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ACE AVIATION

Third Quarter 2011

Management's Discussion and Analysis

November 4, 2011

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1. Preface

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

As at October 31, 2011, ACE's principal assets are cash and cash equivalents of approximately $350 million, an 11.11% equity interest in Air Canada, 2.5 million Air Canada warrants and commodity taxes receivable from Air Canada of $7 million.

ACE 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, ACE began reporting on this basis in its unaudited interim condensed consolidated financial statements for the first quarter of 2011. In this MD&A, 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.

ACE's financial statements have been prepared on a going concern basis of presentation. The going concern basis of presentation assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

ACE's investment in Air Canada was accounted for using the equity method of accounting up to December 23, 2010. After that date, ACE ceased to have the ability to exercise significant influence over Air Canada and the retained investment was classified as an available-for-sale ("AFS") financial instrument. Financial instruments classified as AFS are carried at fair value and any unrealized gains or losses are recorded in other comprehensive income (loss). In Quarter 3, 2011 ACE has applied IFRS 9 Financial Instruments ("IFRS 9") in advance of its effective date. As a result, ACE's investment in Air Canada has now been classified as a financial asset at fair value through profit or loss ("FVTPL"), with unrealized gains or losses being recorded in profit or loss. As required, ACE has applied IFRS 9 retrospectively and comparative amounts have been restated when appropriate. Refer to Section 5.1 of this MD&A.

This MD&A should be read in conjunction with ACE's interim unaudited condensed consolidated financial statements and notes for Quarter 3 2011, ACE's interim unaudited condensed consolidated financial statements and MD&A for Quarter 1, 2011 and ACE's Canadian GAAP consolidated financial statements for the year ended December 31, 2010 and Amended 2010 MD&A dated May 4, 2011 which can all be found on SEDAR at www.sedar.com. Reference to the "Corporation" in this MD&A refers to ACE and its aviation interests collectively. Except as otherwise noted, all monetary amounts are stated in Canadian dollars. Except as otherwise noted, this MD&A is current as of November 4, 2011.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" in section 2 of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to ACE, see section 14 "Risk Factors" of ACE's Amended 2010 MD&A dated May 4, 2011 which can be found on SEDAR at www.sedar.com.

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

2. Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, market, regulatory developments or proceedings, and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 14 "Risk Factors" of ACE's Amended 2010 MD&A dated May 4, 2011. The forward-looking statements contained in this MD&A represent ACE's expectations as of the date of this MD&A, and are subject to change after such date. However, ACE disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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

The following table presents the net assets of ACE, on a per share basis, at fair value as at October 31, 2011 and September 30, 2011. This presentation is not intended to reflect ACE's net asset value on a liquidation basis and does not purport to represent the fair value of ACE as a whole or per share.

(Canadian dollars in millions, except per share amounts)	October 31 2011	September 30 2011
Cash and cash equivalents	$ 350	$ 350
Air Canada shares (1)	45	46
Air Canada warrants (1)	1	1
Commodity taxes receivable from Air Canada (2)	7	7
	403	404
Current obligations (2)	(1)	(1)
Contingencies (2) (3)	-	-
	(1)	(1)
Net assets at fair value	**$ 402**	**$ 403**
Net assets at fair value per share – Basic	**$ 12.38**	**$ 12.41**

Net assets at fair value per share is non-GAAP information and is not prepared in accordance with standards prescribed by GAAP and may not be comparable to other similar information provided by other companies.

(1) *As at October 31, 2011, ACE held an 11.11% ownership interest in Air Canada consisting of 31,000,000 Class B voting shares. Under Air Canada's 2009 Credit Facility (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. An additional 1,250,000 warrants for the purchase of Air Canada Class B voting shares were issued to ACE under the terms of the Credit Facility on October 19, 2009 with an exercise price of $1.44 per share, exercisable at any time, and expiring four years after the date of issuance. The fair value of ACE's holdings of Air Canada shares of $45 million as at October 31, 2011 and $46 million as at September 30, 2011 is based on the closing prices of $1.44 per Air Canada Class B voting share as at October 31, 2011 and $1.48 per Air Canada Class B voting share as at September 30, 2011, as quoted on the TSX.*

(2) *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 million. 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 million of such reassessments were recoverable from Air Canada and other parties. The total recovery amount of $35.4 million included $33.4 million recovered from Air Canada and $1.1 million 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 million were received and paid in Quarter 2, 2011. $6.8 million 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 million. The reassessment relates to 2005.

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

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

4. ACE's Assets

As at October 31, 2011, ACE's principal assets are:

- cash and cash equivalents of $350 million.
- a 11.11% (31,000,000 Class B voting Shares) ownership interest in Air Canada;
- 2.5 million warrants for the purchase of Air Canada Class B voting shares at exercise prices of $1.44 (1.25 million warrants) and $1.51 (1.25 million warrants) per share; and
- commodity taxes receivable from Air Canada of $7 million.

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.

Investment in Air Canada (Class B voting shares)

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

Carrying value of ACE's investment in Air Canada as at December 31, 2009	**$**	**80**
Proportionate share of earnings from January 1 to December 23, 2010		(14)
Proportionate share of other comprehensive income from January 1 to December 23, 2010		156
Carrying value of ACE's investment in Air Canada as at December 23, 2010		222
Sale of Air Canada shares on December 23, 2010 (44 million Class B voting shares)		(130)
Unrealized gain on ACE's investment in Air Canada (31 million Class B voting shares)		19
Fair value of ACE's investment in Air Canada as at December 23, 2010		111
Unrealized loss on ACE's investment in Air Canada		(4)
Fair value of ACE's investment in Air Canada as at December 31, 2010 (1)	**$**	**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 (1)	**$**	**46**
Fair value of ACE's investment in Air Canada as at October 31, 2011 (1)	**$**	**45**

(1) *The fair value of ACE's holdings of Air Canada shares of $107 million as at December 31, 2010, $46 million as at September 30, 2011 and $45 million as at October 31, 2011 are based on the closing prices of $3.45 per Air Canada Class B voting Share as at December 31, 2010, $1.48 per Air Canada Class B voting Share as at September 30, 2011 and $1.44 per Air Canada Class B voting share as at October 31, 2011, as quoted on the TSX.*

Significant events

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

On December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 million (net proceeds of approximately $156 million). The carrying value of the Air Canada shares sold was $130 million and a gain on disposal of such 16% interest of $26 million 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 million (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 million 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 million at December 31, 2010 resulting in a loss of $4 million 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 million. The loss for the nine month period ending September 30, 2011 of $61 million 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 million Credit Facility in July 2009.

On August 3, 2010, Air Canada repaid to ACE its share of the outstanding debt under the Credit Facility in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million.

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 million as at September 30, 2011 ($5 million 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 had no interest, for nil consideration. Under the terms of a Release Agreement entered into on March 12, 2010, ACE and ACTS LP were released from substantially any claims that may arise under the Asset Purchase Agreement relating to the monetization of ACTS on October 16, 2007, in return for a payment of $1.25 million which is recorded as a Loss on investment in ACTS Aero in 2010.

5. Accounting Policies

This MD&A should be read in conjunction with ACE's interim unaudited condensed consolidated financial statements and notes for Quarter 1 2011. ACE prepares its financial statements, on a going concern basis of presentation, in accordance with GAAP.

The preparation of ACE's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. ACE evaluates these estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual amounts could differ materially from those estimates and assumptions. Refer to section 11 of this MD&A, ACE's interim unaudited condensed consolidated financial statements and notes for Quarter 1 2011 and to section 13 of ACE's Amended 2010 MD&A dated May 4, 2011 for a discussion of ACE's critical accounting estimates.

5.1 Adoption of 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.

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 million for the year ended December 31, 2010, $31 million for the three months ended March 31, 2011 and $4 million 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 Corporations 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 million (loss per share $1.08) with Retained earnings (deficit) restated to a deficit of $5 million. For the three months ended June 30, 2011, the loss amounts to $6 million (loss per share $0.17) with Retained earnings (deficit) restated to a deficit of $11 million.

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

5.2 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.

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 amendment makes 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 amendment requires 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.

5.3 Transition to IFRS

Effective January 1, 2011 and as futher described in ACE's interim unaudited condensed consolidated financial statements and notes for Quarter 3 2011, ACE prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), with retroactive restatement of comparative figures for 2010.

The table below provides the 2010 quarterly and full year consolidated statement of income (loss) for ACE under IFRS:

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010
Operating expenses	$ (2)	$ (3)	$ (1)	$ (4)	$ (10)
Interest income	5	5	3	1	14
Gain on ACE's investment in Air Canada	-	-	-	26	26
Unrealized gain on investment in Air Canada recorded at fair value	-	-	-	15	15
Proportionate share of Air Canada's income (loss)	(32)	(65)	62	21	(14)
Unrealized gain (loss) on Air Canada warrants recorded at fair value	2	(1)	2	2	5
Loss on investment in ACTS Aero	(1)	-	-	-	(1)
Income (loss) before the following items	**(28)**	**(64)**	**66**	**61**	**35**
Recovery of (provision for) income taxes					
Current	-	-	-	-	-
Deferred	-	-	-	-	-
Income (loss) for the period	**$ (28)**	**$ (64)**	**$ 66**	**$ 61**	**$ 35**
Income (loss) per share					
Basic and Diluted	$ (0.87)	$ (1.99)	$ 2.03	$ 1.87	$ 1.04

6. Consolidated Statement of Income (Loss) – Quarter 3 2011

	Quarter 3	
	2011	2010
Operating expenses	$ (2)	$ (1)
Interest income	1	3
Proportionate share of Air Canada's income	-	62
Unrealized loss on investment in Air Canada recorded at fair value	(26)	-
Unrealized gain (loss) on Air Canada warrants recorded at fair value	(1)	2
	(28)	66
Recovery of (provision for) income taxes	-	-
Income (loss) for the period	**$ (28)**	**$ 66**

ACE's investment in Air Canada was accounted for using the equity method of accounting up to December 23, 2010. With the adoption of IFRS 9 in the current Quarter, the investment in Air Canada is classified as FVTPL.

ACE recorded operating expenses of $2 million in Quarter 3 2011. In the same period in 2010, ACE recorded operating expenses of $1 million.

In Quarter 3 2010, ACE's proportionate share of Air Canada's income on an equity accounting basis was $62 million. During Quarter 3, 2011, ACE held an 11.11% interest in Air Canada and accordingly accounted for it at FVTPL with an unrealized loss on investment in Air Canada recorded at fair value of $26 million in the Quarter. The unrealized loss on Air Canada warrants recorded at fair value in Quarter 3 2011, amounted to $1 million; an unrealized gain of $2 million was recorded in Quarter 3, 2010. These gains/losses relate to changes in the fair value of the Air Canada warrants.

The loss in Quarter 3 2011, amounted to $28 million or $(0.86) per diluted share. In Quarter 3 2010, ACE recorded income of $66 million or $2.03 per diluted share.

7. Consolidated Statement of Income (Loss) – First Nine Months of 2011

	First Nine Months	
	2011	2010
Operating expenses	(7)	(6)
Interest income	3	13
Proportionate share of Air Canada's loss	-	(35)
Unrealized loss on investment in Air Canada recorded at fair value	(61)	-
Unrealized gain (loss) on Air Canada warrants recorded at fair value	(4)	4
Loss on investment in ACTS Aero	-	(1)
Other	-	(1)
	(69)	(26)
Recovery of (provision for) income taxes	-	-
Loss for the period	**$ (69)**	**$ (26)**

ACE's investment in Air Canada was accounted for using the equity method of accounting up to December 23, 2010. With the adoption of IFRS 9 in the current Quarter, the investment in Air Canada is classified as FVTPL.

ACE recorded operating expenses of $7 million in the first nine months of 2011. In the same period in 2010, ACE recorded operating expenses of $6 million. Operating expenses for the first nine months of 2011 include net additional provisions for other taxes of $1.4 million.

In the first nine months of 2010, ACE's proportionate share of Air Canada's loss on an equity accounting basis was $35 million. During the first nine months of 2011, ACE held an 11.11% interest in Air Canada and accordingly accounted for it at FVTPL with an unrealized loss on investment in Air Canada recorded at fair value of $61 million for the nine months ended 2011. The unrealized loss on Air Canada warrants recorded at fair value in the first nine months, amounted to $4 million versus an unrealized gain of $4 million in the first nine months of 2010. The loss and gain relate to changes in the fair value of the Air Canada warrants.

The loss in the first nine months of 2011, amounted to $69 million or $(2.12) per diluted share. In the first nine months of 2010, ACE recorded a loss of $26 million or $(0.84) per diluted share.

8. Financial and Capital Management

The following table summarizes ACE's consolidated statement of financial position as at September 30, 2011 and as at December 31, 2010.

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 350	$ 363
Investment in Air Canada	46	107
Air Canada warrants	1	5
Commodity taxes receivable from Air Canada	7	6
	$ 404	**$ 481**
Liabilities		
Commodity taxes payable	$ -	$ 6
Accounts payable and accrued liabilities	1	3
	1	**9**
Shareholders' equity	**403**	**472**
	$ 404	**$ 481**

8.1 Analysis of Financial Position

The following discussion is based upon ACE's consolidated statement of financial position as at September 30, 2011, versus December 31, 2010.

Cash and cash equivalents

As at September 30, 2011, ACE's cash and cash equivalents amounted to $350 million. As at December 31, 2010, ACE's cash and cash equivalents was $363 million. The reduction of $13 million was mainly the result of operating expense cash outflows of $3 million and $10 million of tax reassessments paid in Quarter 2, 2011, as further described below in Commodity taxes receivable and Commodity taxes payable.

Investment in Air Canada

The net decrease in fair value of ACE's investment in Air Canada during the first nine months of 2011 was due to an unrealized loss on the investment in Air Canada of $61 million as a result of the decline in the market price of Air Canada Class B voting shares, as quoted on the TSX.

Air Canada warrants

The fair value of the 2,500,000 Air Canada warrants amounted to $1 million as at September 30, 2011 ($5 as at December 31, 2010) using the Black-Scholes option valuation model.

Commodity taxes receivable and Commodity taxes payable

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 million. 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 million of such reassessments were recoverable from Air Canada and other parties. The total recovery amount of $35.4 million included $33.4 million recovered from Air Canada and $1.1 million 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 million were received and paid in Quarter 2, 2011. $6.8 million 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 million. The reassessment relates to 2005.

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

Shareholders' equity

As at September 30, 2011, ACE's shareholders' equity amounted to $403 million, a decrease of $69 million from December 31, 2010. This was due to the loss for the first nine months of 2011 of $69 million.

8.2 Cash Flows

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

	Quarter 3		First Nine Months	
(Canadian dollars in millions)	**2011**	**2010**	**2011**	**2010**
Cash from (used for) operating activities	$ (1)	$ 5	$ (13)	$ 11
Cash used for financing activities	-	-	-	(20)
Cash from investing activities	-	150	-	149
Net change in cash and cash equivalents during the period	**(1)**	**155**	**(13)**	**140**
Cash and cash equivalents - Beginning of period	**351**	**56**	**363**	**71**
Cash and cash equivalents - End of period	**$ 350**	**$ 211**	**$ 350**	**$ 211**

As discussed in Section 8.1, cash used for operating activities of $13 million in the first nine months, reflects mainly the payment of tax reassessments.

In August 2010, Air Canada repaid to ACE its share of the outstanding debt under the Credit Facility in the amount of $150 million together with interest and prepayment fees for total proceeds to ACE of $156 million.

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

8.3 Share Information

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

Number of shares (000)	October 31, 2011	December 31, 2010
Issued and outstanding common shares		
Class A variable voting shares	24,415	26,049
Class B voting shares	8,060	6,424
Total issued and outstanding common shares	**32,475**	**32,473**
Common shares potentially issuable		
Stock options (1)	20	38
Total outstanding and potentially issuable common shares	**32,495**	**32,511**

(1) The Corporation's stock option plan is described in Note 5 to the 2010 annual audited consolidated financial statements. At October 31, 2011, a total of 19,760 stock options with a weighted exercise price of $19.23 were outstanding.

9. Quarterly Financial Information

($ millions, except per share amounts)	Q4(1) (2) 2009	Q1(2) 2010	Q2(2) 2010	Q3(2) 2010	Q4(2) 2010	Q1(2) 2011	Q2(2) 2011	Q3(2) 2011
Operating revenues	$ 815	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating expenses	(820)	(2)	(3)	(1)	(4)	(3)	(2)	(2)
Operating loss	**(5)**	**(2)**	**(3)**	**(1)**	**(4)**	**(3)**	**(2)**	**(2)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax(3)	(651)	(26)	(61)	67	65	(32)	(4)	(26)
Net income (loss)	**$ (656)**	**$ (28)**	**$ (64)**	**$ 66**	**$ 61**	**$ (35)**	**$ (6)**	**$ (28)**
Earnings (loss)(4)								
Per share – basic	**$(18.38)**	**$(0.87)**	**$(1.99)**	**$2.03**	**$1.87**	**$(1.08)**	**$(0.17)**	**$(0.86)**
Per share – diluted	**$(18.38)**	**$(0.87)**	**$(1.99)**	**$2.03**	**$1.87**	**$(1.08)**	**$(0.17)**	**$(0.86)**

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

(2) *ACE transitioned to IFRS as of January 1, 2011 with a retroactive restatement of the comparative figures in 2010. 2009 continues to be presented on a Canadian GAAP basis.*

(3) *Quarter 4 2009 includes a dilution loss of $411 million as a result of the shares issued by Air Canada reducing ACE's ownership interest from 75% to 27% and includes a provision for loss on ACE's Air Canada investment of $219 million as a result of adjusting the carrying value of ACE's investment in Air Canada to $99 million based on Air Canada's market price as at December 31, 2009. Quarter 4 2010 includes a gain of $26 million on ACE's sale of 44,000,000 Class B voting shares of Air Canada.*

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

10. Off-Balance Sheet Arrangements

Guarantees

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

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

Indemnification agreements

Refer to Section 8.1 of this MD&A for a description of indemnification agreements between ACE, Air Canada and Aveos related to certain commodity tax reassessments.

11. Critical Accounting Estimates

Critical accounting estimates are those that are most important to the portrayal of ACE's financial condition and results of operations. Information on ACE's critical accounting estimates is disclosed in section 13 of ACE's Amended 2010 MD&A dated May 4, 2011. The following updates are provided for those areas that contain critical accounting estimates utilized in the preparation of ACE's consolidated financial statements.

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.

12. Risk Factors

For a detailed description of the risk factors associated with the Corporation, refer to Section 14 "Risk Factors" of ACE's Amended 2010 MD&A dated May 4, 2011. There have been no material changes to the Corporation's risk factors from what was disclosed at that time.

13. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

The Corporation filed certifications, signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), with the Canadian Securities Administrators ("CSA") upon filing the Corporation's 2011 Annual Information Form. In those filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporation's CEO and CFO also certify the appropriateness of the financial disclosures in the Corporation's interim filings with securities regulators. In those interim filings, the Corporation's CEO and CFO certify the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

Management's Report on Disclosure Controls and Procedures

Management, with the participation of the Corporation's CEO and CFO, concluded, as at September 30, 2011, that such disclosure controls and procedures were designed to provide reasonable assurance that:

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

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

Management's Report on Internal Controls over Financial Reporting

Management, with the participation of the Corporation's CEO and CFO, concluded, as at September 30, 2011, that the Corporation's internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

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

Changes in Internal Controls over Financial Reporting

There have been no changes in internal controls over financial reporting during Quarter 3 2011 that have materially affected or are reasonably likely to materially affect its internal controls over financial reporting.