained investment in Air Canada was classified as available-for-sale ("AFS"). Financial instruments classified as AFS are carried at fair value and any unrealized gains or losses thereafter are recognized directly in Other comprehensive income. As a result, the Consolidated statement of income (loss) and related notes for the period ending December 23, 2010 reflect ACE's proportionate share of Air Canada's earnings using the equity method of accounting. For the periods ending on and subsequent to December 23, 2010, ACE's investment in Air Canada is accounted for as an AFS financial asset.

In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented. Note 7 provides certain disclosures required in annual financial statements which were not contained in the Corporation's Canadian GAAP 2010 annual consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets, and certain other financial assets and financial liabilities (including derivative instruments) which are measured at fair value. The financial statements are based on the accounting policies as described below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A) PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Corporation and certain inactive subsidiaries.

B) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas, with further information contained in the applicable accounting policy or note:

- taxes
    - Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization and in determining tax provisions. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and tax liabilities.
- impairment considerations on investments
    - An impairment test is performed by comparing the carrying amount of the asset to its recoverable amount, which is calculated as the higher of an asset's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions relating to future operating plans and results, discount rates and future growth rates.

C) CASH AND CASH EQUIVALENTS

Cash equivalents include investments in bankers' acceptances and bankers' discount notes, which may be liquidated promptly and have original maturities of three months or less.

D) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities, including derivatives, are recognized on the Consolidated Statement of Financial Position when the Corporation becomes a party to the contractual provisions of the financial instrument or derivative contract. All financial instruments are required to be measured at fair value on initial recognition. The Corporation's own credit risk and the credit risk of the counterparty are taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative instruments. Measurement in subsequent periods is dependent upon the classification of the financial instrument. The Corporation classifies its financial assets as either fair value through profit or loss, loans and receivables, held to maturity or available for sale. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition. Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Held-to-maturity financial assets are non-derivatives that have fixed and determinable payments and the entity has the ability and intent to hold the asset until maturity. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. For financial instruments classified as other than held-for-trading, transaction costs are added to the initial fair value of the related financial instrument. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in profit or loss. Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation has the following classifications:

- Cash and cash equivalents are classified as held-for-trading and any period change in fair value is recorded through interest income.
- Investment in Air Canada is classified as available-for-sale as of December 23, 2010 and any period change in fair value is recorded through other comprehensive income, other than any impairments which are recognized in the Consolidated Statement of Income (Loss), as applicable.
- Air Canada warrants are classified as held-for-trading and any period change in fair value is recorded through Gain (loss) on financial instruments recorded at fair value.
- Loan receivable, interest receivable and commodity taxes receivable, are classified as loans and receivables and are measured at amortized cost using the effective interest rate method. Interest income is recorded in the Consolidated Statement of Income (Loss), as applicable.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the statement of income (loss), as applicable.

E) INVESTMENTS IN ASSOCIATES

Investments subject to significant influence are accounted for using the equity method 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.

If the Corporation’s share of losses of an associate equals or exceeds its interest in the associate, the Corporation discontinues recognizing its share of further losses. After the Corporation’s interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Corporation resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Indicators of impairment are assessed at each reporting date. Such indicators include default in contractual payments, significant financial difficulties of the associate or prolonged or significant decline in quoted market price. An impairment loss is recognized in the income statement when there is objective evidence that the associate is impaired. Such impairments may be reversed if there is a subsequent increase in value.

Upon the loss of significant influence, any retained investment is re-measured to fair value and a gain or loss is recognized in the Consolidated Statement of Income (Loss).

F) PROVISIONS

Provisions are recognized when there is a present legal or constructive obligation as a result of a past 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. If the effect of the time value of money is significant, the expected cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Operating expense.

G) INCOME TAXES

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the Consolidated Statement of Income (Loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is netted with such items.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Corporation and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

H) EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing the net income (loss) for the period attributable to the shareholders of ACE by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive potential common shares. The Corporation’s potentially dilutive common shares comprise stock options. The number of shares included with respect to options is computed using the treasury stock method unless they are anti-dilutive. Under this method, the proceeds from the exercise of such instruments are assumed to be used to purchase Class B Voting Shares at the average market price for the period and the difference between the number of shares and the number of shares assumed to be purchased are included in the calculation.

I) ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The following is an overview of an accounting standard change that the Corporation will be required to adopt in future years:

IFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation continues to evaluate the impact of IFRS 9 on its consolidated statement of income (loss) and financial position.

3. TRANSITION TO IFRS

For all periods up to and including the year ended December 31, 2010, the Corporation prepared its consolidated financial statements in accordance with Canadian GAAP. These financial statements have been prepared in accordance with IFRS, including IAS 34.

Accordingly, the Corporation has prepared these financial statements in accordance with IFRS applicable for periods beginning on or after January 1, 2011 and the significant accounting policies to meet those requirements are disclosed in Note 2. This note explains the principal adjustments made by the Corporation in transitioning its Canadian GAAP Consolidated Statement of Financial Position at the transition date on January 1, 2010 and its previously published Canadian GAAP financial statements for the year ended December 31, 2010 and quarter ended March 31, 2010. There were no significant changes to the classification of cash flows resulting from the application of IFRS.

In preparing these financial statements in accordance with IFRS 1, the Corporation has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Exemptions and exceptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRS. The Corporation has elected to apply the following optional exemptions from full retrospective application:

- business combinations

    - The Corporation has elected not to apply IFRS 3 (as amended in 2008) retrospectively to business combinations that occurred before October 27, 2009. On October 27, 2009 the Corporation's ownership interest in Air Canada was reduced from approximately 75% to 27%. Applying the IFRS 1 exemption on that date required the Corporation to also adopt IAS 27 "Consolidated and Separate Financial Statements", on such date, and accordingly the Company recorded its remaining 27% investment in Air Canada at fair value on October 27, 2009.

- IFRS 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 "Financial Instruments: Presentation" 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 accordingly has not restrospectively reclassified any components included in equity related to compound financial instruments.

Reconciliations

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

A. Reconciliation of financial position as at January 1, 2010 and December 31, 2010

(Canadian dollars in millions)		Canadian GAAP January 1 2010	Adjustment	IFRS January 1 2010	Canadian GAAP December 31 2010	Adjustment	IFRS December 31 2010
ASSETS							
Cash and cash equivalents		$ 71	-	$ 71	$ 363	-	$ 363
Investment in Air Canada	Note i &ii	99	(19)	80	107	-	107
Air Canada warrants		-	-	-	5	-	5
Loan receivable from Air Canada		150	-	150	-	-	-
Interest receivable		3	-	3	-	-	-
Commodity taxes receivable		-	-	-	6	-	6
		$ 323	**(19)**	**$ 304**	**$ 481**	**-**	**$ 481**
LIABILITIES							
Commodity taxes payable		$ -	-	$ -	$ 6	-	$ 6
Accounts payable and accrued liabilities		3	-	3	3	-	3
		3	-	3	9	-	9
SHAREHOLDERS' EQUITY							
Share capital		104	-	104	95	-	95
Contributed surplus		358	-	358	347	-	347
Retained earnings (deficit)	Note i &ii	(92)	(69)	(161)	6	28	34
Accumulated other comprehensive income (loss)	Note i &ii	(50)	50	-	24	(28)	(4)
		320	(19)	301	472	-	472
		$ 323	**(19)**	**$ 304**	**$ 481**	**-**	**$ 481**

B. Reconciliation of shareholders' equity as at January 1, 2010, March 31, 2010 and December 31, 2010

(Canadian dollars in millions)		December 31 2010	March 31 2010	January 1 2010
Share capital				
Balance in accordance with Canadian GAAP		$ 95	$ 95	$ 104
Share capital in accordance with IFRS		95	95	104
Contributed surplus				
Balance in accordance with Canadian GAAP		347	347	358
Contributed surplus in accordance with IFRS		347	347	358
Retained earnings (deficit)				
Balance in accordance with Canadian GAAP		6	(108)	(92)
Reversal of the proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	(50)	(50)	(50)
Adjustment of the proportionate share of Air Canada's income (loss)	Note i	(76)	(31)	(19)
Adjustment of the gain on ACE's investment in Air Canada	Note ii	2	-	-
Recognition of the proportionate share of Air Canada's defined benefit plan gains	Note i	156	17	-
Reversal of the Canadian GAAP recovery of income taxes		(4)	-	-
Retained earnings (deficit) in accordance with IFRS		34	(172)	(161)
Accumulated other comprehensive income (loss)				
Balance in accordance with Canadian GAAP		24	(34)	(50)
Reversal of the proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	-	34	50
Adjustment of the unrealized gain on AFS investment in Air Canada	Note ii	(28)	-	-
Accumulated other comprehensive income (loss) in accordance with IFRS		(4)	-	-
Total shareholders' equity in accordance with IFRS		**$ 472**	**$ 270**	**$ 301**

C. Reconciliation of the Consolidated Statement of Loss for the quarter ended March 31, 2010

(Canadian dollars in millions except per share figures)		Three Months Ended March 31, 2010 Canadian GAAP	Adjustment	IFRS
Operating expenses		$ (2)	$ -	$ (2)
Interest income		5	-	5
Proportionate share of Air Canada's loss	Note i	(20)	(12)	(32)
Gain on financial instruments recorded at fair value		2	-	2
Loss on investment in ACTS Aero		(1)	-	(1)
Loss before the following items		**(16)**	**(12)**	**(28)**
Recovery of (provision for) income taxes				
Current		-	-	-
Deferred		-	-	-
Loss for the period		**$ (16)**	**$ (12)**	**$ (28)**

Reconciliation of the Consolidated Statement of Comprehensive Loss for the quarter ended March 31, 2010

(Canadian dollars in millions)		Three Months Ended March 31, 2010 Canadian GAAP	Adjustment	IFRS
Comprehensive loss				
Loss for the period		$ (16)	$ (12)	$ (28)
Other comprehensive income (loss), net of taxes:				
Proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	16	(16)	-
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities	Note i	-	17	17
Total comprehensive loss		**$ -**	**$ (11)**	**$ (11)**

D. Reconciliation of the Consolidated Statement of Income for the year ended December 31, 2010

(Canadian dollars in millions except per share figures)		Year Ended December 31, 2010 Canadian GAAP	Adjustment	IFRS
Operating expenses		$ (10)	$ -	$ (10)
Interest income		14	-	14
Gain on ACE's investment in Air Canada	Note ii	43	(17)	26
Unrealized gain on AFS investment in Air Canada	Note ii	-	19	19
Proportionate share of Air Canada's income (loss)	Note i	43	(57)	(14)
Gain on financial instruments recorded at fair value		5	-	5
Loss on investment in ACTS Aero		(1)	-	(1)
Income before the following items		**94**	**(55)**	**39**
Recovery of (provision for) income taxes				
Current		-	-	-
Deferred		4	(4)	-
Income for the year		**$ 98**	**$ (59)**	**$ 39**

Reconciliation of the Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

(Canadian dollars in millions)		Year Ended December 31, 2010 Canadian GAAP	Adjustment	IFRS
Comprehensive income				
Income for the year		$ 98	$ (59)	$ 39
Other comprehensive income (loss), net of taxes:				
Proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	50	(50)	-
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities	Note i	-	156	156
Unrealized gain (loss) on available-for-sale ("AFS") investment in Air Canada	Note ii	24	(28)	(4)
Total comprehensive income		**$ 172**	**$ 19**	**$ 191**

E. Explanation of adjustments restating equity and financial position from Canadian GAAP to IFRS

i) Consolidation - Loss of Control

Accounting policy differences

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 recognized in profit or loss (comprised of a gain or loss on the interest disposed of, the gain or loss from remeasurement to fair value of any retained non-controlling equity investment in the former subsidiary and reclassification of amounts previously recognized in Accumulated other comprehensive income). Subsequently, the fair value of the retained investment is the deemed cost for the purposes of applying the equity method of accounting.

Under Canadian GAAP, the retained non-controlling equity investment in the former subsidiary would not be remeasured to fair value and no remeasurement gain or loss would be recognized in profit or loss.

Impact

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 have the ability to control Air Canada, but continued to have the ability to exercise significant influence.

Under IFRS, the equity investment in Air Canada was restated to fair value of $94 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, 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.

Under Canadian GAAP, the equity investment in Air Canada was $310 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 of $7, other comprehensive income of $15 and an impairment loss as at December 31, 2009 of $219.

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
    - At January 1, 2010, this adjustment decreased Investment in Air Canada by $19, offset by a charge to the Deficit.
    - At January 1, 2010, the cumulative amount deferred in other comprehensive loss relating to Air Canada of $50 was reclassified to the Deficit as such amount would have been recycled into the consolidated statement of income, upon the October 27, 2009 re-measurement of the Corporation's investment in Air Canada.
- Consolidated Statement of Income (Loss)
    - The Proportionate share of Air Canada's income from January 1, 2010 to December 23, 2010 was adjusted to reflect amounts recognized under IFRS by Air Canada. As a result, the Proportionate share of Air Canada's loss under Canadian GAAP of $20 for the three months ended March 31, 2010 increased by $12 and the Proportionate share of Air Canada's income under Canadian GAAP of $43 for the year ended December 31, 2010 decreased by $57.
- Consolidated Statement of Comprehensive Income (Loss)
    - The Proportionate share of Air Canada's defined benefit plan gains of $17 for the three months ended March 31, 2010 and $156 for the year ended December 31, 2010 has been recognized under IFRS.
    - The Proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income under Canadian GAAP of $16 for the three months ended March 31, 2010 and $50 for the year ended December 31, 2010 was reversed.

ii) Loss of Significant Influence

Accounting policy differences

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 recognized in profit or loss. Subsequently, the fair value of the retained investment is the deemed cost for the purposes of applying the financial instruments standards.

Under Canadian GAAP, upon the loss of significant influence, the retained interest represents the carrying amount of the net assets of the investee and is adjusted for reclassification of items previously recognized in accumulated other comprehensive income. The adjusted carrying value of the retained investment is the deemed cost for the purposes of applying the GAAP financial instruments standards.

Impact

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 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 income (loss) under IFRS.

The impact arising from the change is summarized as follows:

- Consolidated Statement of Income (Loss)
    - The Gain on ACE's investment in Air Canada under Canadian GAAP of $43 for the year ended December 31, 2010 decreased by $17.
    - An Unrealized gain on ACE's available for sale investment in Air Canada of $19 for the year ended December 31, 2010 was recognized under IFRS.
- Consolidated Statement of Comprehensive Income (Loss)
    - The Unrealized gain on available-for-sale ("AFS") investment in Air Canada under Canadian GAAP of $24 decreased by $28.

4. INVESTMENTS

As at March 31, 2011, ACE's principal investments (excluding cash and cash equivalents) are:

(1) an 11.11% (31 million Class B Voting Shares) ownership interest in Air Canada; and

(2) 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.

<u>Investment in Air Canada (Class B Voting Shares)</u>

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

Carrying value of ACE's investment in Air Canada as at December 31, 2009	**$**	**80**
Proportionate share of earnings from January 1 to December 23, 2010		(14)
Proportionate share of other comprehensive income from January 1 to December 23, 2010		156
Carrying value of ACE's investment in Air Canada as at December 23, 2010		222
Sale of Air Canada shares on December 23, 2010 (44 million Class B shares)		(130)
Unrealized gain on ACE's AFS investment in Air Canada (31 million Class B shares)		19
Fair value of ACE's investment in Air Canada as at December 23, 2010		111
Unrealized loss on ACE's AFS investment in Air Canada		(4)
Fair value of ACE's investment in Air Canada as at December 31, 2010	**$**	**107**
Unrealized loss on ACE's AFS investment in Air Canada		(31)
Fair value of ACE's investment in Air Canada as at March 31, 2011	**$**	**76**
Air Canada total assets as at December 31, 2010	$	10,153
Air Canada total liabilities as at December 31, 2010	$	11,441
Air Canada net loss for the year ended December 31, 2010	$	(24)

- *The fair value of ACE's holdings of Air Canada shares of $107 as at December 31, 2010 and $76 as at March 31, 2011 are based on the closing prices of $3.45 per Air Canada Class B Voting Share as at December 31, 2010 and $2.45 per Air Canada Class B Voting Share as at March 31, 2011, as quoted on the TSX.*

Significant events

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

Prior to December 23, 2010, ACE's investment in Air Canada was accounted for using the equity method of accounting whereby the Air Canada investment carrying value was adjusted to include the Corporation's proportionate share of Air Canada's earnings and other comprehensive income. For the period ended December 23, 2010, equity loss of $14 was recorded representing ACE's proportionate share of Air Canada's loss, after adjustments. For the period ended December 23, 2010, other comprehensive income of $156 was recorded representing ACE's proportionate share of Air Canada's other comprehensive income.

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 (net proceeds of approximately $156). The carrying value of the Air Canada shares sold was $130 and a gain on disposal of such 16% interest of $26 was recognized in Gain 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 AFS and was remeasured to fair value of $111 (based on Air Canada's closing market price as at December 23, 2010 as quoted on the TSX) resulting in an unrealized gain on AFS investment in Air Canada of $19 being recognized in Unrealized gain on AFS investment in Air Canada.

Financial instruments classified as AFS are carried at fair value and any subsequent unrealized gains or losses are recognized directly in other comprehensive income. For the period from December 23, 2010 to December 31, 2010, the fair value of ACE's AFS investment in Air Canada was reduced to $107 at December 31, 2010 resulting in an other comprehensive loss of $4 which was recognized in Unrealized gain (loss) on AFS investment in Air Canada. For the three months ended March 31, 2011, the fair value of ACE's AFS investment in Air Canada was reduced to $76 resulting in an other comprehensive loss of $31 which was recognized in Unrealized gain (loss) on AFS investment in Air Canada.

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 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 together with interest and prepayment fees for total proceeds to ACE of $156.

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 dollars 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 dollars per share, exercisable at any time, and expiring four years after the date of issuance.

The warrants are presented as Air Canada warrants and any changes in fair value are recorded within Gain (loss) on financial instruments recorded at fair value in the Consolidated Statement of Income (Loss). The fair value of the 2,500,000 warrants amounted to $3 as at March 31, 2011 ($5 as at December 31, 2010) 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 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 which was recorded as a Loss on investment in ACTS Aero in 2010.

5. SHARE INFORMATION

The issued and outstanding common shares of ACE as at March 31, 2011, along with potential common shares, are as follows:

Outstanding shares ('000s)	March 31 2011	December 31 2010
Issued and Outstanding		
Class A variable voting shares	24,823	26,049
Class B voting shares	7,650	6,424
Total issued and outstanding	**32,473**	**32,473**
Potential common shares		
Stock options	38	38
Total potential common shares	**38**	**38**

(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 in accordance with the terms of a substantial issuer bid.

Upon purchase and cancellation by ACE of the Class A variable voting shares and Class B voting shares, Share capital decreased by $9 and Contributed surplus decreased by $11.

(2) The Corporation's stock option plan is described in Note 5 to the 2010 annual audited consolidated financial statements.

6. TAXES

Certificates of Discharge and ongoing tax audits

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

ACE is continuing to assist 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 Revenu Québec in the amount of $37.7. 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 remained payable at December 31, 2010. This amount was paid in January 2011. $35.4 of the reassessments are recoverable from Air Canada and other parties. $29.2 was recovered by December 31, 2010 leaving $6.2 to be recovered at December 31, 2010. $5.3 of this amount was recovered in January 2011 and a further $0.6 in April, 2011. The total recoverable of $35.4 includes $33.4 recoverable from Air Canada and $1.1 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.

Operating expenses for Quarter 1, 2011 include net additional provisions for other taxes of $1.4. At March 31, 2011, Accounts payable and accrued liabilities include provisions for taxes of $4.

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

7. COMPENSATION

Compensation of key management

Key management includes ACE's Board of Directors, Chairman and Chief Executive Officer, President and Chief Financial Officer, Senior Vice-President, Corporate Development and Chief Legal Officer, Controller and Corporate Secretary. Compensation awarded to key management is summarized as follows:

	Year ended December 31, 2010
Directors' fees and Officers' consultancy fees	$ 3
	$ 3