

ACE AVIATION

**Third Quarter 2011
Interim Unaudited
Condensed Consolidated Financial Statements and Notes**

November 4, 2011

Consolidated Statement of Income (Loss)

Unaudited (Canadian dollars in millions except per share figures)	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Operating expenses	\$ (2)	\$ (1)	\$ (7)	\$ (6)
Interest income	1	3	3	13
Proportionate share of Air Canada's income (loss)	Note 3	62	-	(35)
Unrealized loss on investment in Air Canada recorded at fair value	Notes 1 & 3	-	(61)	-
Unrealized gain (loss) on Air Canada warrants recorded at fair value	Note 3	2	(4)	4
Loss on investment in ACTS Aero	Note 3	-	-	(1)
Other	-	-	-	(1)
Income (loss) before the following items	(28)	66	(69)	(26)
Recovery of (provision for) income taxes	Note 5	-	-	-
Current	-	-	-	-
Deferred	-	-	-	-
Income (loss) for the period	\$ (28)	\$ 66	\$ (69)	\$ (26)
Income (loss) per share Basic and Diluted	\$ (0.86)	\$ 2.03	\$ (2.12)	\$ (0.84)

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 September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Comprehensive income (loss)				
Income (loss) for the period	\$ (28)	\$ 66	\$ (69)	\$ (26)
Other comprehensive income (loss), net of taxes:				
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities	-	55	-	72
Total comprehensive income (loss)	\$ (28)	\$ 121	\$ (69)	\$ 46

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

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		September 30 2011	December 31 2010
ASSETS			
Cash and cash equivalents		\$ 350	\$ 363
Investment in Air Canada	Note 3	46	107
Air Canada warrants	Note 3	1	5
Commodity taxes receivable from Air Canada	Note 5	7	6
		\$ 404	\$ 481
LIABILITIES			
Commodity taxes payable	Note 5	\$ -	\$ 6
Accounts payable and accrued liabilities	Note 5	1	3
		1	9
SHAREHOLDERS' EQUITY			
Share capital		95	95
Contributed surplus		347	347
Retained earnings	Note 1	(39)	30
Accumulated other comprehensive income (loss)	Note 1	-	-
		403	472
		\$ 404	\$ 481

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

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)	Nine Months Ended September 30 2011	Year Ended December 31 2010	Nine Months Ended September 30 2010
Share capital			
Common shares, beginning of period	\$ 95	\$ 104	\$ 104
Repurchase and cancellation of common shares Note 4	-	(9)	(9)
Total share capital	95	95	95
Contributed surplus			
Balance, beginning of period	347	358	358
Repurchase and cancellation of common shares Note 4	-	(11)	(11)
Total contributed surplus	347	347	347
Retained earnings (deficit)			
Balance, beginning of period Note 1	30	(161)	(161)
Income (loss) for the period	(69)	35	(26)
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities	-	156	72
Retained earnings (deficit)	(39)	30	(115)
Accumulated other comprehensive loss			
Balance, beginning of period	-	-	-
Unrealized loss on investment in Air Canada Note 1	-	-	-
Total accumulated other comprehensive loss	-	-	-
Total retained earnings (deficit) and accumulated other comprehensive loss	(39)	30	(115)
Total shareholders' equity	\$ 403	\$ 472	\$ 327

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

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Cash flows from (used for)				
Operating				
Income (loss) for the period	\$ (28)	\$ 66	\$ (69)	\$ (26)
Adjustments to reconcile to net cash from operations				
Proportionate share of Air Canada's (income) loss	Note 3	(62)	-	35
Unrealized loss on investment in Air Canada recorded at fair value	Notes 1 & 3	-	61	-
Unrealized loss (gain) on Air Canada warrants recorded at fair value	Note 3	1	4	(4)
Loss on investment in ACTS Aero	Note 3	-	-	1
Changes in non-cash working capital balances		3	(9)	4
Other		-	-	1
		(1)	(13)	11
Financing				
Repurchase and cancellation of ACE common shares	Note 4	-	-	(20)
		-	-	(20)
Investing				
Repayment of loan receivable from Air Canada	Note 3	-	-	150
Loss on investment in ACTS Aero	Note 3	-	-	(1)
		-	-	149
Increase (decrease) in cash and cash equivalents		(1)	(13)	140
Cash and cash equivalents, beginning of period		351	363	71
Cash and cash equivalents, end of period		\$ 350	\$ 211	\$ 350
				\$ 211

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 AND SIGNIFICANT ACCOUNTING POLICIES

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 3 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 its unaudited interim condensed consolidated financial statements for the first quarter of 2011. 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 to the interim condensed consolidated financial statements for the first quarter of 2011 and including the adoption of IFRS 9 Financial Instruments (“IFRS 9”) described herein, 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 2 discloses the impact of the transition to IFRS on the Corporation’s equity as at September 30, 2010, and statement of comprehensive income for the three and nine months ended September 30, 2010. See Note 3 to the interim condensed consolidated financial statements for the first quarter of 2011 for 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 with the exception of the Corporation’s early adoption of IFRS 9 as further disclosed in Note 2 of these financial statements. See Note 2 for the impact of the transition to IFRS on the Corporation’s reported financial position, statement of income (loss) for the year ended December 31, 2010 which has been revised to reflect the Corporation’s early adoption of IFRS 9.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2011 interim condensed consolidated financial statements for the quarter ended March 31, 2011 with the exception of the Corporation’s early adoption of IFRS 9. The policies applied in these financial statements are based on IFRS effective November 4, 2011, the date the Board of Directors of the Corporation approved these financial statements. While no changes are anticipated at this time, 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 3, 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 and measured at fair value through profit or loss ("FVTPL"). Financial instruments classified at FVTPL are carried at fair value and any realized and unrealized gains or losses thereafter are recorded in profit or loss. 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 a FVTPL 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 and interim condensed consolidated financial statements for the first quarter of 2011. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the periods presented.

Application of new and revised International Financial Reporting Standards (IFRSs)

The following new and revised IFRSs have been adopted in the current year and have affected the amounts reported in these financial statements.

IFRS 9 – Financial Instruments

In the current quarter, the Corporation has applied IFRS 9 and the related consequential amendments in advance of its effective date. The Corporation has chosen January 1, 2010 as its date of initial application (i.e. the date on which the Corporation has assessed its existing financial assets and financial liabilities). The Corporation has applied IFRS 9 retrospectively and comparative amounts have been restated, where appropriate. The adoption of IFRS 9 has not impacted the operating, financing or investing cash flows of the Corporation, as previously reported.

Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement". Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by IFRS 9, debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the debt instruments are classified at fair value through profit or loss ("FVTPL").

However, the Corporation may choose at initial recognition to designate a debt instrument that meets the amortised cost criteria at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Corporation has not elected to designate any debt instruments that meet the amortised cost criteria at FVTPL.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments are classified and measured at FVTPL except when a Corporation elects to present gains and losses on an equity investment in other comprehensive income ("FVTOCI"). If the equity investment is designated at FVTOCI, all gains and losses, except for dividend income which is generally recognised in profit or loss in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

As at January 1, 2010, Management has reviewed and assessed the Corporation's existing financial assets. The initial application of IFRS 9 has had an impact on the following financial assets of the Corporation:

- the Corporation's investment in Air Canada, that was previously classified as an available-for-sale financial asset on and subsequent to December 23, 2010 under IAS 39, has now been classified as a financial asset at fair value through profit or loss. Classifying the investment in Air Canada at FVTPL is appropriate because the equity investment does not meet the criteria to be classified as amortised cost and the Corporation has not elected to present gains and losses on the investment in other comprehensive income.

The impact of the application of IFRS 9 is that the unrealized fair value losses in relation to the Corporation's investment in Air Canada of \$4 for the year ended December 31, 2010, \$31 for the three months ended March 31, 2011 and \$4 for the three months ended June 30, 2011 have been presented as a loss in the consolidated statement of income (loss) rather than a loss presented within other comprehensive income (loss) in the statement of consolidated comprehensive income (loss). The change in selection of accounting policies did not affect the Corporation's accounting policies for any other financial assets as reported in the 2011 first quarter interim financial report.

As a result of these reclassifications, the loss for the three months ended March 31, 2011 amounts to \$35 (loss per share \$1.08) with Retained earnings (deficit) restated to a deficit of \$5. For the three months ended June 30, 2011, the loss amounts to \$6 (loss per share \$0.17) with Retained earnings (deficit) restated to a deficit of \$11.

Furthermore, as a result, the statement of financial position was revised to reclassify accumulated other comprehensive losses of \$4 as at December 31, 2010 to retained earnings.

Financial liabilities

IFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

Specifically, under IFRS 9, for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would result in an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss was recognised in profit or loss.

The change in selection of accounting policies did not affect the Corporation's accounting policies for any financial liabilities as reported in the 2011 first quarter interim financial report. As a result, profit and other comprehensive income reported was not affected as the Corporation did not have financial liabilities designated at fair value through profit or loss.

New and revised IFRSs in issue but not yet effective

The following is an overview of accounting standard changes that the Corporation will be required to adopt in future years. The standards are effective for the Corporation's annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation continues to evaluate the impact of these standards on its consolidated statement of income (loss) and financial position in addition to the adoption date.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements. IFRS 13 is a more comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Amendments to IAS 19 - Employee Benefits

The amendments to IAS 19 make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income (OCI). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

Amendments to IAS 1 - Financial Statement Presentation

The amendments to IAS 1 require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements resulting from the amendments to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

2. RECONCILIATION OF PREVIOUS CANADIAN GAAP TO GAAP, AFTER THE ADOPTION OF 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 GAAP, after the adoption of IFRS, including IAS 34 “Interim Financial Reporting”.

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 were disclosed in Note 2 to the interim condensed consolidated financial statements for the first quarter of 2011 with the exception of the Corporation’s early adoption of IFRS 9 (Refer to Note 1 Basis of Presentation and Significant Accounting Policies).

In preparing these financial statements, the Corporation has started from an opening consolidated statement of financial position as at January 1, 2010, the Corporation’s IFRS transition date, and made those changes in accounting policies and other adjustments required by IFRS 1 “First-time adoption of international financial reporting standards” (“IFRS 1”) for the first time adoption of IFRS. 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 the quarter ended September 30, 2010. The reconciliation of shareholders’ equity as at December 31, 2010 and the reconciliations of the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income for the year ended December 31, 2010 have been revised since those disclosed in Note 3 to the interim condensed consolidated financial statements for the first quarter of 2011 to incorporate the Corporation’s early adoption of IFRS 9.

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 as disclosed in Note 3 to the interim condensed consolidated financial statements for the first quarter of 2011.

Reconciliations

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's shareholders' equity and consolidated statement of income (loss) is set out in the following tables and the notes that accompany the tables.

A. Reconciliation of shareholders' equity as at January 1, 2010, September 30, 2010 and December 31, 2010

(Canadian dollars in millions)	December 31 2010	September 30 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	(80)	(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)	(57)	(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	72	-
Unrealized loss on investment in Air Canada recorded at fair value	Note ii (4)	-	-
Reversal of the Canadian GAAP recovery of income taxes	(4)	-	-
Retained earnings (deficit) in accordance with IFRS	30	(115)	(161)
Accumulated other comprehensive income (loss)			
Balance in accordance with Canadian GAAP	24	(8)	(50)
Reversal of the proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i -	8	50
Adjustment of the unrealized gain on AFS investment in Air Canada	Note ii (24)	-	-
Accumulated other comprehensive income (loss) in accordance with IFRS	-	-	-
Total shareholders' equity in accordance with IFRS	\$ 472	\$ 327	\$ 301

B. Reconciliation of the Consolidated Statement of Income (Loss) for the three and nine months ended September 30, 2010

(Canadian dollars in millions)	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS
Operating expenses	\$ (1)	\$ -	\$ (1)	\$ (6)	\$ -	\$ (6)
Interest income	3	-	3	13	-	13
Proportionate share of Air Canada's income (loss) Note i	74	(12)	62	3	(38)	(35)
Unrealized gain on Air Canada warrants recorded at fair value	2	-	2	4	-	4
Loss on investment in ACTS Aero	-	-	-	(1)	-	(1)
Other	-	-	-	(1)	-	(1)
Income (loss) before the following items	78	(12)	66	12	(38)	(26)
Recovery of (provision for) income taxes						
Current	-	-	-	-	-	-
Deferred	-	-	-	-	-	-
Income (loss) for the period	\$ 78	\$ (12)	\$ 66	\$ 12	\$ (38)	\$ (26)

Reconciliation of the Consolidated Statement of Comprehensive Income (Loss) for the three and nine months ended September 30, 2010

(Canadian dollars in millions)	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS
Comprehensive income						
Income (loss) for the period	\$ 78	\$ (12)	\$ 66	\$ 12	\$ (38)	\$ (26)
Other comprehensive income, net of taxes:						
Proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income Note i	11	(11)	-	41	(41)	-
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities Note i	-	55	55	-	72	72
Other	-	-	-	1	(1)	-
Total comprehensive income	\$ 89	\$ 32	\$ 121	\$ 54	\$ (8)	\$ 46

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

(Canadian dollars in millions)		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 investment in Air Canada recorded at fair value	Note ii	-	15	15
Proportionate share of Air Canada's income (loss)	Note i	43	(57)	(14)
Unrealized gain on Air Canada warrants recorded at fair value		5	-	5
Loss on investment in ACTS Aero		(1)	-	(1)
Income before the following items		94	(59)	35
Recovery of (provision for) income taxes				
Current		-	-	-
Deferred		4	(4)	-
Income for the year		\$ 98	\$ (63)	\$ 35

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	\$ (63)	\$ 35
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	(24)	-
Total comprehensive income		\$ 172	\$ 19	\$ 191

D. Explanation of adjustments restating shareholders' equity and the consolidated statement of income (loss) 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 income under Canadian GAAP of \$74 for the three months and \$3 for the nine months ended September 30, 2010 decreased by \$12 and \$38, respectively 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 \$55 for the three months ended September 30, 2010 and \$72 for the nine months ended September 30, 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 \$11 for the three months ended September 30, 2010 and \$41 for the nine months ended September 30, 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") under Canadian GAAP, FVTPL under IFRS, and remeasured to fair value of \$111 under Canadian GAAP and IFRS.

The remeasurement and changes to fair value on and subsequent to 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 investment in Air Canada recorded at fair value of \$15 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 \$24.

3. INVESTMENTS

As at September 30, 2011, ACE's principal assets (excluding cash and cash equivalents) are:

- (1) an 11.11% (31 million Class B Voting Shares) ownership interest in Air Canada;
- (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; and
- (3) commodity taxes receivable from Air Canada of \$7.

Air Canada is Canada's largest domestic, US transborder 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 and certain other carriers operating under the Air Canada Express name. Through Air Canada's global route network, most major markets throughout the world are 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 of ACE's investment in Air Canada until September 30, 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 voting shares)	(130)
Unrealized gain on ACE's investment in Air Canada (31 million Class B voting shares)	19
Fair value of ACE's investment in Air Canada as at December 23, 2010	111
Unrealized loss on ACE's 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 investment in Air Canada	(61)
Fair value of ACE's investment in Air Canada as at September 30, 2011	\$ 46
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 \$46 as at September 30, 2011 are based on the closing prices of \$3.45 per Air Canada Class B Voting Share as at December 31, 2010 and \$1.48 per Air Canada Class B Voting Share as at September 30, 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 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 investment in Air Canada of \$19 being recognized in Unrealized gain on investment in Air Canada recorded at fair value.

Financial instruments classified at FVTPL are carried at fair value and any subsequent realized and unrealized gains or losses are recorded in profit or loss. For the period from December 23, 2010 to December 31, 2010, the fair value of ACE's investment in Air Canada was reduced to \$107 at December 31, 2010 resulting in a loss of \$4 which was recognized in Unrealized gain (loss) on investment in Air Canada recorded at fair value. As at September 30, 2011, the fair value of ACE's investment in Air Canada was reduced to \$46. The loss for the nine month period ending September 30, 2011 of \$61 was recognized in Unrealized loss on investment in Air Canada recorded at fair value.

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 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 and any changes in fair value are recorded within Unrealized gain (loss) on Air Canada warrants recorded at fair value in the Consolidated Statement of Income (Loss). The fair value of the 2,500,000 warrants amounted to \$1 as at September 30, 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.

4. SHARE INFORMATION

The issued and outstanding common shares of ACE as at September 30, 2011, along with potential common shares, are as follows:

Outstanding shares ('000s)	September 30 2011	December 31 2010
Issued and Outstanding		
Class A variable voting shares	24,579	26,049
Class B voting shares	7,896	6,424
Total issued and outstanding	32,475	32,473
Potential common shares		
Stock options	35	38
Total potential common shares	35	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.

5. TAXES

Certificates of Discharge and ongoing tax audits

In March 2010, ACE applied for Certificates of Discharge from the Canada Revenue Agency (“CRA”) and Revenu Québec.

Since then ACE has been actively assisting the CRA and Revenu Québec with their audits of ACE's income tax returns for the years 2005 to 2010. In addition to the audits of income tax returns, ACE has been assisting with audits in respect of other taxes. The audits of income tax returns required a detailed review of all of the significant corporate transactions undertaken by ACE since its incorporation in 2004, together with a detailed review of all of its returns.

Substantial progress continues to be made in all of the audits, many of which have now been completed. On the basis of the information available, it is ACE's current expectation that the audits will be completed within the next three months.

In late 2010, ACE received notices of reassessment from Revenu Québec in the amount of \$37.7. This amount was paid. The reassessments primarily related 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. \$35.4 of such reassessments were recoverable from Air Canada and other parties. The total recovery amount of \$35.4 included \$33.4 recovered from Air Canada and \$1.1 from Aveos following their filings of related Input Tax Credits (“ITC”) 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.

Additional notices of reassessment in respect of GST and QST amounting to \$7.4 were received and paid in Quarter 2, 2011. \$6.8 of such reassessments are recoverable from Air Canada.

In Quarter 2, 2011, ACE also received and paid a notice of reassessment for other taxes from Revenu Québec in the amount of \$2.9. The reassessment relates to 2005.

Operating expenses for Quarter 1, 2011 include net additional provisions for other taxes of \$1.4. At September 30, 2011, Accounts payable and accrued liabilities include provisions for taxes of \$0.4, unchanged from June 30, 2011 (\$4 at March 31, 2011).

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