ACE AVIATION

Consolidated Financial Statements and Notes
2011

February 9, 2012

Independent Auditor's Report

To the Shareholders of ACE Aviation Holdings Inc.

We have audited the accompanying consolidated statement of net assets in liquidation of ACE Aviation Holdings Inc. and its subsidiaries (the "Corporation") as at December 31, 2011 and the consolidated statements of changes in net assets in liquidation and cash flows for the year then ended.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets in liquidation of the Corporation as at December 31, 2011 and its results of operations and cash flows for the year ended December 31, 2011 in accordance with International Financial Reporting Standards.

Matter of Emphasis

We draw attention to note 1 to the consolidated financial statements which describe the change to the liquidation basis of accounting as a result of the Corporation's intent to liquidate and other notes to the financial statements that describe certain uncertainties and future changes that may result from the intention to liquidate the Corporation. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers LLP[1]

Montreal, Quebec
February 9, 2012

[1] Chartered accountant auditor permit No. 18144

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Independent Auditor's Report

To the Shareholders of ACE Aviation Holdings Inc.

We have audited the accompanying consolidated statement of financial position of ACE Aviation Holdings Inc. and its subsidiaries (the "Corporation") as at December 31, 2010 and January 1, 2010 and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year ended December 31, 2010.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the year ended December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montreal, Quebec
February 9, 2012

[1] Chartered accountant auditor permit No. 18144

Consolidated Statement of Net Assets in Liquidation

As at December 31 (Canadian dollars in millions except per share figures)			2011 * Note 1
ASSETS			
Cash and cash equivalents		$	356
Investment in Air Canada	Note 4		31
Air Canada warrants	Note 4		-
		$	387
LIABILITIES			
Accounts payable and accrued liabilities			1
Income and other taxes payable	Note 5		4
		$	5
Contingencies	Notes 5 & 11		
NET ASSETS IN LIQUIDATION		**$**	**382**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted		$	11.77

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation (Refer to Note 1).*

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

On behalf of the Board of Directors:

(signed) Robert A. Milton
Robert A. Milton
Chairman and Chief Executive Officer

(signed) David I. Richardson
David I. Richardson
Chair of the Audit, Finance and Risk Committee

Consolidated Statement of Changes in Net Assets in Liquidation

For the year ended December 31, 2011 (Canadian dollars in millions except per share figures)		2011 *
Shareholders' Equity at December 31, 2010 on a Going Concern Basis		**$ 472**
Net effect of adopting a liquidation basis of presentation		-
Net assets in liquidation at January 1, 2011		**472**
Interest income		4
Unrealized loss on investment in Air Canada recorded at fair value	Notes 1 & 4	(76)
Unrealized loss on Air Canada warrants recorded at fair value	Note 4	(5)
Administrative and other expenses	Note 5	(11)
Loss before the following items		**(88)**
Provision for income taxes	Note 5	
Current		(2)
Deferred		-
Loss for the year		**(90)**
Transactions with owners		**-**
Net assets in liquidation at December 31, 2011		**$ 382**
Loss per share		
Basic and Diluted		$ (2.76)

** 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 in Liquidation includes the results of operations and transactions with owners. (Refer to Note 1).*

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

Consolidated Statement of Income

For the year ended December 31 (Canadian dollars in millions except per share figures)		2010 *
Interest income		$ 14
Gain on sale of ACE's investment in Air Canada	Note 4	26
Unrealized gain on investment in Air Canada recorded at fair value	Notes 1 & 4	15
Proportionate share of Air Canada's loss	Note 4	(14)
Unrealized gain on Air Canada warrants recorded at fair value	Note 4	5
Loss on investment in ACTS Aero	Note 4	(1)
Administrative and other expenses	Note 5	(10)
Income before the following items		**35**
Recovery of (provision for) income taxes	Note 5	
Current		-
Deferred		-
Income for the year		**$ 35**
Income per share		
Basic and Diluted		$ 1.03

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation. The Consolidated Statement of Income for the year ended December 31, 2010 was prepared using a going concern basis. (Refer to Note 1).*

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

Consolidated Statement of Comprehensive Income

For the year ended December 31 (Canadian dollars in millions)	2010 *
Comprehensive income	
Income for the year	$ 35
Other comprehensive income, net of taxes:	
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities	156
Total comprehensive income	**$ 191**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation. The Consolidated Statement of Comprehensive Income for the year ended December 31, 2010 was prepared using a going concern basis. As there were no items affecting comprehensive income for 2011, a Consolidated Statement of Comprehensive Income has not been presented for 2011. (Refer to Note 1).*

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

Consolidated Statement of Financial Position

(Canadian dollars in millions)		December 31 2010 *		January 1 2010 *	
ASSETS					
Cash and cash equivalents		$	363	$	71
Investment in Air Canada	Note 4		107		80
Air Canada warrants	Note 4		5		-
Loan receivable from Air Canada	Note 4		-		150
Interest receivable			-		3
Commodity taxes receivable	Note 5		6		-
TOTAL ASSETS		**$**	**481**	**$**	**304**
LIABILITIES					
Commodity taxes payable	Note 5	$	6	$	-
Accounts payable and accrued liabilities	Note 5		3		3
TOTAL LIABILITIES			9		3
SHAREHOLDERS' EQUITY					
Share capital			95		104
Contributed surplus			347		358
Retained earnings (deficit)			30		(161)
Accumulated other comprehensive income (loss)	Note 13		-		-
TOTAL SHAREHOLDERS' EQUITY			472		301
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**481**	**$**	**304**

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31 (Canadian dollars in millions)		2010 *
Share capital		
Common shares, beginning of year		$ 104
Repurchase and cancellation of common shares	Note 7	(9)
Total share capital		95
Contributed surplus		
Balance, beginning of year		358
Repurchase and cancellation of common shares	Note 7	(11)
Total contributed surplus		347
Retained earnings		
Balance, beginning of year		(161)
Income for the year		35
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities		156
Retained earnings		30
Accumulated other comprehensive income (loss)		
Balance, beginning of year		-
Unrealized gain (loss) on investment in Air Canada	Note 13	-
Other		-
Total accumulated other comprehensive income (loss)		-
Total shareholders' equity		**$ 472**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation (Refer to Note 1). The Consolidated Statement of Changes in Net Assets in Liquidation reflects all changes affecting Shareholders' Equity; accordingly, a Consolidated Statement of Changes in Shareholders' Equity has not been presented for the year ended December 31, 2011. The adoption of a liquidation basis of presentation effective January 1, 2011 did not result in a change to net assets of $472.*

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

Consolidated Statement of Cash Flows

For the year ended December 31 (Canadian dollars in millions)		2011 *	2010 *
Cash flows from (used for)			
Operating			
Income (loss) for the year		$ (90)	$ 35
Non-cash adjustments to reconcile to net cash from operations			
Gain on sale of ACE's investment in Air Canada	Note 4	-	(26)
Unrealized loss (gain) on investment in Air Canada recorded at fair value	Notes 1 & 4	76	(15)
Proportionate share of Air Canada's loss	Note 4	-	14
Unrealized loss (gain) on Air Canada warrants recorded at fair value	Note 4	5	(5)
Loss on investment in ACTS Aero	Note 4	-	1
Changes in non-cash working capital balances		2	3
		(7)	**7**
Financing			
Repurchase and cancellation of ACE common shares	Note 7	-	(20)
		-	**(20)**
Investing			
Proceeds from sale of Air Canada shares	Note 4	-	156
Repayment of loan receivable from Air Canada	Note 4	-	150
Loss on investment in ACTS Aero	Note 4	-	(1)
		-	**305**
Increase (decrease) in cash and cash equivalents		**(7)**	**292**
Cash and cash equivalents, beginning of year		363	71
Cash and cash equivalents, end of year		**$ 356**	**$ 363**

** Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation (Refer to Note 1). 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.*

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

For the years ended December 31, 2011 and 2010
(Canadian dollars in millions except share amounts)

1. GENERAL INFORMATION, BASIS OF PRESENTATION AND ADOPTION OF IFRS

A) GENERAL INFORMATION

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

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

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 the Corporation is subject to shareholder approval.

The Corporation 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.

These financial statements are expressed in millions of Canadian dollars and have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in Note 13, the Corporation has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 13 discloses the impact of the transition to IFRS on the Corporation’s reported financial position, statement of income (loss) and cash flows, including the nature and effects of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

From January 1, 2010 to December 23, 2010, ACE’s investment in Air Canada was accounted for using the equity method whereby the carrying value of the investment in Air Canada was adjusted to include the Corporation’s proportionate share of Air Canada’s earnings and other comprehensive income. As described in Note 4, effective December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada. ACE’s ownership interest in Air Canada was reduced from 27% to 11.11%. ACE ceased to have the ability to exercise significant influence over Air Canada and its retained investment in Air Canada was classified and measured at fair value through profit or loss (“FVTPL”). Financial instruments classified at FVTPL are carried at fair value and any realized and unrealized gains or losses thereafter are recorded in profit or loss. The consolidated statement of income (loss) and related notes for the year ending December 31, 2010 reflect ACE’s proportionate share of Air Canada’s earnings using the equity method of accounting to December 23, 2010. Subsequent to December 23, 2010, ACE’s investment in Air Canada is accounted for as a FVTPL financial asset.

B) CHANGE IN 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. Should ACE subsequently 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.

These financial statements were approved by the Board of Directors of the Corporation for issue on February 9, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements for the Corporation are based on the accounting policies in accordance with International Financial Reporting Standards as described below.

Under the liquidation basis of accounting, the Corporation measures it assets based on their net realizable value and its liabilities based on settlement amounts. As the Corporation's assets and liabilities consist primarily of financial instruments, the change in basis of accounting did not result in different measurements from those under the going concern basis of accounting.

A) BASIS OF MEASUREMENT

These financial statements have been prepared primarily using fair values.

B) PRINCIPLES OF CONSOLIDATION

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

C) CASH AND CASH EQUIVALENTS

Cash equivalents of $349 (December 31, 2010 – $353 and January 1, 2010 - $40) include investments in bankers' acceptances and bankers' discount notes that are readily convertible to known amounts of cash and are subject to insignificant changes in fair value and have original maturities of three months or less.

D) FINANCIAL INSTRUMENTS

The Corporation accounts for its financial instruments using IFRS 9 "Financial Instruments" and IAS 39 "Financial Instrument, Recognition and Measurement".

The investments in equity instruments of Air Canada and Aero Technical Support & Services Holdings sarl ("ACTS Aero") are classified and measured at fair value through profit or loss ("FVTPL"). All gains and losses are recognized in profit or loss. The Corporation's investment in Air Canada was classified as a financial asset measured at FVTPL as of December 23, 2010 when the Corporation lost significant influence over Air Canada. The fair value of the investment in Air Canada has not been adjusted for any future transaction costs that may be incurred to liquidate the investment.

The Corporation's investment in Air Canada warrants are classified as derivatives and were 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 profit or loss immediately. The investment in Air Canada warrants has not been adjusted for any future transaction costs that may be incurred to liquidate the investment.

The loan receivable from Air Canada and related interest receivable was initially recognized at fair value and subsequently measured using amortized cost as the loan was held with the objective of collecting the contractual cash flows which consisted of principal and interest.

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

E) INVESTMENTS IN ASSOCIATES

Investments subject to significant influence are accounted for using the equity method which reflects the costs of the investment and the Corporation's proportionate share of the investee's profits or losses, other comprehensive income or losses, capital transactions and dividends received.

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

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

Upon the loss of significant influence, any retained investment is re-measured to fair value and a gain or loss is recognized in profit or loss.

F) PROVISIONS

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. If the effect of the time value of money is significant, the expected cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in profit or loss. Provisions do not include future costs to be incurred unless such costs represent onerous contracts. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

G) INCOME TAXES

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is netted with such items.

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

Interest and penalties related to income taxes are recognized in current income tax expense.

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

H) EARNINGS PER SHARE

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- 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.

4. INVESTMENTS

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

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

(2) 2.5 million warrants for the purchase of Air Canada Class B Voting Shares at exercise prices of $1.44 (1.25 million warrants) and $1.51 (1.25 million warrants) per share.

Air Canada is Canada's largest domestic, US transborder and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-US transborder market as well as the international markets to and from Canada. Certain of the scheduled passenger services offered on domestic and Canada-US transborder routes are provided by Jazz Aviation LP ("Jazz") and certain other carriers operating under the "Air Canada Express" brand name. Through Air Canada's global route network, most major markets throughout the world are served either directly or through the Star Alliance network. In addition, Air Canada provides certain passenger charter services.

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

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

Carrying value of ACE's investment in Air Canada as at January 1, 2010	**$**	**80**
Proportionate share of earnings from January 1 to December 23, 2010		(14)
Proportionate share of other comprehensive income from January 1 to December 23, 2010		156
Carrying value of ACE's investment in Air Canada as at December 23, 2010		222
Sale of Air Canada shares on December 23, 2010 (44 million Class B voting shares)		(130)
Unrealized gain on ACE's investment in Air Canada (31 million Class B voting shares)		19
Fair value of ACE's investment in Air Canada as at December 23, 2010		111
Unrealized loss on ACE's investment in Air Canada		(4)
Fair value of ACE's investment in Air Canada as at December 31, 2010	**$**	**107**
Unrealized loss on ACE's investment in Air Canada		(76)
Fair value of ACE's investment in Air Canada as at December 31, 2011	**$**	**31**

- *The fair value of ACE's holdings of Air Canada shares of $107 as at December 31, 2010 and $31 as at December 31, 2011 are based on the closing prices of $3.45 per Air Canada Class B Voting Share as at December 31, 2010 and $0.99 per Air Canada Class B Voting Share as at December 31, 2011, as quoted on the TSX.*

Significant events

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

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

On December 23, 2010, ACE completed a secondary offering on a bought deal basis of 44,000,000 Class B Voting Shares of Air Canada at an offering price of $3.70 per Class B Voting Share for aggregate gross proceeds of $163 (net proceeds of approximately $156). The carrying value of the Air Canada shares sold was $130 and a gain on disposal of $26 was recognized in Gain on sale of 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 (based on Air Canada's closing market price as at December 23, 2010 as quoted on the TSX) resulting in an unrealized gain on investment in Air Canada of $19 being recognized in Unrealized gain on investment in Air Canada recorded at fair value.

For the period from December 23, 2010 to December 31, 2010, the fair value of ACE's investment in Air Canada was reduced to $107 at December 31, 2010 resulting in a loss of $4 which was recognized in Unrealized gain (loss) on investment in Air Canada recorded at fair value. As at December 31, 2011, the fair value of ACE's investment in Air Canada was reduced to $31. The loss for the year ending December 31, 2011 of $76 was recognized in Unrealized loss on investment in Air Canada recorded at fair value.

Repayment of loan receivable from Air Canada

On July 15, 2010, ACE reached an agreement with Air Canada with respect to the prepayment terms associated with Air Canada's secured credit facility whereby, under certain conditions, the applicable percentage payable in respect of a prepayment was reduced from 3.0% to 1.0%. Air Canada entered into similar agreements with the other lenders who participated in the $600 Credit Facility in July 2009.

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

2.5 million warrants

Under the Credit Facility, ACE received 1,250,000 warrants on July 30, 2009 for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.51 per share, exercisable at any time, and expiring four years after the date of issuance. On October 19, 2009, ACE received an additional 1,250,000 warrants for the purchase of Air Canada Class B Voting Shares with an exercise price of $1.44 per share, exercisable at any time, and expiring four years after the date of issuance.

The warrants are presented as Air Canada warrants and any changes in fair value are recorded within Unrealized gain (loss) on Air Canada warrants recorded at fair value in profit or loss. The fair value of the 2,500,000 warrants amounted to a nominal amount as at December 31, 2011 ($5 as at December 31, 2010) using the Black-Scholes option valuation model.

ACTS Aero

On January 22, 2010, ACE entered into a Restructuring and Lockup Agreement with Aveos, ACTS Aero, lenders and other shareholders. The restructuring was completed on March 12, 2010. Under the terms of the restructuring, ACE transferred its shares in ACTS Aero to a newly formed company, in which ACE has no interest, for $nil consideration. 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 which was recorded as a Loss on investment in ACTS Aero in 2010.

5. TAXES

Income Tax Expense

	2011		2010	
Current income tax	$	2	$	-
Deferred income tax		-		-
Provision for income taxes	**$**	**2**	**$**	**-**

The provision for income taxes differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

	2011		2010	
Income (loss) before income taxes	$	(88)	$	35
Statutory income tax rate based on combined federal and provincial rates		27.21%		28.85%
Tax provision (recovery) based on statutory tax rates		(24)		10
Effects of:				
Non-taxable portion of capital gains (losses)		11		(5)
Non-deductible expenses (non-taxable income)		-		1
Tax rate changes on deferred income taxes		3		(2)
Unrecognized (recognized) deferred income tax assets		9		(34)
Adjustment in respect of prior years		3		30
Provision for income taxes	**$**	**2**	**$**	**-**

The applicable statutory tax rates are 27.21% in 2011 and 28.85% in 2010. The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates. The decrease is mainly due to the reduction of the Federal income tax rate in 2011 from 18% to 16.5%.

The income tax provision (recovery) relating to components of Other comprehensive income is as follows:

	2011		2010	
Net gain on Air Canada investment	$	-	$	27
Recognized deferred income tax assets		-		(27)
Provision for income taxes in Other comprehensive income	**$**	**-**	**$**	**-**

Deferred Income Tax

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit is probable. The Corporation has unrecognized tax loss carryforwards of $91 (2010 - $122) and temporary differences of $260 (2010 - $104) for which no deferred tax assets are recognized. However, the future tax deductions underlying these deferred tax assets remain available for use in the future to reduce taxable income.

The balances of loss carryforwards, vary amongst different taxing jurisdictions. The following are the Federal tax loss expiry dates:

	Tax Losses	
2029	$	7
2031		7
	$	**14**

Cash income taxes recovered in 2011 by the Corporation were $nil (2010 – $nil).

As at December 31, 2011 ACE also has estimated net capital losses (after 50 per cent capital loss adjustment) of $340 (2010 - $386) that have no expiry date. These estimates are subject to revision based on the ongoing tax audits further discussed below. The estimated adjusted cost base of ACE's remaining 31,000,000 Class B Voting shares in Air Canada is $516 ($16.66 per Class B share).

Certificates of Discharge and tax audits

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

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

The audits of income taxes and other taxes are now substantially complete and additional reassessments of $4 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. 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 of such reassessments were recovered from Air Canada and other parties. The total recovery amount of $35.1 included $33.4 recovered from Air Canada and $1.1 from Aveos following their filings of related Input Tax Credits ("ITC") from the Canada Revenue Agency. ACE has agreed to indemnify and hold harmless Air Canada and Aveos from loss should the additional ITC claims be reassessed in the future.

Additional notices of reassessment in respect of GST and QST amounting to $7.4 were received and paid in Quarter 2, 2011. $6.8 of such reassessments 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. 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 and $1.8 respectively.

6. STOCK-BASED COMPENSATION

ACE Stock Option Plan

Certain of the Corporation's employees participated in the ACE stock option plan. Plan participation was limited to employees holding positions that, in the ACE Board's view (or a committee selected by the Board), had a significant impact on ACE's long term results. The stock option plan provided that the options have an exercise price of not less than 100% of the market price of the underlying shares at the time of grant. Under the terms of the stock option plan, fifty percent of all options vest over four years. The remaining options vest upon performance conditions that are based on net income targets established by the ACE Board over the same time period. All options expire after seven years. The terms of ACE's stock option plan specify that upon the retirement of the employee, options granted to that employee may be exercised as the options vest within three years of such retirement.

In compliance with the terms of the ACE stock option plan, in November 2007, the Board of ACE resolved to immediately vest all remaining unvested ACE stock options. This resulted in the immediate expense recognition of all deferred stock based compensation on outstanding ACE options granted, less amounts previously recognized as compensation expense. As a result of this immediate vesting of all ACE options granted, no further stock based compensation expense is expected to be recorded related to the ACE stock option plan.

In 2011, the amount credited to share capital for ACE stock options exercised was nominal (2010 - nominal). For ACE stock options exercised, shares from treasury are issued by the Corporation.

A summary of the activity related to the Corporation’s employees participating in the ACE stock option plan is as follows. Options are stated in whole numbers.

	2011		2010	
	Options	Weighted Average Exercise Price/Share	Options	Weighted Average Exercise Price/Share
Beginning of year	37,500	$ 15.36	47,812	$ 14.61
Exercised	(2,714)	11.05	(7,236)	11.05
Forfeited	(15,026)	11.05	(3,076)	13.82
Outstanding options, end of year	**19,760**	**$ 19.23**	**37,500**	**$ 15.36**
Options exercisable, end of year	**19,760**	**$ 19.23**	**37,500**	**$ 15.36**

		2011 Outstanding Options			2011 Exercisable Options	
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$19.23	2013	19,760	1	$ 19.23	19,760	$ 19.23
		19,760		**$ 19.23**	**19,760**	**$ 19.23**

		2010 Outstanding Options			2010 Exercisable Options	
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$11.05	2011	17,740	1	$ 11.05	17,740	$ 11.05
$19.23	2013	19,760	2	19.23	19,760	19.23
		37,500		**$ 15.36**	**37,500**	**$ 15.36**

7. SHARE CAPITAL

The issued and outstanding common shares of ACE, along with potential common shares, are set out below.

Outstanding shares ('000s)		2011	2010
Issued and Outstanding			
Class A variable voting shares		23,871	26,049
Class B voting shares		8,604	6,424
Total issued and outstanding		**32,475**	**32,473**
Potential common shares issuable			
Stock options	Note 6	20	38
Total potential common shares		**20**	**38**

Share capital is comprised of:

Common shares

Class A Variable Voting Shares

The Class A Variable Voting Shares may be held only by persons who are not Canadians and are entitled to one vote per Class A Variable Voting Share unless (i) the number of Class A Variable Voting Shares outstanding (including the Convertible Preferred Shares, on an as-converted basis), as a percentage of the total number of votes attaching to voting shares outstanding exceeds 25% or (ii) the total number of votes cast by or on behalf of holders of Class A Variable Voting Shares (including the Convertible Preferred Shares on an as-converted basis) at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Class A Variable Voting Share will decrease proportionately such that (i) the Class A Variable Voting Shares as a class (including the Convertible Preferred Shares on an as-converted basis) do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of ACE and (ii) the total number of votes cast by or on behalf of holders of Class A Variable Voting Shares (including the Convertible Preferred Shares on an as-converted basis) at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Class B Voting Shares

The Class B Voting Shares may be held only by persons who are Canadians. Each Class B Voting Share shall confer the right to one (1) vote in person or by proxy at all meetings of shareholders of the ACE.

Substantial Issuer Bid – January 2010

On January 6, 2010, ACE accepted for purchase and cancellation a total of 1,401,094 Class A Variable Voting Shares and 1,824,711 Class B Voting Shares at $6.20 per share for an aggregate purchase price of $20 in accordance with the terms of a substantial issuer bid.

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

8. EARNINGS PER SHARE

The following table outlines the calculation of basic and diluted income (loss) per share:

(in millions, except per share amounts)	2011	2010
Numerator:		
Numerator for basic income (loss) per share:		
Net income (loss) for the year	$ (90)	$ 35
Effect of potential dilutive securities:		
Stock options	-	-
Adjusted numerator for diluted income (loss) per share	**$ (90)**	**$ 35**
Denominator:		
Denominator for basic income (loss) per share:		
Weighted-average shares	32	33
Effect of potential dilutive securities:		
Stock options	-	-
Adjusted denominator for diluted income (loss) per share	**32**	**33**
Basic income (loss) per share	**$ (2.76)**	**$ 1.03**
Diluted income (loss) per share	**$ (2.76)**	**$ 1.03**

The calculation of earnings per share is based on whole dollars and not on rounded millions.
As a result, the above amounts may not be recalculated to the per share amount disclosed above.

The dilutive effect of outstanding stock options on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds from the exercise of such securities are assumed to be used to purchase Class B Voting Shares.

Excluded from the calculation of diluted earnings per share in 2011 were 19,760 (2010 – 37,500) outstanding options where the options' exercise prices were greater than the average market price of the common shares for the year. Refer to Note 6.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Financial Instruments

	Carrying Amounts				
	December 31, 2011				December 31, 2010
	Financial instruments classification				
	Financial assets at amortised cost	Financial assets at FVTPL	Financial liabilities at amortised cost	Total	
Financial Assets					
Cash and cash equivalents	$ 356	$ -	$ -	$ 356	$ 363
Investment in Air Canada	-	31	-	31	107
Commodity taxes receivable	-	-	-	-	6
Derivative instruments					
Air Canada warrants	-	-	-	-	5
	$ 356	$ 31	$ -	$ 387	$ 481
Financial Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ 1	$ 1	$ 3
	$ -	$ -	$ 1	$ 1	$ 3

There have been no changes in classification of financial instruments since January 1, 2010.

The following is a classification of fair value measurements recognized in the Consolidated Statement of Financial Position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- The Investment in Air Canada of $31 has been valued using quoted prices in an active market (level 1).
- The Air Canada warrants have been valued using significant other observable inputs (level 2).

Risk Management

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

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. 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 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 Consolidated Statement of Net Assets in Liquidation of $3.

10. CAPITAL DISCLOSURES

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, a decrease of $90 during 2011 mainly driven by the $76 unrealized loss on ACE's investment in Air Canada recorded at fair value and the $5 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 (net proceeds of approximately $156). The carrying value of the Air Canada shares sold was $130 and a gain on disposal of $26 was recognized in Gain on sale of ACE's investment in Air Canada.

As described in Note 1, 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.

11. CONTINGENCIES, GUARANTEES AND INDEMNITIES

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.

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

Indemnification agreements

Refer to Note 5 for a description of indemnification agreements between ACE, Air Canada and Aveos related to certain commodity tax reassessments.

12. COMPENSATION OF KEY MANAGEMENT

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

	2011	2010
Directors' fees and Officers' consultancy fees	3	3
	$ 3	**$ 3**

13. RECONCILIATION OF PREVIOUS CANADIAN GAAP TO GAAP, AFTER THE ADOPTION OF IFRS - GOING CONCERN BASIS

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

Accordingly, the Corporation has prepared these financial statements in accordance with IFRS applicable for periods beginning on or after January 1, 2011 and the significant accounting policies to meet those requirements are disclosed in Note 2.

In preparing these financial statements, the Corporation has started from an opening consolidated statement of financial position as at January 1, 2010, the Corporation's IFRS transition date, and made those changes in accounting policies and other adjustments required by IFRS 1 “First-time adoption of international financial reporting standards” (“IFRS 1”) for the first time adoption of IFRS. This note explains the principal adjustments made by the Corporation in transitioning its Canadian GAAP consolidated statement of financial position at the transition date on January 1, 2010 and its previously published Canadian GAAP financial statements for the year ended December 31, 2010.

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

Exemptions and exceptions applied

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

- business combinations
    - The Corporation has elected not to apply IFRS 3 (as amended in 2008) retrospectively to business combinations that occurred before October 27, 2009. On October 27, 2009 the Corporation’s ownership interest in Air Canada was reduced from approximately 75% to 27%. Applying the IFRS 1 exemption on that date required the Corporation to also adopt IAS 27 “Consolidated and Separate Financial Statements”, on such date, and accordingly the Company recorded its remaining 27% investment in Air Canada at fair value on October 27, 2009.
- IFRS requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 “Financial Instruments: Presentation” involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRS.
    - The Corporation has elected to apply the exemption and accordingly has not restrospectively reclassified any components included in equity related to compound financial instruments.

Reconciliations

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

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

(Canadian dollars in millions)		December 31 2010	January 1 2010
Share capital			
Balance in accordance with Canadian GAAP		$ 95	$ 104
Share capital in accordance with IFRS		95	104
Contributed surplus			
Balance in accordance with Canadian GAAP		347	358
Contributed surplus in accordance with IFRS		347	358
Retained earnings (deficit)			
Balance in accordance with Canadian GAAP		6	(92)
Reversal of the proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	(50)	(50)
Adjustment of the proportionate share of Air Canada's income (loss)	Note i	(76)	(19)
Adjustment of the gain on ACE's investment in Air Canada	Note ii	(2)	-
Recognition of the proportionate share of Air Canada's defined benefit plan gains	Note i	156	-
Reversal of the Canadian GAAP recovery of income taxes		(4)	-
Retained earnings (deficit) in accordance with IFRS		30	(161)
Accumulated other comprehensive income (loss)			
Balance in accordance with Canadian GAAP		24	(50)
Reversal of the proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	-	50
Adjustment of the unrealized gain on AFS investment in Air Canada	Note ii	(24)	-
Accumulated other comprehensive income (loss) in accordance with IFRS		-	-
Total shareholders' equity in accordance with IFRS		**$ 472**	**$ 301**

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

(Canadian dollars in millions)		Year Ended December 31, 2010 Canadian GAAP	Adjustment	IFRS
Interest income		$ 14	$ -	$ 14
Gain on sale of ACE's investment in Air Canada	Note ii	43	(17)	26
Unrealized gain on investment in Air Canada recorded at fair value	Note ii	-	15	15
Proportionate share of Air Canada's income (loss)	Note i	43	(57)	(14)
Unrealized gain on Air Canada warrants recorded at fair value		5	-	5
Loss on investment in ACTS Aero		(1)	-	(1)
Administrative and other expenses		(10)	-	(10)
Income before the following items		**94**	**(59)**	**35**
Recovery of (provision for) income taxes				
Current		-	-	-
Deferred		4	(4)	-
Income for the year		**$ 98**	**$ (63)**	**$ 35**

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

(Canadian dollars in millions)		Year Ended December 31, 2010 Canadian GAAP	Adjustment	IFRS
Comprehensive income				
Income for the year		$ 98	$ (63)	$ 35
Other comprehensive income (loss), net of taxes:				
Proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income	Note i	50	(50)	-
Proportionate share of Air Canada's unrealized net gain on employee benefit liabilities	Note i	-	156	156
Unrealized gain (loss) on available-for-sale ("AFS") investment in Air Canada	Note ii	24	(24)	-
Total comprehensive income		**$ 172**	**$ 19**	**$ 191**

C. Explanation of adjustments restating shareholders' equity and the consolidated statement of income (loss) from Canadian GAAP to IFRS

i) Consolidation - Loss of Control

Accounting policy differences

Under IAS 27 "Consolidated and Separate Financial Statements", upon loss of control resulting in significant influence, any retained investment in a former subsidiary is remeasured at fair value and a gain or loss is recognized in profit or loss (comprised of a gain or loss on the interest disposed of, the gain or loss from remeasurement to fair value of any retained non-controlling equity investment in the former subsidiary and reclassification of amounts previously recognized in Accumulated other comprehensive income). Subsequently, the fair value of the retained investment is the deemed cost for the purposes of applying the equity method of accounting.

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

Impact

As a result of the shares issued by Air Canada on October 26, 2009 and October 27, 2009, ACE's ownership interest in Air Canada was reduced from 75% to 27% such that ACE ceased to have the ability to control Air Canada, but continued to have the ability to exercise significant influence.

Under IFRS, the equity investment in Air Canada was restated to fair value of $94 as at October 27, 2009. Subsequently, for the period from October 27, 2009 to December 31, 2009, the carrying value was adjusted to include the Corporation's proportionate share of Air Canada's loss under IFRS of $13, other comprehensive income under IFRS of $nil and other equity accounting adjustments reflecting additional amortization on ACE's proportionate fair value of Air Canada's assets acquired of $1.

Under Canadian GAAP, the equity investment in Air Canada was $310 as at October 27, 2009. Subsequently, for the period from October 27, 2009 to December 31, 2009, the carrying value was adjusted to include the Corporation's proportionate share of Air Canada's loss of $7, other comprehensive income of $15 and an impairment loss as at December 31, 2009 of $219.

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
  - At January 1, 2010, this adjustment decreased Investment in Air Canada by $19, offset by a charge to the Deficit.
  - At January 1, 2010, the cumulative amount deferred in other comprehensive loss relating to Air Canada of $50 was reclassified to the Deficit as such amount would have been recycled into the consolidated statement of income, upon the October 27, 2009 re-measurement of the Corporation's investment in Air Canada.
- Consolidated Statement of Income (Loss)
  - The Proportionate share of Air Canada's income from January 1, 2010 to December 23, 2010 was adjusted to reflect amounts recognized under IFRS by Air Canada. As a result, the Proportionate share of Air Canada's income under Canadian GAAP of $43 for the year ended December 31, 2010 decreased by $57.

- Consolidated Statement of Comprehensive Income (Loss)
    - The Proportionate share of Air Canada's defined benefit plan gains of $156 for the year ended December 31, 2010 has been recognized under IFRS.
    - The Proportionate share of Air Canada's reclassification of net realized losses on fuel derivatives to income under Canadian GAAP of $50 for the year ended December 31, 2010 was reversed as such amount would have been recycled into the Consolidated statement of income (loss), upon the October 27, 2009 re-measurement of the Corporation's investment in Air Canada.

ii) Loss of Significant Influence

Accounting policy differences

Under IAS 28 "Investments in Associates", upon the loss of significant influence, any retained investment is remeasured to fair value and a gain or loss is recognized in profit or loss. Subsequently, the fair value of the retained investment is the deemed cost for the purposes of applying the financial instruments standards.

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

Impact

On December 23, 2010, as a result of the reduction of ACE's ownership interest in Air Canada, ACE ceased to have the ability to exercise significant influence over Air Canada. The retained investment in Air Canada was classified as available-for-sale ("AFS") under Canadian GAAP, FVTPL under IFRS, and remeasured to fair value of $111 under Canadian GAAP and IFRS.

The remeasurement and changes to fair value on and subsequent to December 23, 2010 is recognized through other comprehensive income under existing Canadian GAAP and through the Consoldiated statement of income (loss) under IFRS.

The impact arising from the change is summarized as follows:

- Consolidated Statement of Income (Loss)
    - The Gain on sale of ACE's investment in Air Canada under Canadian GAAP of $43 for the year ended December 31, 2010 decreased by $17 to $26 upon the secondary offering of 44,000,000 Class B Voting Shares of Air Canada on December 23, 2010.
    - An Unrealized gain on ACE's investment in Air Canada recorded at fair value of $15 for the year ended December 31, 2010 was recognized under IFRS represented by:
        - an unrealized gain on investment in Air Canada of $19 upon the loss of ACE's ability to exercise significant influence over Air Canada and
        - an unrealized loss on investment in Air Canada of $4 for the period from December 23, 2010 to December 31, 2010. In accordance with IFRS 9, unrealized fair value losses in relation to the Corporation's investment in Air Canada are presented as a loss in the consolidated statement of income (loss) rather than a loss presented within other comprehensive income (loss) as previously required by IAS 39. As a result, the statement of financial position, as at December 31, 2010, was revised to reclassify accumulated other comprehensive losses of $4 to retained earnings. Refer to Note 2D.
- Consolidated Statement of Comprehensive Income (Loss)
    - The Unrealized gain on available-for-sale ("AFS") investment in Air Canada under Canadian GAAP of $24 decreased by $24.

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ACE AVIATION

2011

Management's Discussion and Analysis

February 9, 2012

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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.

(Canadian dollars in millions)	Quarter 4 2011*	Quarter 4 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.