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ACE AVIATION

2011

Management's Discussion and Analysis

February 9, 2012

Table of Contents

1. **Preface** 1
2. **Caution Regarding Forward-Looking Information** 2
3. **Net Assets in Liquidation** 3
4. **ACE's Assets** 4
5. **Accounting Policies** 6
   - 5.1 Liquidation Basis of Presentation 6
   - 5.2 Adoption of IFRS 9 Financial Instruments 6
   - 5.3 Transition to IFRS 7
6. **Consolidated Statement of Changes in Net Assets (2011) Consolidated Statement of Income (2010) – Quarter 4** 8
7. **Consolidated Statement of Changes in Net Assets (2011) Consolidated Statement of Income (2010)** 9
8. **Financial and Capital Management** 10
   - 8.1 Analysis of Financial Position 10
   - 8.2 Cash Flows 12
   - 8.3 Capital Management 12
   - 8.4 Share Information 13
9. **Quarterly Financial Information** 14
10. **Selected Annual Information** 15
11. **Financial Instruments and Risk Management** 15
12. **Off-Balance Sheet Arrangements** 16
13. **Critical Accounting Estimates** 16
14. **Risk Factors** 17
15. **Controls and Procedures** 18

1. Preface

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment 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 January 31, 2012, ACE's principal assets are cash and cash equivalents of approximately $356 million and an 11.11% equity interest in Air Canada.

On February 9, 2012, the Board of Directors decided to seek shareholder approval to proceed with the winding-up of ACE, the distribution of its net assets, after providing for liabilities, contingencies and costs, and ultimately its dissolution in the future (the "Liquidation"). The Liquidation of ACE is subject to shareholder approval.

In accordance with IAS 1 "Presentation of financial statements" and IAS 10 "Events after the reporting period" the Corporation changed the basis of preparing its financial statements from going concern to liquidation, effective January 1, 2011. This change of basis was adopted as IAS 10 does not permit use of the going concern basis of accounting if management intends to liquidate the entity either before or after year-end. As a result, the financial statements as at December 31, 2011 and for the year ended have been prepared using a liquidation basis of accounting. This basis of presentation differs from the presentation adopted in the interim financial reports of the Corporation issued during 2011. The adoption of a liquidation basis of presentation on January 1, 2011 did not result in a change to net assets. If ACE subsequently does not proceed with the liquidation of its net assets, ACE will revert to a going concern basis of presentation.

The consolidated financial statements as at December 31, 2011 and for the year then ended do not include costs to liquidate the assets of the Corporation, settle any contingent liabilities or future administrative costs and professional fees to wind-up the activities of the Corporation. These costs may be material and the amounts disclosed as net assets in liquidation in total or on a per share basis will change. The actual amounts available for distribution to shareholders will change and such changes may be material.

The financial statements as at December 31, 2010 and for the year then ended have been prepared on a going concern basis. The going concern basis of presentation assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business and does not purport to show, reflect or provide for the consequences of the Corporation's intention to liquidate.

The Corporation has presented a statement of net assets in liquidation as at December 31, 2011 and a statement of changes of net assets in liquidation for the year ended December 31, 2011.

ACE prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and to require 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, these are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS. 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.

From January 1, 2010 to December 23, 2010, ACE's investment in Air Canada was accounted for using the equity method of accounting. After that date, 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 as FVTPL are carried at fair value and any realized and unrealized gains or losses thereafter are recorded in profit or loss.

This MD&A should be read in conjunction with ACE's audited consolidated financial statements and notes for 2011, which can 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 February 9, 2012.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" in section 2 of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to ACE, see section 14 "Risk Factors" of this MD&A.

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

2. Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, market, regulatory developments or proceedings, and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 14 "Risk Factors" of this MD&A. The winding-up is subject to the approval of ACE's shareholders. If ACE does not proceed with the winding-up, or do so in a timely manner, ACE will continue to incur operating costs and fees. No assurance can be given as to the time of the liquidation and distributions. 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. Net Assets in Liquidation

The following table presents the net assets in liquidation of ACE as at January 31, 2012 and December 31, 2011. The amounts as at December 31, 2011 are based on the 2011 audited financial statements. The amounts as at January 31, 2012 are derived from the Corporation's accounting records and have not been audited or reviewed by the Corporation's auditors.

(Canadian dollars in millions, except per share amounts)	January 31 2012	December 31 2011
Cash and cash equivalents	$ 356	$ 356
Air Canada shares [1]	33	31
Air Canada warrants [1]	-	-
	389	387
Current obligations [2]	(5)	(5)
Contingencies [2] [4]	-	-
	(5)	(5)
Net assets in liquidation	**$ 384**	**$ 382**
Net assets in liquidation per share – Basic and diluted	**$ 11.83**	**$ 11.77**

(1) *As at January 31, 2012, ACE held an 11.11% ownership interest in Air Canada consisting of 31,000,000 Class B voting shares. The fair value of ACE's holdings of Air Canada shares of $33 million as at January 31, 2012 and $31 million as at December 31, 2011 is based on the closing prices of $1.07 per Air Canada Class B voting share as at January 31, 2012 and $0.99 per Air Canada Class B voting share as at December 31, 2011, as quoted on the TSX. ACE held 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. The fair value of the warrants was a nominal amount as at January 31, 2012 using the Black-Scholes option valuation model.*

(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.

The audits of income taxes and other taxes are now substantially complete and additional reassessments of $4 million are anticipated in Quarter 1, 2012. This amount has been accrued as at December 31, 2011. On the basis of the information available, it is ACE's current expectation that the Certificates of Discharge will be issued in the near future.

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. $35.1 million of such reassessments were recovered from Air Canada and other parties. The total recovery amount of $35.1 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 were recovered from Air Canada in Quarter 4, 2011. ACE has agreed to indemnify and hold harmless Air Canada from loss should related additional ITC claims by Air Canada be reassessed in the future.

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.

(3) *Future costs will be incurred up to and during liquidation. These costs will include Directors & Officers indemnification insurance coverage up to and post the dissolution of the Corporation, liquidator fees and other operating costs up to and during liquidation. In addition future interest income is expected to be earned on cash and cash equivalents.*

(4) *As part of the wind-up process, a claims process will be initiated pursuant to which any claims against the Corporation will be identified and resolved. While the Corporation believes that its financial statements reflect all liabilities that are likely, it is possible that, through this process, additional liabilities will be identified and accrued.*

(5) *Refer to section 14 of this MD&A for a discussion of risk factors*

4. ACE's Assets

As at January 31, 2012, ACE's principal assets are:

- cash and cash equivalents of $356 million; and
- a 11.11% (31,000,000 Class B voting shares) ownership interest in Air Canada

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 January 31, 2012:

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	(76)
Fair value of ACE's investment in Air Canada as at December 31, 2011 [1]	**$ 31**
Fair value of ACE's investment in Air Canada as at January 31, 2012 [1]	**$ 33**

(1) *The fair value of ACE's holdings of Air Canada shares of $107 million as at December 31, 2010, $31 million as at December 31, 2011 and $33 million as at January 31, 2012 are based on the closing prices of $3.45 per Air Canada Class B voting share as at December 31, 2010, $0.99 per Air Canada Class B voting Share as at December 31, 2011 and $1.07 per Air Canada Class B voting share as at January 31, 2012, 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 $26 million was recognized in Gain on ACE's investment in Air Canada.

Following the offering, ACE beneficially owned 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.

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 December 31, 2011, the fair value of ACE's investment in Air Canada was reduced to $31 million. The loss for the year ending December 31, 2011 of $76 million was recognized in Unrealized loss on investment in Air Canada recorded at fair value. Refer to section 5.2 of this MD&A.

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 profit or loss. The fair value of the 2,500,000 warrants amounted to a nominal amount as at December 31, 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. The investment was measured at $nil at January 1, 2010. Under the terms of a Release Agreement entered into on March 12, 2010, ACE and ACTS LP were released from substantially any claims that may arise under the Asset Purchase Agreement relating to the monetization of ACTS on October 16, 2007, in return for a payment of $1.25 million which is recorded as a Loss on investment in ACTS Aero in 2010.

5. Accounting Policies

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

Effective December 31, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation (Refer to section 1 of this MD&A). The adoption of a liquidation basis of presentation did not result in a change to the Corporation's accounting policies that were applied on a going concern basis of presentation.

For additional information on ACE's significant accounting policies and methods used in preparation of ACE's 2011 audited consolidated financial statements and notes, please refer to Note 2 to ACE's 2011 audited consolidated financial statements.

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 13 of this MD&A for a discussion of ACE's critical accounting estimates.

5.1 Liquidation Basis of Presentation

In accordance with IAS 1 "Presentation of financial statements" and IAS 10 "Events after the reporting period" the Corporation changed the basis of preparing its financial statements from going concern to liquidation, effective January 1, 2011. This change of basis was adopted as IAS 10 does not permit use of the going concern basis of accounting if management intends to liquidate the entity either before or after year-end. As a result, the financial statements as at December 31, 2011 and for the year ended have been prepared using a liquidation basis of accounting. This basis of presentation differs from the presentation adopted in the interim financial reports of the Corporation issued during 2011. The adoption of a liquidation basis of presentation on January 1, 2011 did not result in a change to net assets. If ACE subsequently does not proceed with the liquidation of its net assets, ACE will revert to a going concern basis of presentation.

Future costs will be incurred up to and during liquidation. These costs will include Directors & Officers indemnification insurance coverage up to and post the dissolution of the Corporation, liquidator fees and other operating costs up to and during liquidation. In addition future interest income is expected to be earned on cash and cash equivalents.

As part of the wind-up process, a claims process will be initiated pursuant to which any claims against the Corporation will be identified and resolved. While the Corporation believes that its financial statements reflect all liabilities that are likely, it is possible that, through this process, additional liabilities will be identified and accrued.

5.2 Adoption of IFRS 9 Financial Instruments

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the Statement of Income (Loss), unless this creates an accounting mismatch.

In the year, the Corporation has applied IFRS 9 and the related consequential amendments in advance of its effective date. The Corporation has applied IFRS 9 retrospectively and comparative amounts have been restated, where appropriate.

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 the Consolidated Statement of Income (Loss) in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to the Consolidated Statement of Income (Loss).

The Corporation's investment in Air Canada is classified as a financial asset measured at FVTPL as of December 23, 2010 and any period change in fair value is recorded through Unrealized gain (loss) on investment in Air Canada recorded at fair value in the Consolidated Statement of Income (Loss).

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the Consolidated Statement of Income (Loss) immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

5.3 Transition to IFRS

Effective January 1, 2011 and as futher described in ACE's audited consolidated financial statements and notes for 2011, ACE prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), with 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
Interest income	$ 5	$ 5	$ 3	$ 1	$ 14
Gain on sale of 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)
Administrative and other expenses	$ (2)	$ (3)	$ (1)	$ (4)	$ (10)
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	$ 1.03

6. Consolidated Statement of Changes in Net Assets (2011) Consolidated Statement of Income (2010) – Quarter 4

	Quarter 4	
	2011 (Liquidation Basis)	2010 (Going Concern)
Net assets in liquidation – September 30	**$ 403**	
Interest income	1	$ 1
Gain on sale of ACE's investment in Air Canada	-	26
Unrealized gain (loss) on investment in Air Canada recorded at fair value	(15)	15
Proportionate share of Air Canada's income	-	21
Unrealized gain (loss) on Air Canada warrants recorded at fair value	(1)	2
Administrative and other expenses	(4)	(4)
	(19)	61
Recovery of (provision for) income taxes	(2)	-
Income (loss) for the period	**$ (21)**	**$ 61**
Transactions with owners	**-**	
Net assets in liquidation – December 31	**$ 382**	

The consolidated statement of changes in net assets for Quarter 4 2011 has been prepared on a liquidation basis of presentation. The consolidated statement of income for Quarter 4 2010 has been prepared on a going concern basis of presentation.

ACE's investment in Air Canada was accounted for using the equity method of accounting up to December 23, 2010. Subsequent to December 23, 2010, ACE's investment in Air Canada is classified as FVTPL.

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 $15 million. In Quarter 4, 2010, the gain on sale of Air Canada shares disposed of was $26 million. In the same period in 2010, ACE recorded an unrealized gain on investment in Air Canada recorded at fair value of $15 million. For the period from October 1, 2010 to December 23, 2010, ACE's proportionate share of Air Canada's income on an equity accounting basis was $21 million. The unrealized loss on Air Canada warrants recorded at fair value in Quarter 4, 2011, amounted to $1 million; an unrealized gain of $2 million was recorded in Quarter 4, 2010.

ACE recorded administrative and other expenses of $4 million in Quarter 4, 2011 including net additional provisions for other taxes of $1.8 million. In the same period in 2010, ACE recorded administrative and other expenses of $4 million.

The loss in Quarter 4, 2011, amounted to $21 million or $(0.65) per diluted share. In Quarter 4 2010, ACE recorded income of $61 million or $1.87 per diluted share.

7. Consolidated Statement of Changes in Net Assets (2011) Consolidated Statement of Income (2010)

	2011 (Liquidation Basis)	2010 (Going Concern)
Net assets in liquidation – January 1	**$ 472**	
Interest income	4	$ 14
Gain on sale of ACE's investment in Air Canada	-	26
Unrealized gain (loss) on investment in Air Canada recorded at fair value	(76)	15
Proportionate share of Air Canada's loss	-	(14)
Unrealized gain (loss) on Air Canada warrants recorded at fair value	(5)	5
Loss on investment in ACTS Aero	-	(1)
Administrative and other expenses	(11)	(10)
	(88)	35
Recovery of (provision for) income taxes	(2)	-
Income (loss) for the year	**$ (90)**	**$ 35**
Transaction with owners	**-**	
Net assets in liquidation – December 31	**$ 382**	

The consolidated statement of changes in net assets for 2011 has been prepared on a liquidation basis of presentation. The consolidated statement of income for 2010 has been prepared on a going concern basis of presentation.

ACE's investment in Air Canada was accounted for using the equity method of accounting up to December 23, 2010. Subsequent to December 23, 2010, ACE's investment in Air Canada is classified as FVTPL.

ACE recorded interest income of $4 million in 2011 compared with $14 million in 2010. The 2010 amount included $13 million from the loan to Air Canada, which was repaid on August 3, 2010.

During 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 $76 million. In 2010, ACE recorded an unrealized gain on investment in Air Canada recorded at fair value of $15 million. In 2010, the gain on sale of Air Canada shares disposed of was $26 million. For the period from October 1, 2010 to December 23, 2010, ACE's proportionate share of Air Canada's loss on an equity accounting basis was $14 million. The unrealized loss on Air Canada warrants recorded at fair value in 2011 amounted to $5 million; an unrealized gain of $5 million was recorded in 2010.

ACE recorded administrative and other expenses of $11 million in 2011. In 2010, ACE recorded administrative and other expenses of $10 million. Administrative costs and other expenses in 2011 and 2010 include net additional provisions for other taxes of $3.2 million and $2.3 million, respectively.

The loss in 2011, amounted to $90 million or $(2.76) per diluted share. In 2010, ACE recorded income of $35 million or $1.03 per diluted share.

8. Financial and Capital Management

The following table summarizes ACE's Statement of Net Assets in Liquidation as at December 31, 2011. The adoption of a liquidation basis of presentation on January 1, 2011 did not result in a change to net assets.

	December 31, 2011 *
Assets	
Cash and cash equivalents	$ 356
Investment in Air Canada	31
Air Canada warrants	-
	$ 387
Liabilities	
Accounts payable and accrued liabilities	$ 1
Income and other taxes payable	4
	5
Contingencies	**-**
Net assets in liquidation	**$ 382**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation; accordingly, a Consolidated Statement of Net Assets in Liquidation as at December 31, 2011 has presented rather than a Consolidated Statement of Financial Position on a going concern basis.*

The following table summarizes ACE's Consolidated Statement of Financial position as at December 31, 2010 prepared on a going concern basis.

	December 31, 2010
Assets	
Cash and cash equivalents	$ 363
Investment in Air Canada	107
Air Canada warrants	5
Commodity taxes receivable	6
	$ 481
Liabilities	
Commodity taxes payable	$ 6
Accounts payable and accrued liabilities	3
	9
Shareholders' equity	**472**
	$ 481

8.1 Analysis of Financial Position

Cash and cash equivalents

As at December 31, 2011, ACE's cash and cash equivalents amounted to $356 million. As at December 31, 2010, ACE's cash and cash equivalents was $363 million. The reduction of $7 million was the result of operating cash outflows of $11 million, (including $4 million arising from the net cost of tax reassessments), offset by interest income of $4 million.

Investment in Air Canada

The net decrease in fair value of ACE's investment in Air Canada during 2011 was due to an unrealized loss on the investment in Air Canada of $76 million as a result of the decline in the market price of the 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 a nominal amount as at December 31, 2011 ($5 million as at December 31, 2010) using the Black-Scholes option valuation model.

Taxes receivable and 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.

The audits of income taxes and other taxes are now substantially complete and additional reassessments of $4 million are anticipated in Quarter 1, 2012. This amount has been accrued as at December 31, 2011. On the basis of the information available, it is ACE's current expectation that the Certificates of Discharge will be issued in the near future.

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. $35.1 million of such reassessments were recovered from Air Canada and other parties. The total recovery amount of $35.1 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 were recovered from Air Canada in Quarter 4, 2011. ACE has agreed to indemnify and hold harmless Air Canada from loss should related additional ITC claims by Air Canada be reassessed in the future.

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.

Administrative and other expenses for Quarter 1, 2011 and Quarter 4, 2011 include net additional provisions for other taxes of $1.4 million and $1.8 million respectively.

Shareholders' equity

As at December 31, 2011, ACE's net assets in liquidation amounted to $382 million, a decrease of $90 million from shareholders equity as at December 31, 2010. This was due to the loss in 2011 of $90 million.

8.2 Cash Flows

The following table summarizes ACE's cash flows for the indicated periods and has been prepared on a going concern basis.

	Quarter 4			
(Canadian dollars in millions)	2011*	2010	2011*	2010
Cash from (used for) operating activities	$ 6	$ (4)	$ (7)	$ 7
Cash used for financing activities	-	-	-	(20)
Cash from investing activities	-	156	-	305
Net change in cash and cash equivalents during the period	**6**	**152**	**(7)**	**292**
Cash and cash equivalents - Beginning of period	**350**	**211**	**363**	**71**
Cash and cash equivalents - End of period	**$ 356**	**$ 363**	**$ 356**	**$ 363**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation. The consolidated statement of cash flows for the year ended December 31, 2011 and December 31, 2010 have been prepared on a liquidation basis and going concern basis, respectively.*

As discussed in Section 8.1, cash used for operating activities of $7 million in 2011, reflects mainly the payment of administrative and other expenses.

In December 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 million (net proceeds of approximately $156 million).

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 Capital Management

ACE is an investment holding company with an 11.11% non-controlling interest in Air Canada as at December 31, 2011.

Capital managed by ACE is as follows:

	2011	2010
Net assets in liquidation	382	-
Shareholders' equity	-	472
Capital	**$ 382**	**$ 472**

As at December 31, 2011, ACE's capital amounted to $382 million, a decrease of $90 million during 2011 mainly driven by the $76 million unrealized loss on ACE's investment in Air Canada recorded at fair value and the $5 million unrealized loss on Air Canada warrants recorded at fair value.

ACE's strategy, to maximize shareholder value and to return capital to its shareholders, has influenced its capital management objectives. Consistent with those objectives, during 2010, the ACE Board of Directors

authorized the return of capital to its shareholders through the purchase and cancellation of ACE's Class A variable voting shares and Class B voting shares. In addition, during 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 $26 million was recognized in Gain on sale of ACE's investment in Air Canada.

As described in Section 1 of this MD&A, on February 9, 2012, the Board of Directors decided to seek shareholder approval to proceed with the winding-up of ACE, the distribution of its net assets, after providing for liabilities, contingencies and costs, and ultimately its dissolution in the future. The Liquidation of the Corporation is subject to shareholder approval. ACE's strategy will be to maximize the amount available for distribution to its shareholders and wind-up the Corporation's activities in an orderly fashion. The Corporation expects to incur ongoing administrative costs and professional fees until the Corporation's activities are wound up.

8.4 Share Information

At January 31, 2012, the issued and outstanding common shares of ACE, along with common shares potentially issuable, were as follows:

Number of shares (000)	January 31, 2012	December 31, 2010
Issued and outstanding common shares		
Class A variable voting shares	23,848	26,049
Class B voting shares	8,627	6,424
Total issued and outstanding common shares	**32,475**	**32,473**
Common shares potentially issuable		
Stock options (1)	19	38
Total outstanding and potentially issuable common shares	**32,494**	**32,511**

(1) The Corporation's stock option plan is described in Note 6 to the 2011 audited consolidated financial statements. At January 31, 2012, a total of 18,841 stock options with a weighted exercise price of $19.23 were outstanding.

9. Quarterly Financial Information

($ millions, except per share amounts)	Q1[1] 2010 (Going Concern)	Q2[1] 2010 (Going Concern	Q3[1] 2010 (Going Concern	Q4[1] 2010 (Going Concern	Q1[1] 2011 * (Liquidation Basis)	Q2[1] 2011 (Liquidation Basis)	Q3[1] 2011 (Liquidation Basis)	Q4[1] 2011 (Liquidation Basis)
Interest income	$ 5	$ 5	$ 3	$ 1	$ 1	$ 1	$ 1	$ 1
Gain on sale of ACE's investment in Air Canada	-	-	-	26	-	-	-	-
Unrealized gain (loss) on investment in Air Canada recorded at fair value	-	-	-	15	(31)	(4)	(26)	(15)
Proportionate share of Air Canada's income (loss)	(32)	(65)	62	21	-	-	-	-
Unrealized gain (loss) on Air Canada warrants recorded at fair value	2	(1)	2	2	(2)	(1)	(1)	(1)
Loss on investment in ACTS Aero	(1)	-	-	-	-	-	-	-
Administrative and other expenses	(2)	(3)	(1)	(4)	(3)	(2)	(2)	(4)
Recovery of (provision for) income taxes	-	-	-	-	-	-	-	(2)
Income (loss)	**$ (28)**	**$ (64)**	**$ 66**	**$ 61**	**$ (35)**	**$ (6)**	**$ (28)**	**$ (21)**
Earnings (loss)[2]								
Per share – basic	**$(0.87)**	**$(1.99)**	**$2.03**	**$1.87**	**$(1.08)**	**$(0.17)**	**$(0.86)**	**$(0.65)**
Per share – diluted	**$(0.87)**	**$(1.99)**	**$2.03**	**$1.87**	**$(1.08)**	**$(0.17)**	**$(0.86)**	**$(0.65)**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation and the consolidated statement of changes in net assets includes the results of operations and transactions with owners. The financial information for Q1, Q2 and Q3 2011 was changed to the liquidation basis of accounting from that previously disclosed in ACE's previously filed interim MD&As. The quarterly financial information is derived from ACE's statement of changes in net assets.*

(1) *ACE transitioned to IFRS as of January 1, 2011 with comparative figures in 2010.*

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

10. Selected Annual Information

The following table provides selected annual information for ACE for the years 2011, 2010 and 2009. The information provided below may not be directly comparable as a result of changes in accounting policies relating to ACE's investment in Air Canada and ACE's transition to IFRS as of January 1, 2011 with a retroactive restatement of the comparative figures in 2010 whereas 2009 is presented on a Canadian GAAP basis.

($ millions, except per share figures)	2011 *	2010	2009 (1)
Operating revenues	$ -	$ -	$ 8,206
Administrative and other expenses	(11)	(10)	(8,450)
Operating income (loss)	**(11)**	**(10)**	**(244)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax (2)	(79)	45	(448)
Net income (loss)	**$ (90)**	**$ 35**	**$ (692)**
Earning (loss) per share - Basic and Diluted	**$(2.76)**	**$1.03**	**$(19.56)**
Cash and cash equivalents	**$ 356**	**$ 363**	**$ 71**
Total assets	**$ 387**	**$ 481**	**$ 323**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation and the consolidated statement of changes in net assets includes the results of operations and transactions with owners. The financial information is derived from ACE's statement of changes in net assets and from ACE's statement of net assets in liquidation.*

(1) The net income (loss), financial position and cash flows of Air Canada are not consolidated with ACE effective October 27, 2009. From October 27, 2009 to December 23, 2010, ACE accounted for its 27% ownership interest in Air Canada using the equity method of accounting. Subsequent to December 23, 2010, ACE's 11% ownership in Air Canada was accounted for a fair value through profit and loss financial asset.

(2) Non-operating income (expense) includes a gain of $26 million on ACE's sale of Air Canada shares in 2010, losses on ACE's investment in Air Canada of $630 million in 2009. Also included are net gains on foreign exchange of $531 million in 2009.

11. Financial Instruments and Risk Management

As at December 31, 2011, ACE's financial instruments include cash and cash equivalents in the amount of $356 million ($363 million as at December 31, 2010), Air Canada warrants of a nominal amount ($5 million as at December 31, 2010), commodity taxes receivable of nil ($6 million as at December 31, 2010) and accounts payable and accrued liabilities of $1 million ($3 million as at December 31, 2010). The risk exposure related to these holdings is described below.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. This risk is mitigated by the fact that as at December 31, 2011, the Corporation had Cash and cash equivalents of $356 million and accounts payable and accrued liabilities of $1 million.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. The Corporation is exposed to credit risk from its cash and cash equivalents. The maximum exposure of which is represented by the carrying amounts reported on the balance sheet. This risk is mitigated by the fact that cash and cash

equivalents are held by major Canadian Banks. The Corporation's target is that no one financial institution holds more than 25% of the total.

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and price risk. The Corporation is exposed to interest rate risk and equity risk.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk from its holding in cash and cash equivalents of $356 million. The weighted average interest rate on ACE's cash and cash equivalents at December 31, 2011, is approximately 1.02%, which results in limited downside risk.

Price Risk
Price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Corporation is exposed to price risk from its holding of 31,000,000 Air Canada Class B voting shares and 2,500,000 warrants for the purchase of Air Canada shares. A 10% change in the fair value of an Air Canada Class B voting share would result in a change to the Statement of Net Assets in Liquidation of $3 million.

12. Off-Balance Sheet Arrangements

Guarantee of Air Canada obligation

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.

13. Critical Accounting Estimates

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

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

Income 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. 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. No material provision for uncertain tax positions has been recognized by the Corporation.

14. Risk Factors

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

The Winding-up is Subject to Approval by ACE's Shareholders
The winding-up is subject to the approval by ACE's shareholders. Should ACE be unable to obtain the approval of the shareholders or do so in a timely manner, ACE may have to consider alternatives and incur costs and fees which will reduce the net assets available for distribution to shareholders.

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

Fair Value of ACE's interest in Air Canada may Change
The fair value of ACE's equity interest in Air Canada is subject to market conditions based on the financial performance of Air Canada and to any risks and uncertainties relating to Air Canada, as well as any, movements in the price of publicly-traded airline stocks and general market conditions. Any decrease in the market price of Air Canada shares will reduce the amount available for distribution to shareholders.

Contingent Liabilities
As part of the winding-up process, a claims process will be initiated pursuant to which any claims against the Corporation will be identified and resolved. It is possible that through this process additional liabilities will be identified and accrued or that claims will be filed that may result in costs to ACE. In addition, the contingent liabilities described in section 8.1 of this MD&A, relating to GST indemnity agreements, may impact the amount and timing of distributions.

Timeline of distributions
The timing and amounts of distributions under the liquidation process will be at the discretion of ACE and, eventually, of the liquidator to be appointed. Distributions may be delayed as a result of matters or events outside of the control of ACE or the liquidator. No assurances can be given as to the timing and amount of any distribution, under the liquidation process.

Actual Costs Incurred up to and During Liquidation May Exceed Current Estimates
The costs incurred up to and during liquidation have been estimated at $7 million. Such estimated costs are subject to change. The estimated costs are based on assumptions regarding the timing of the process and resolution of various matters. If there are delays or changes in these matters, actual costs incurred may differ significantly, which may reduce the amount available for distribution to shareholders.

15. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

The Corporation will file certifications, signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), with the Canadian Securities Administrators ("CSA") upon filing of the Corporation's 2012 Annual Information Form. In those filings, the Corporation's CEO and CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporation's CEO and CFO also certify the appropriateness of the financial disclosures in the Corporation's interim filings with securities regulators. In those interim filings, the Corporation's CEO and CFO certify the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

Management's Report on Disclosure Controls and Procedures

The Corporation's 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, with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures and concluded that, as at December 31, 2011, such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

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

Changes in Internal Controls over Financial Reporting

There have been no material changes to the Corporation's internal controls over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.