

**ACE AVIATION** 

**ANNUAL INFORMATION FORM**

**March 30, 2011**

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## EXPLANATORY NOTES

The information in this Annual Information Form is stated as at December 31, 2010, unless otherwise indicated.

***ACE and the Corporation*** — References in this Annual Information Form to "ACE" and references to the "Corporation" include references, as the context may require, to ACE Aviation Holdings Inc. and its subsidiaries collectively, ACE Aviation Holdings Inc. and one or more of its subsidiaries, one or more of ACE Aviation Holdings Inc.'s subsidiaries, or ACE Aviation Holdings Inc. itself.

***Subsidiaries*** — References herein to the term "subsidiary" or "subsidiaries" refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

***Currency*** — All currency amounts used in this document are stated in Canadian dollars, unless otherwise indicated.

***Market Data*** — Any market data used in this Annual Information Form was obtained from publicly available information or industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed.

***Forward-looking statements*** — ACE's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this Annual Information Form 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 in this Annual Information Form and, in particular, those identified in the section "Risk Factors" of this Annual Information Form. The forward-looking statements contained in this Annual Information Form represent ACE's expectations as of the date of this Annual Information Form, 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.

## THE CORPORATION

### Nature of Business

ACE is a holding company. ACE's Class A variable voting shares (the "Variable Voting Shares") and Class B voting shares (the "Voting Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbols "ACE.A" and "ACE.B", respectively.

ACE was incorporated on June 29, 2004 under the Canada Business Corporations Act ("CBCA") and became the parent holding company of the reorganized Air Canada and its subsidiaries upon the implementation of the consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries under the CBCA, the Companies' Creditors Arrangement Act ("CCAA") and the Business Corporations Act (Alberta) which was implemented on September 30, 2004 (referred to herein as the "Plan").

ACE's corporate structure was designed to: (i) put in place separate management and business plans for each business to better focus their strategic direction and profit making efforts; (ii) align management, capital and human resource needs within each individual business; (iii) facilitate the development of each business to its fullest individual potential including, where appropriate, through the pursuit of third party business; and (iv) maximize the value of investments that had not been fully recognized.

ACE's value enhancement strategy for its stand-alone entities included considering stand-alone financings, sales and distributions of equity interests and involved outside investors for these and other purposes. Implementation of this strategy has notably involved the initial public offerings of Aeroplan Income Fund (a predecessor of Groupe Aeroplan Inc.), Jazz Air Income Fund (a predecessor of Chorus Aviation Inc.) and Air Canada and subsequent distributions or dispositions of ACE's interests in such entities, together with the monetization of ACTS LP and the other transactions outlined below in the section "Evolution of Business".

As at March 28, 2011, ACE's principal interests are cash and cash equivalents of approximately \$362 million, an 11.11% equity interest in Air Canada (31 million Class B voting shares of Air Canada) and 2.5 million Air Canada 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.

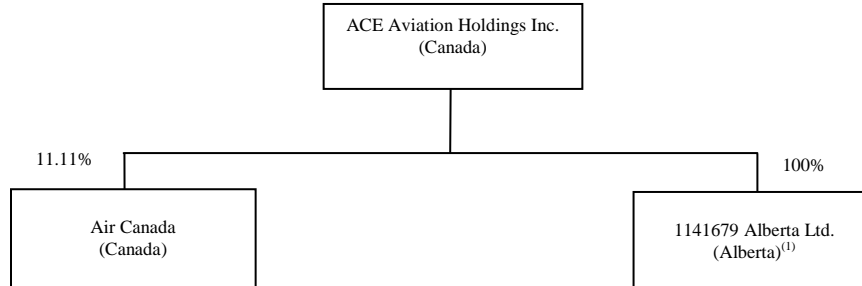
As at March 30, 2011, ACE had one full-time employee and four part-time consultants.

Going forward, the board of directors of ACE will continue to review alternatives to maximize the return to its shareholders.

The head office of ACE is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2. The telephone number of the Corporate Secretary's office of ACE is (514) 205-7855 and the facsimile number is (514) 205-7859. ACE's website address is [www.aceaviation.com](http://www.aceaviation.com) (for greater certainty, this website is not in any way incorporated by reference herein).

## Corporate Structure

The following table shows ACE's principal interests as of March 30, 2011, including the jurisdictions of constitution and the percentage of equity held or controlled directly or indirectly by ACE:



(1) 1141679 Alberta Ltd. is a corporation incorporated under the laws of Alberta which holds and manages cash and investments.

Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of ACE, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of ACE at December 31, 2010, have been omitted.

## Air Canada

Air Canada is Canada's largest domestic, U.S. 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 market to and from Canada.

Air Canada enhances its network through a capacity purchase agreement (the "Jazz CPA") with Jazz Aviation LP ("Jazz"), the successor to Jazz Air LP and a subsidiary of Chorus Aviation Inc., pursuant to which Air Canada purchases the greater part of Jazz's fleet capacity based on predetermined rates and Air Canada determines the routes and schedule which Jazz operates on Air Canada's behalf. Jazz operates smaller jet and turboprop aircraft that have lower trip costs than conventional large jet aircraft, allowing Jazz to provide service to Air Canada's customers in lower density markets as well as in higher density markets at off-peak times throughout Canada and the United States.

Air Canada is a founding member of the Star Alliance® network. Through its membership in the Star Alliance® network, Air Canada is able to offer its customers access to additional destinations in various countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

In December 2010, Air Canada finalized a transatlantic joint venture with United Air Lines, Inc., Continental Airlines, Inc. and Deutsche Lufthansa AG through which the carriers provide customers with more choice and streamlined service on routings between North and Central America, and Africa, India, Europe and the Middle East. The joint venture, including the revenue-sharing structure, was implemented effective January 1, 2010.

Through its long-term relationship with Aeroplan Canada Inc., a subsidiary of Groupe Aeroplan Inc., Air Canada builds customer loyalty by offering those customers who are Aeroplan® members the opportunity to earn Aeroplan® Miles when they fly with Air Canada.

Air Canada also generates revenues from its Air Canada Cargo services division and from tour operator services provided by its wholly-owned subsidiary, Touram Limited Partnership (doing business as "Air Canada Vacations").

The shares of Air Canada are listed on the TSX under the symbol AC.A for its Class A variable voting shares and the symbol AC.B for its Class B voting shares. The AC Offering Warrants referred to below under "Evolution of Business" are also listed on the TSX under the symbol AC.WT.

The head office of Air Canada is located at 7373 Côte Vertu Boulevard West, Saint-Laurent, Québec, H4S 1Z3. Air Canada's website address is www.aircanada.com (for greater certainty, this website is not in any way incorporated by reference herein).

## **Evolution of Business**

### ***Air Canada's Consolidated Plan of Reorganization, Compromise and Arrangement***

On September 30, 2004, Air Canada and certain of its then wholly-owned subsidiaries emerged from creditor protection under the CCAA and implemented the Plan. The purpose of the Plan, together with Air Canada's new business strategy, was to restructure the capitalization, operations and cost structure of Air Canada. The Plan and the new business strategy were designed to:

- (i) reduce Air Canada's operating costs to a competitive level through the renegotiation of collective bargaining agreements, aircraft leases, property leases and various other commercial agreements;
- (ii) implement a fleet renewal program to achieve the appropriate number, size and mix of aircraft for Air Canada's route network;
- (iii) complete a restructuring of Air Canada's debt and lease obligations;
- (iv) redefine Air Canada's core product offerings to enable it to compete effectively in the current and future airline industry environment; and
- (v) reorganize Air Canada's corporate structure to enable certain key businesses to better compete for third party business and generate value for their stakeholders.

The implementation of the Plan reduced Air Canada's debt (net of cash and cash equivalents) and lease obligations (on a present value basis) to approximately \$4 billion as at December 31, 2004 compared to \$12 billion as at December 31, 2002, prior to Air Canada's filing for protection under the CCAA. Also, as part of the implementation of the Plan, all the preferred shares of Air Canada were cancelled and all of the holders of common shares and Class A non-voting shares of Air Canada exchanged their shares for Voting Shares and Variable Voting Shares. Pursuant to such exchange, the former holders of common shares and Class A non-voting shares of Air Canada received 0.01% of the fully diluted equity of ACE upon emergence from the CCAA proceedings.

On September 30, 2004, as part of the implementation of the Plan, Air Canada reorganized its corporate structure. Pursuant to such corporate reorganization, APLN Limited Partnership (a predecessor to Aeroplan), Jazz Air Inc. (the predecessor to Jazz Air Limited Partnership and Jazz Air LP) and Touram Inc. (the predecessor to Touram Limited Partnership), which were already established as stand-alone entities under Air Canada, became stand-alone entities under ACE, while ACTS Limited Partnership (a predecessor to ACTS LP), AC Cargo Limited Partnership and ACGHS Limited Partnership were established as stand-alone limited partnerships under ACE.

### ***Rights Offering***

As part of the Plan, ACE offered rights to Air Canada's creditors with proven claims to subscribe for up to \$850 million of Voting Shares and/or Variable Voting Shares. Pursuant to its standby purchase agreement with Air Canada, Deutsche Bank Securities Inc. ("Deutsche Bank") agreed to act as the exclusive standby purchaser in respect of the rights offering. Deutsche Bank and the participants in its syndicate subscribed for all the Voting Shares and Variable Voting Shares not otherwise subscribed for by the creditors at a subscription price per share of \$21.50, which represented the subscription price of \$20 paid by creditors, plus a premium of \$1.50. On September 30, 2004, ACE completed the issuance of Voting Shares and Variable Voting Shares under such rights offering for total gross proceeds of \$865 million, including the amount of the premium paid by Deutsche Bank and the participants of its syndicate pursuant to the standby purchase agreement.

### ***Investment Agreement***

On September 30, 2004, Promontoria Holding III B.V. (the "Cerberus Affiliate") invested \$250 million in ACE in consideration for the issuance to it of 12,500,000 preferred shares in the capital of ACE (the "Preferred Shares") initially convertible into 9.16% of the fully diluted equity of ACE upon emergence from the CCAA proceedings.

Pursuant to the investment agreement with the Cerberus Affiliate dated June 23, 2004 ("Investment Agreement"), three of the then eleven members of the board of directors of ACE appointed pursuant to the Plan were designated by the Cerberus Affiliate. The Investment Agreement provided the Cerberus Affiliate with director nomination rights and access to certain financial and operating information of ACE.

ACE indirectly purchased for cancellation the Preferred Shares held by the Cerberus Affiliate on January 19, 2009 as a result of ACE's offer to purchase all of the issued and outstanding Preferred Shares dated December 12, 2008. The Cerberus Affiliate no longer holds any Preferred Shares nor any rights to designate members of the board of directors of ACE.

### ***Public Offering of ACE Voting Shares, Variable Voting Shares and Convertible Senior Notes due 2035***

On April 6, 2005, ACE completed a public offering of an aggregate of 11.35 million Voting Shares and Variable Voting Shares at a price of \$37 per share for gross proceeds of approximately \$420 million and approximately \$300 million of 4.25% Convertible Senior Notes due 2035 (the "Notes"). ACE used approximately \$553 million of the aggregate net cash proceeds of the offerings to repay all of its outstanding debt under a credit facility with General Electric Capital Corporation. On April 13, 2005, following the exercise of the over-allotment option by the underwriters, ACE issued an additional 1,135,000 Variable Voting Shares at a price of \$37 per share and \$30 million of Notes for additional aggregate gross proceeds of approximately \$72 million. ACE used the additional proceeds for general corporate purposes.

### ***Initial Public Offering of Aeroplan Income Fund***

On June 29, 2005, Aeroplan Income Fund completed its initial public offering of 25 million trust units at a price of \$10 per unit for aggregate gross proceeds of approximately \$250 million. On June 30, 2005, following the exercise of the over-allotment option by the underwriters, Aeroplan Income Fund issued an additional 3.75 million trust units at a price of \$10 per unit for additional gross proceeds of approximately \$37.5 million.

***US Airways Group Inc.***

On September 27, 2005, ACE invested \$87 million (US\$75 million) in US Airways Group Inc. ("US Airways") in conjunction with US Airways' exit from US bankruptcy proceedings. In connection with the equity investment, ACE also received options to purchase additional common shares in US Airways. On closing of the transaction, ACE sold these options for proceeds of \$1 million. In the second and third quarters of 2006, ACE disposed of 4.5 million shares of its holdings in US Airways for net proceeds of \$232 million and recorded a gain of \$152 million. During 2007, ACE disposed of the remaining 500,000 shares in US Airways for net proceeds of \$16 million.

***Initial Public Offering of Jazz Air Income Fund***

On February 2, 2006, Jazz Air Income Fund completed its initial public offering of 23.5 million trust units at a price of \$10 per unit for aggregate gross proceeds of approximately \$235 million. On February 27, 2006, following the exercise of the over-allotment option by the underwriters, Jazz Air Income Fund issued an additional 1.5 million trust units at a price of \$10 per unit for additional gross proceeds of approximately \$15 million.

***Distribution of Trust Units of Aeroplan Income Fund by ACE***

On March 3, 2006, ACE effected a distribution by way of reduction of capital to its shareholders of record as at such date of 0.18 trust units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. For the purposes of the distribution, ACE converted 20,204,165 limited partnership units of Aeroplan Limited Partnership into 20,204,165 trust units of Aeroplan Income Fund which were distributed to ACE's shareholders on the record date.

***Initial Public Offering and Secondary Public Offering of Air Canada Shares***

On November 24, 2006, Air Canada and ACE completed an initial public offering and secondary offering of an aggregate 25 million Class A variable voting shares and Class B voting shares of Air Canada at a price of \$21 per share for gross proceeds of \$525 million. Through the initial public offering, Air Canada issued and sold an aggregate of 9,523,810 Class A variable voting shares and Class B voting shares for gross proceeds of approximately \$200 million. In the secondary offering, ACE sold an aggregate of 15,476,190 Class A variable voting shares and Class B voting shares of Air Canada for gross proceeds of approximately \$325 million.

Prior to the closing of the initial public offering, ACE proceeded with a reorganization of its corporate structure. Pursuant to such reorganization, the partnership interests, as well as the interests in the general partners of ACGHS Limited Partnership and AC Cargo Limited Partnership not held by Air Canada, were transferred to Air Canada and ACE transferred a 51% partnership interest in, as well as a 51% interest in the general partner of, Touram Limited Partnership to Air Canada. In 2007, ACE sold to Air Canada its remaining 49% interest in Touram Limited Partnership causing Touram Limited Partnership to be 100% owned by Air Canada.

Further to such initial public offering and secondary offering, ACE held a 75% ownership interest in Air Canada.

***Statutory Arrangement of ACE and Initial Distribution to its Shareholders***

On October 5, 2006, ACE's shareholders approved a statutory arrangement pursuant to the CBCA granting authority to the board of directors of ACE to make, from time to time, one or more distributions in an



aggregate amount of up to \$2 billion to ACE shareholders by way of reduction of the stated capital on the Variable Voting Shares, Voting Shares and Preferred Shares.

Pursuant to the statutory arrangement, ACE announced on December 28, 2006 the terms of an initial distribution of 50 million trust units of Aeroplan Income Fund to ACE shareholders. ACE shareholders on January 10, 2007, the record date for the distribution, received a distribution of approximately 0.442 trust units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE.

#### ***Acquisition by ACTS LP of Majority Stake of Aeroman***

On February 13, 2007, ACTS LP, through a wholly-owned subsidiary, acquired 80% of Aeroman, the aircraft maintenance division of Grupo TACA of El Salvador. Total consideration for this acquisition included cash as well as a right to acquire an equity stake in ACTS LP. The cash component of US\$44.7 million consisted of cash of US\$42.7 million on closing and milestone payments of up to US\$2 million in the aggregate, funded by ACTS LP through ACE's available cash resources. A Class A non-voting exchangeable share in a wholly-owned subsidiary of ACTS LP was issued to Grupo TACA. The rights attached to the exchangeable share provided for the exchange of such share into an equity stake in ACTS LP upon the closing of a monetization transaction pertaining to ACTS LP. As part of the monetization process, on October 16, 2007, the exchangeable share was exchanged for a 5% equity stake in ACTS Aero Technical Support & Services Holdings sarl ("ACTS Aero") and approximately \$31 million in cash. Grupo TACA also had a put option to sell its equity in ACTS Aero to ACE over the period of 12 months commencing on October 16, 2007, which was exercised in June 2008.

#### ***Second Distribution to ACE Shareholders under Statutory Arrangement***

On March 2, 2007, ACE announced a second distribution to its shareholders by way of reduction of stated capital under the statutory arrangement approved on October 5, 2006, pursuant to which ACE shareholders of record on March 14, 2007 received approximately 0.177 trust units of Aeroplan Income Fund and 0.219 trust units of Jazz Air Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE.

#### ***Third Distribution to ACE Shareholders under Statutory Arrangement***

On May 11, 2007, ACE announced a third distribution to its shareholders by way of reduction of stated capital under the statutory arrangement approved on October 5, 2006, pursuant to which ACE shareholders of record on May 24, 2007 received approximately 0.157 trust units of Aeroplan Income Fund and 0.105 trust units of Jazz Air Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE.

#### ***Monetization of ACTS LP***

On June 22, 2007, ACE announced that it had agreed to sell a 70% interest in the business of its wholly-owned maintenance, repair and overhaul subsidiary ACTS LP to a consortium consisting of Sageview Capital LLC, a private investment firm, and KKR Private Equity Investors, L.P., the publicly traded fund of Kohlberg Kravis Roberts & Co. The transaction was completed on October 16, 2007 and ACE received net cash proceeds of \$723 million. Within six months of closing, ACE was entitled to receive up to an additional \$40 million in cash proceeds, from funds held in escrow, conditional upon the completion of certain supplier contracts within specified terms. On January 14, 2008, ACE announced that it had received the full balance of \$40 million. Following the transaction, ACE continued to own 100% of ACTS LP, which became a non-operating entity, and ACTS Aero conducted the business previously operated by ACTS LP.

Following the redemption of the exchangeable share issued to a party related to Grupo TACA, the establishment of an initial ACTS Long Term Incentive Plan and the exercise of the put option by an entity related to Grupo TACA in June 2008 to sell its 5% equity interest in ACTS Aero to ACE for approximately \$19 million, ACE held a 27.8% equity interest in ACTS Aero.

***Secondary Offering of Trust Units of Jazz Air Income Fund and Aeroplan Income Fund***

On October 1, 2007, ACE announced that it had entered into an agreement with a group of underwriters to sell an aggregate of 35.5 million trust units of Jazz Air Income Fund at a price of \$7.75 per trust unit for gross proceeds of \$275.1 million. On the same day, ACE announced that it had also entered into an agreement with a group of underwriters to sell an aggregate of 22 million trust units of Aeroplan Income Fund at a price of \$21.90 per unit, for gross proceeds of \$481.8 million. On October 22, 2007, ACE completed the secondary offering of 22 million trust units of Aeroplan Income Fund and 35.5 million trust units of Jazz Air Income Fund and received aggregate net proceeds of \$726 million.

***Substantial Issuer Bid: ACE offer to repurchase up to \$1.5 billion of its Variable Voting Shares and Voting Shares***

On December 3, 2007, ACE announced a substantial issuer bid to purchase for cancellation up to \$1.5 billion of its Variable Voting Shares and Voting Shares. The offer was made by way of a "modified Dutch auction" and expired at 5:00 p.m. (Montreal time) on January 10, 2008. The holders of Preferred Shares were entitled to participate in the offer by depositing their Preferred Shares on an as-converted basis. On January 10, 2008, ACE confirmed that it had taken up and accepted for purchase and cancellation a total of 40,023,427 Variable Voting Shares and 9,894,166 Voting Shares at a price of \$30 per share for an aggregate purchase price of approximately \$1.498 billion. No Preferred Shares of ACE were deposited under the offer.

***Sale of 13 million Trust Units of Jazz Air Income Fund***

On January 16, 2008, ACE announced its acceptance of an offer to sell a total of 13 million trust units of Jazz Air Income Fund on an exempt trade basis to certain funds and accounts managed by West Face Capital Inc. and to Sunrise Partners Limited Partnership at a price of \$7.45 per unit representing total gross proceeds to ACE of approximately \$96.85 million. The sale closed on January 24, 2008. Immediately following the closing of the sale, ACE's interest in Jazz Air Income Fund represented approximately 9.5% of all the trust units issued and outstanding.

***Sale of 20.4 million Trust Units of Aeroplan Income Fund***

On April 2, 2008, ACE announced that it had entered into an agreement with a group of underwriters to sell an aggregate of 20.4 million trust units of Aeroplan Income Fund at a price of \$17.50 per unit for gross proceeds of \$357 million. On April 21, 2007, ACE completed the secondary offering of 20.4 million trust units of Aeroplan Income Fund and received aggregate net proceeds of approximately \$342.7 million. Immediately following the offering, ACE's interest in Aeroplan Income Fund represented approximately 9.9% of all the trust units issued and outstanding.

***Substantial Issuer Bid: ACE offer to repurchase up to \$500 million of its Variable Voting Shares and Voting Shares***

On May 9, 2008, ACE announced a substantial issuer bid to purchase for cancellation up to \$500 million of its Variable Voting Shares and Voting Shares. The offer was made by way of a "modified Dutch auction" and expired at 5:00 p.m. (Montreal time) on June 18, 2008. The holders of Preferred Shares

were entitled to participate in the offer by depositing their Preferred Shares on an as-converted basis. On June 18, 2008, ACE confirmed that it had taken up and accepted for purchase and cancellation a total of 12,537,084 Variable Voting Shares and 10,190,187 Voting Shares at a price of \$22 per share for an aggregate purchase price of approximately \$500 million. No Preferred Shares of ACE were deposited under the offer.

***Sale of ACE's remaining trust units of Aeroplan Income Fund and Jazz Air Income Fund***

On May 28, 2008, ACE announced that it had sold in the market a total of 19,892,088 trust units of Aeroplan Income Fund for total net proceeds to ACE of approximately \$349.3 million and a total of 11,726,920 trust units of Jazz Air Income Fund for total net proceeds to ACE of approximately \$85.0 million.

Immediately following such transactions, ACE retained no further interest in Aeroplan Income Fund and Jazz Air Income Fund.

***Substantial Issuer Bids: ACE offer to repurchase outstanding Notes and Preferred Shares***

On December 10, 2008, ACE announced that its board of directors had authorized a substantial issuer bid to purchase for cancellation all of its outstanding Notes at a price of \$900 in cash for each \$1,000 principal amount of Notes. On January 19, 2009, ACE announced that \$259 million aggregate principal amount of Notes were deposited and taken up under the offer for an aggregate purchase price of \$233 million.

On December 10, 2008, ACE also announced that its board of directors had authorized a substantial issuer bid to indirectly purchase for cancellation all of its outstanding Preferred Shares at a price of \$20 in cash per Preferred Share. On January 19, 2009, ACE announced that an aggregate of 8.3 million Preferred Shares had been deposited and taken up under the offer for an aggregate purchase price of \$166 million.

***Intention to Seek Court and Shareholder Approvals to Liquidate and Distribute Assets to Shareholders***

On December 10, 2008, ACE also announced its intention to seek court and shareholder approvals for a plan of arrangement pursuant to which it would proceed with a liquidation and its net assets, including its shares in Air Canada, would be distributed after providing for outstanding liabilities and costs of the transaction.

On December 19, 2008, ACE announced that, subject to court and regulatory approvals, it would hold a special meeting of shareholders on February 27, 2009 in Montreal. At the meeting, shareholders would be asked to approve a plan of arrangement pursuant to which a court appointed liquidator would proceed with the distribution of ACE's net assets after providing for outstanding liabilities and costs of the transaction.

On January 21, 2009, ACE announced that the date of the special shareholders meeting at which shareholders would be asked to approve the previously announced plan of arrangement for the liquidation and dissolution of ACE was postponed to April 7, 2009. Given the results of the substantial issuer bids for Notes and Preferred Shares announced on December 10, 2008, and also considering the stated intent to oppose the plan of arrangement made public by certain shareholders of ACE and the tax and other preparatory work required in advance of the plan of arrangement, ACE had determined that the postponement of the shareholders meeting was appropriate. ACE announced that, in the meantime, it would continue to explore opportunities, including possible further substantial issuer bids, and that, in light of the publicly stated opposition of certain shareholders with respect to the plan of arrangement, it would also consider other alternatives available to it with a view to achieving an optimal outcome.

***Substantial Issuer Bid: ACE offer to repurchase outstanding Preferred Shares***

On February 10, 2009, ACE announced a substantial issuer bid to purchase for cancellation its remaining 4.2 million convertible Preferred Shares outstanding at a price of \$20 in cash per Preferred Share. ACE had signed a lock up agreement with GLG Market Neutral Fund, which held 1 million Preferred Shares, to tender into the offering. On March 19, 2009, ACE confirmed that it had taken up and accepted for purchase and cancellation 1 million Preferred Shares for an aggregate purchase price of \$20 million.

***ACE Postpones Shareholder Meeting***

On March 2, 2009, ACE announced that, as it was continuing to engage with its shareholders and in light of current market conditions, the special meeting of shareholders of ACE scheduled for April 7, 2009 at which shareholders would have been asked to approve the previously announced plan of arrangement for the liquidation and dissolution of ACE, had been postponed. ACE also announced that it continued to evaluate all the alternatives available to it with a view to arriving at an optimal outcome.

***Air Canada appoints new President and Chief Executive Officer***

On March 30, 2009, Air Canada announced the appointment of Calin Rovinescu as President and Chief Executive Officer effective April 1, 2009.

***Air Canada Credit Facility***

On July 29, 2009, ACE announced that it had taken a \$150 million participation in Air Canada's \$600 million credit facility. As permitted under the terms of the credit facility, an additional \$100 million was drawn down from new lenders in February 2010. Under the credit facility, ACE received on July 30, 2009 1,250,000 warrants for the purchase of Class B Voting Shares of Air Canada at an exercise price of \$1.51 per share, exercisable at any time, and expiring on July 30, 2013. 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 on October 13, 2013.

ACE's pro-rata share of the credit facility was repayable in 16 consecutive quarterly instalments commencing in August 2010 of \$7.5 million with the final instalment of \$30 million due in July 2014. The credit facility could be repaid at any time, in whole or in part, with the payments of applicable fees.

Air Canada's obligations under the credit facility were secured by a first priority security interest and hypothec over substantially all the present and after-acquired property of Air Canada and its subsidiaries, subject to certain exclusions and permitted liens.

On August 3, 2010, Air Canada repaid to ACE its \$150 million share of the outstanding debt under Air Canada's secured credit facility, together with interest and prepayment fees for total proceeds to ACE of \$156 million.

***ACE repurchases remaining Preferred Shares***

On September 21, 2009, ACE announced it had entered into an agreement with Morgan Stanley Canada Limited pursuant to which ACE indirectly acquired for cancellation all of its remaining 3.2 million preferred shares at a price of \$23.00 per preferred share for an aggregate purchase price of \$73,600,000. The transaction was implemented pursuant to an exemption from the formal issuer bid and valuation requirements of applicable securities laws.

***Air Canada completes offering of units and issuance of shares under pension funding arrangements***

On October 27, 2009, Air Canada announced that it had completed the closing of an offering of 160,500,000 units, with each unit comprised of one Class A variable voting share or one Class B voting share of Air Canada, and one-half of one share purchase warrant (each whole warrant, an "AC Offering Warrant"). Each AC Offering Warrant entitles its holder to purchase one Class A variable voting share or one Class B voting share of Air Canada at an exercise price of \$2.20 per share, for an aggregate of 80,250,000 shares of Air Canada issuable upon the exercise of the AC Offering Warrants (subject to standard adjustments in accordance with the terms of the AC Offering Warrants). The AC Offering Warrants expire on October 27, 2012, subject to early termination in accordance with their terms. ACE did not purchase units under such offering.

On October 26, 2009, Air Canada issued 17.6 million Class B voting shares to a trust under the pension funding agreements between Air Canada and its unions announced by Air Canada in July 2009.

As a result of these issuances of shares by Air Canada, ACE's ownership interest in shares of Air Canada decreased to 27%.

***Substantial Issuer Bid: ACE offer to repurchase up to \$20 million of its Variable Voting Shares and Voting Shares***

On November 23, 2009, ACE announced the launch of a substantial issuer bid to purchase for cancellation up to \$20 million of ACE's Variable Voting Shares and Voting Shares. On January 6, 2010, ACE confirmed that it had taken up and accepted for purchase and cancellation a total of 1,401,094 Variable Voting Shares and 1,824,711 Voting Shares at a price of \$6.20 per share for an aggregate purchase price of \$20 million.

***ACE redeems its remaining convertible notes***

On December 14, 2009, ACE redeemed all of its remaining Notes in accordance with their terms at a redemption price equal to their principal amount plus accrued and unpaid interest for an aggregate redemption price of approximately \$64 million.

***Aveos Restructuring and Lock-Up Agreement***

On January 22, 2010, ACE entered into a Restructuring and Lockup Agreement with Aveos Fleet Performance Inc. ("Aveos"), ACTS Aero, lenders and other shareholders. The restructuring was completed on March 12, 2010. Under the terms of the restructuring, ACE transferred its 27.8% ownership interest in ACTS Aero to a newly formed company, in which ACE has no interest, for nil consideration. Under the terms of a Release Agreement entered into on March 12, 2010, ACE and ACTS LP were released from substantially any claims that may arise under the Asset Purchase Agreement relating to the monetization of ACTS LP on October 16, 2007, in return for a payment of \$1.25 million.

***Air Canada repays its \$150 million loan from ACE***

On August 3, 2010, Air Canada repaid to ACE its \$150 million share of the outstanding debt under Air Canada's secured credit facility, together with interest and prepayment fees for total proceeds to ACE of \$156 million.

### ***Secondary offering of 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). Following the offering, ACE beneficially owns 31,000,000 Class B voting shares of Air Canada representing 11.11% of the Class A variable voting shares and Class B voting shares of Air Canada issued and outstanding on a combined basis.

### ***ACE appoints Brian Dunne as President***

On January 1, 2011, Brian Dunne, previously Executive Vice President and Chief Financial Officer of ACE, became the President and Chief Financial Officer of ACE.

## **RISK FACTORS**

ACE has identified the following risks which may have a material adverse impact on ACE's business, results of operations and financial condition. The risks identified by ACE may not be the only risks faced by ACE. Other risks which ACE is not aware of or which ACE currently deems to be immaterial may surface and have a material adverse impact on ACE's business, results of operations and financial condition.

### **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 of ACE. 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.

### **Shares and Warrants in Air Canada**

The value of ACE's equity interests 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 value of these shares and warrants which can be realized.

### **Tax Audits**

ACE has applied for Certificates of Discharge from the Canada Revenue Agency and Revenu Québec. ACE is assisting them with their audits of ACE's income tax returns for the years 2005 to 2009. In addition to the audits of income tax returns, audits in respect of other taxes, including GST and QST, are ongoing. It is possible that the audits, which relate to ACE and its subsidiaries, may lead to assessments in the future.

## Liquidation

If ACE subsequently proceeds with the liquidation of its net assets, ACE will again adopt a liquidation basis of presentation which will result in net assets in liquidation being presented on a net realizable basis. As part of a liquidation process, a claims process would be initiated pursuant to which any claims against the corporation would be identified and resolved. It is possible, that through this process, additional liabilities could be identified.

## MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are traded on the TSX under the trading symbols "ACE.A" and "ACE.B", respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the TSX for the months of January to, and including, December 2010:

2010	Variable Voting Shares			Voting Shares		
	High	Low	Total Monthly Volume	High	Low	Total Monthly Volume
January.....	6.39	5.90	200,248	6.50	5.88	189,266
February.....	6.84	6.05	668,055	6.81	6.05	631,547
March.....	8.45	6.40	1,236,002	8.41	6.55	545,561
April.....	9.16	8.45	1,624,024	9.20	8.39	908,060
May.....	9.15	7.84	930,459	9.19	7.51	681,247
June.....	8.42	7.65	145,463	8.35	7.80	234,773
July.....	10.30	7.89	1,432,039	10.47	7.95	466,319
August.....	10.40	9.71	478,452	10.35	9.70	133,805
September..	11.38	10.20	921,963	11.49	10.11	313,165
October.....	13.40	11.02	2,007,915	13.41	11.05	354,773
November..	13.50	12.18	784,620	13.45	12.26	328,861
December...	13.53	12.77	1,334,436	13.46	12.65	419,854

## DIVIDEND RECORD

Since its incorporation, ACE has never declared or paid any dividends. For the time being, ACE does not expect to declare any dividends on its Variable Voting Shares and Voting Shares.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of ACE is composed of an unlimited number of Variable Voting Shares and Voting Shares and of 12,500,000 Preferred Shares. As of March 30, 2011, 24,823,380 Variable Voting

Shares and 7,649,340 Voting Shares were issued and outstanding. As of March 30, 2011, no Preferred Shares were issued and outstanding.

The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares, Voting Shares and Preferred Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the ACE Articles of Amalgamation.

## **Variable Voting Shares**

### ***Voting***

The holders of the Variable Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA.

The Variable Voting Shares may be held only by persons who are not Canadians (as such term is defined in the Canada Transportation Act ("CTA")) and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding (including any Preferred Shares, on an as converted basis), as a percentage of the total number of votes attaching to Voting Shares outstanding exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares (including any Preferred Shares, on an as converted basis) at any meeting exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) 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 Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class (including any Preferred Shares on an as converted basis) do not carry more than 25% (or any higher percentage that the Governor in Council may by regulation specify) 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 Variable Voting Shares (including any Preferred Shares on an as converted basis) at any meeting do not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the votes that may be cast at such meeting.

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, contains provisions whereby the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Transport.

### ***Dividends***

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of ACE properly applicable to the payment of dividends, any dividends declared and payable by ACE on the Variable Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share for share basis with the Voting Shares and any Preferred Shares participating on an as converted basis. All dividends declared in any fiscal year of ACE shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, Voting Shares and the Preferred Shares participating on an as converted basis at the time outstanding, without preference or distinction.



***Subdivision or Consolidation***

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

***Rights upon Liquidation, Dissolution or Winding Up***

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE ranking prior to the Variable Voting Shares, including any Preferred Shares, upon liquidation, dissolution or winding up of ACE or other distribution of ACE's assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of ACE and shall be entitled to share equally, share for share, in all distributions of such assets.

***Conversion***

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of ACE or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer and the transfer agent shall deposit the resulting Voting Shares on behalf of the shareholder.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be reconverted automatically and without further act from ACE or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the ACE Articles of Amalgamation.

***Constraints on Ownership of Shares***

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians.

## **Voting Shares**

### ***Voting***

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA) and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of ACE.

### ***Dividends***

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of ACE properly applicable to the payment of dividends, any dividends declared and payable by ACE on the Voting Shares and the Voting Shares shall rank equally as to dividends on a share for share basis with the Variable Voting Shares and any Preferred Shares participating on an as converted basis and all dividends declared in any fiscal year of ACE shall be declared in equal or equivalent amounts per share on all Voting Shares, Variable Voting Shares and any Preferred Shares on an as converted basis at the time outstanding, without preference or distinction.

### ***Subdivision or Consolidation***

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

### ***Rights upon Liquidation, Dissolution or Winding Up***

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE ranking senior to the Voting Shares, including any Preferred Shares, upon liquidation, dissolution or winding up of ACE or other distribution of ACE's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of ACE and shall be entitled to share equally, share for share, in all distributions of such assets.

### ***Conversion***

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of ACE or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

### ***Constraints on Ownership of Shares***

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians.

## **Preferred Shares**

### ***Voting***

The holders of any Preferred Shares shall be entitled to vote on an as converted basis with the Variable Voting Shares and the Voting Shares and to the extent that they are held by persons who are not Canadians they shall be subject to the same proportionate reduction in voting percentage as if, for voting purposes only, the Preferred Shares had been converted into Variable Voting Shares.

### ***Participation***

The holders of any Preferred Shares shall participate on an as converted basis with the Variable Voting Shares and the Voting Shares with respect to all dividends, distributions, spin off, split-off, subscription rights or other offers or rights made available to holders of Variable Voting Shares and the Voting Shares and any other similar transactions.

### ***Liquidation Preference***

In the event of any liquidation, dissolution or winding up of ACE (with each holder of any Preferred Shares being entitled to treat the occurrence of a merger, amalgamation, sale of all or substantially all of the assets of ACE or other similar transaction involving a change in control of ACE as a liquidation for these purposes), then the holders of any Preferred Shares shall be entitled to receive, prior to and in preference to the holders of Variable Voting Shares and the Voting Shares, an amount per Preferred Share equal to the Fully Accreted Value of such Preferred Shares, determined as of the date of such event. For the purposes of the terms of the Preferred Shares, "Fully Accreted Value" means, with respect to each Preferred Share issued on September 30, 2004, as of any date, the initial purchase price of such Preferred Share, increased at a rate of 5% per annum, compounded semi annually from the date of issuance of such Preferred Shares.

### ***Optional Conversion***

Any Preferred Shares shall be convertible at the option of the holders thereof at any time into Variable Voting Shares, if held by a non-Canadian, or into Voting Shares, if held by a Canadian, at a conversion rate equal to the Fully Accreted Value per Preferred Share (as of the conversion date) divided by the Conversion Price, as defined in the articles of ACE. The Conversion Price of the Preferred Shares is subject to (i) adjustment as described in "Mandatory Redemption/Conversion" below and (ii) customary public company anti-dilution protection for stock splits, stock dividends, subdivisions, combinations and similar transactions. There shall be no special adjustment for below market or below Conversion Price issuances.

### ***Mandatory Redemption/Conversion***

The holders of any Preferred Shares shall be required to convert the Preferred Shares into Variable Voting Shares (if the Preferred Shares are not owned and controlled by a Canadian) or Voting Shares (if the Preferred Shares are owned and controlled by a Canadian), within 10 days after the seventh anniversary of the date of issuance of the Preferred Shares (the "Initial Mandatory Conversion Date") provided, however, that if the closing price of Variable Voting Shares or Voting Shares, as the case may be, does not exceed the Fully Accreted Value of a Preferred Share on at least 30 of the 100 trading days immediately prior to the Initial Mandatory Conversion Date then the holders thereof shall not be required to convert their Preferred Shares into Variable Voting Shares or Voting Shares, as the case may be, and on the Initial Mandatory Conversion Date the then applicable Conversion Price shall automatically be reduced by 3.75%.

In the event the Preferred Shares have not been converted on or prior to the Initial Mandatory Conversion Date, on each six month anniversary of the Initial Mandatory Conversion Date (each a "Subsequent Mandatory Conversion Date") until and including the 10 year anniversary of the date of issuance of the Preferred Shares (the "Final Maturity Date"), the Preferred Shares shall be subject to mandatory conversion within 10 days of any Subsequent Mandatory Conversion Date if, and only if, the closing price of Variable Voting Shares or Voting Shares, as the case may be, exceeds the Fully Accreted Value of a Preferred Share on at least 30 of the 100 trading days immediately prior to such Subsequent Mandatory Conversion Date and, if such threshold is not met, the then applicable Conversion Price shall automatically be reduced by an additional 3.75% on each such Subsequent Mandatory Conversion Date. If the foregoing test is not met with respect to the Subsequent Mandatory Conversion Date that is the Final Maturity Date, the holders of Preferred Shares shall have the right to require ACE to redeem each of the Preferred Shares in cash on the Final Maturity Date at a per share redemption price equal to the Fully Accreted Value (as at the Final Maturity Date).

Notwithstanding the foregoing, the Preferred Shares shall not be subject to mandatory conversion as described above unless the Variable Voting Shares and Voting Shares are then listed and posted on the TSX, and a registration statement, prospectus or similar offering document permitting the distribution and sale of such Variable Voting Shares and Voting Shares throughout Canada and/or the United States of America is then effective covering all of the Variable Voting Shares and Voting Shares into which the Preferred Shares are convertible at the time of such mandatory conversion.

### ***Mandatory Conversion***

If at any time during (i) the period commencing on the date of issuance of the Preferred Shares and ending on and including the first anniversary thereof the closing price of the Variable Voting Shares or Voting Shares, as the case may be, for each of 30 consecutive trading days exceeds 200% of the then applicable Conversion Price or (ii) any period after the first anniversary of the date of issuance of the Preferred Shares the closing price of the Variable Voting Shares or Voting Shares, as the case may be, for each of 30 consecutive trading days exceeds 175% of the then applicable Conversion Price, and, in each case, if the Variable Voting Shares or Voting Shares are then listed and posted on the TSX and a registration statement, prospectus or other similar offering document permitting the distribution and sale of such Variable Voting Shares and Voting Shares throughout Canada and/or the United States of America is then effective covering all of the Variable Voting Shares and Voting Shares into which the Preferred Shares are convertible, then ACE may require the holders of Preferred Shares to convert the Preferred Shares into Variable Voting Shares, if the Preferred Shares are not owned by a Canadian, or Voting Shares, if the Preferred Shares are owned by a Canadian.

### ***Organic Change***

With respect to any recapitalization, reorganization, reclassification, consolidation, amalgamation, arrangement, merger, sale of all or substantially all of ACE's assets to another person or other transaction which is effected in such a way that holders of Variable Voting Shares and Voting Shares are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Variable Voting Shares or Voting Shares, as the case may be (each an "Organic Change") which includes a sale of all or substantially all of ACE's assets or where ACE is not the surviving entity, the holders of the Preferred Shares shall be entitled to cause ACE to either (i) require that the surviving entity or its publicly traded parent issue to the holders of Preferred Shares in exchange for such shares, a security of the surviving or publicly traded parent entity evidenced by a written instrument substantially similar in form and substance to the Preferred Shares, including, without limitation, having the same economic rights and preferences as the Preferred Shares and having a rank senior to all capital stock of such issuing entity or (ii) make appropriate adjustments contemporaneously to the rights attached to the Preferred Shares so as to preserve in all respects the benefits conferred on the holders of the Preferred Shares by the terms of the Preferred Shares.

With respect to any reorganization, amalgamation, arrangement, merger or other similar transaction that does not constitute an Organic Change, appropriate adjustments shall contemporaneously be made to the rights (including, without limitation, the conversion right) attached to the Preferred Shares so as to preserve in all respects the benefits conferred on the holders of the Preferred Shares by the terms of the Preferred Shares.

### ***Pre-emptive Rights***

If ACE proposes to issue or sell any Variable Voting Shares or Voting Shares or other equity securities, rights, options, warrants or other convertible securities which represent rights to purchase Variable Voting Shares or Voting Shares, as the case may be, each holder of Preferred Shares shall be entitled to purchase a number of such Variable Voting Shares or Voting Shares, as the case may be, or other equity securities, rights, options, warrants or other convertible securities sufficient to allow such holder to maintain its proportionate equity ownership in ACE, on a fully diluted basis at the level of such interest immediately prior to such issuance or sale, subject to exceptions for issuances under management and employee stock incentive plans approved by the board of directors of ACE.

## **DIRECTORS AND OFFICERS**

### **Directors**

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of ACE since the dates set forth opposite their respective names.

<b>Name and Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Bernard Attali <sup>(1)(2)</sup> Paris, France	Senior Advisor TPG Capital <sup>(5)</sup>	September 30, 2004
Gregory A. Boland <sup>(3)(4)</sup> Toronto, Ontario	President and Chief Executive Officer West Face Capital <sup>(6)</sup>	June 26, 2009
W. Brett Ingersoll <sup>(3)(4)</sup> New York, New York	Managing Director and Co-Head of Private Equity Cerberus Capital Management, L.P. <sup>(7)</sup>	September 30, 2004
Pierre Marc Johnson <sup>(1)(4)</sup> Montreal, Québec	Counsel Heenan Blaikie LLP <sup>(8)</sup>	September 30, 2004
David J. Kassie <sup>(2)(4)</sup> Toronto, Ontario	Group Chairman Canaccord Financial and Canaccord Genuity <sup>(9)</sup>	June 26, 2009
Robert F. MacLellan <sup>(3)(4)</sup> Toronto, Ontario	Chairman Northleaf Capital Partners <sup>(10)</sup>	June 26, 2009
Robert A. Milton London, England	Chairman and Chief Executive Officer, ACE	June 29, 2004
David I. Richardson <sup>(2)(3)</sup> Grafton, Ontario	Corporate Director	September 30, 2004
Marvin Yontef <sup>(1)</sup> Toronto, Ontario	Senior Partner Stikeman Elliott LLP <sup>(11)</sup>	June 29, 2004

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- (1) Member of the Governance and Corporate Matters Committee.
  - (2) Member of the Nominating Committee.
  - (3) Member of the Audit, Finance and Risk Committee.
  - (4) Member of the Human Resources and Compensation Committee.
  - (5) TPG Capital is a private investment firm.
  - (6) West Face Capital is a private investment firm.
  - (7) Cerberus Capital Management, L.P. is a private investment firm.
  - (8) Heenan Blaikie LLP is a law firm.
  - (9) Canaccord Financial and Canaccord Genuity are investment dealers.
  - (10) Northleaf Capital Partners is a private equity fund manager and advisor.
  - (11) Stikeman Elliott LLP is a law firm.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Boland was Portfolio Manager, Enterprise Capital Management from 1998 to 2007. Mr. Kassie was Chairman and Chief Executive Officer of Genuity Capital Markets from 2004 to 2010. Mr. MacLellan was Executive Vice President and Chief Investment Officer, TD Bank Financial Group from 2003 to 2009.

The term of office of all of the above directors will expire at the next annual meeting of shareholders of ACE or until their successors are appointed or elected.

## Officers

The name, municipality of residence and position held with ACE of each of the officers are as set forth below:

<u>Name and Municipality of Residence</u>	<u>Position Held</u>
Robert A. Milton ..... London, England	Chairman and Chief Executive Officer
Brian Dunne ..... Dublin, Ireland	President and Chief Financial Officer
Sydney John Isaacs ..... Westmount, Québec	Senior Vice-President, Corporate Development and Chief Legal Officer
Jack McLean ..... La Salle, Manitoba	Controller
Carolyn M. Hadrovic ..... Beaconsfield, Québec	Corporate Secretary

Each of the officers has held a position with ACE similar to that listed above for more than five years.

As at March 30, 2011, the directors and officers mentioned above as a group owned, or had control or direction over, directly or indirectly, 46,078 Voting Shares representing approximately 0.6% of the outstanding Voting Shares and 5,000 Variable Voting Shares representing approximately 0.02% of the outstanding Variable Voting Shares of ACE. Mr. Gregory A. Boland, a director of ACE, is an officer, director and shareholder of West Face Capital Inc., which exercises control or direction over 3,800,500 Variable Voting Shares and 890,900 Voting Shares.

### **Corporate Cease Trade Orders or Bankruptcies**

To the knowledge of ACE, no director or executive officer of ACE is, or has been in the last ten years, a director, chief executive officer or chief financial officer of any company that (A) while that person was acting in that capacity, was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days, or (B) was the subject of an order of the type referred to in (A) above that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer of that company and which resulted from an event that occurred while that person was acting in a capacity as director, chief executive officer or chief financial officer of that company.

Other than as set forth below, to the knowledge of ACE, no director or executive officer of ACE, or shareholder holding a sufficient number of securities of ACE to affect materially the control of ACE, is, or has been within the last ten years, a director or executive officer of any company that, while that person was acting as director or executive officer of that company, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Robert A. Milton was President and Chief Executive Officer and a director of Air Canada and Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003.

### **Penalties or Sanctions**

To the knowledge of ACE, no director or executive officer of ACE, or shareholder holding a sufficient number of securities of ACE to affect materially the control of ACE: (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Certain Bankruptcy or Insolvency Events**

To the knowledge of ACE, in the last ten years, no director or executive officer of ACE, or shareholder holding a sufficient number of securities of ACE to affect materially the control of ACE, has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## **AUDIT, FINANCE AND RISK COMMITTEE**

### **Audit Committee Charter**

The charter of the Audit, Finance and Risk Committee ("Audit Committee") is attached as Appendix A to this Annual Information Form.

### **Composition of Audit Committee**

As of the date hereof, the Audit Committee of ACE consists of David I. Richardson (chairman), Gregory A. Boland, W. Brett Ingersoll and Robert F. MacLellan. Each member of the Audit Committee is independent and financially literate as defined under Multilateral Instrument 52-110 – *Audit Committees*.

### **Relevant Education and Experience of Audit Committee Members**

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

(i) David I. Richardson is a corporate director. Mr. Richardson is a director and the Chairman of the board of directors of Air Canada and the Chairman of the board of directors of Nortel Networks Corporation and Nortel Networks Limited. Mr. Richardson is the former Chairman of Ernst & Young Inc. (Canada) and a former Executive Partner of Ernst & Young LLP. Mr. Richardson joined its predecessor Clarkson, Gordon & Co. in 1963 and was appointed President of The Clarkson Company Limited in 1982. Mr. Richardson was also a member of the Management and Executive Committees of Ernst & Young LLP, national managing partner of the firm's Corporate Finance practice and the senior partner in the Corporate Recovery and Restructuring practice until his retirement from the partnership in 2002. Mr. Richardson is a Vice Chair of the Board of Governors of Upper Canada College. Mr. Richardson holds a Bachelor of Commerce degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.

(ii) Gregory A. Boland is the President and Chief Executive Officer of West Face Capital, a Toronto based money manager. Prior to founding West Face Capital in 2007, Mr. Boland managed portfolios for Enterprise Capital Management in Toronto since 1998. Mr. Boland focuses on value and distressed investing and has been actively involved in the restructurings of a number of portfolio companies. Prior to joining Enterprise Capital, Mr. Boland was a Vice President and Partner in proprietary investments at RBC Dominion Securities. Mr. Boland holds a Bachelor of Commerce from the University of British Columbia.

(iii) W. Brett Ingersoll is the Managing Director and Co-Head of Private Equity at Cerberus Capital Management, L.P. and a member of the Investment Committee. Prior to joining Cerberus in 2002, Mr. Ingersoll was a Partner at JP Morgan Partners (formerly Chase Capital Partners) where he worked from 1993 to 2002. Mr. Ingersoll focuses primarily on private equity and restructuring situations in various industries including government services, healthcare, transportation, consumer products, financial services and outsourced business services. Mr. Ingersoll is a director of various public and private companies including IAP Worldwide Services, Inc., Talecris Bio Therapeutics, Inc., AerCap B.V., Endura Care, LLC, Steward Health Care System, LLC and EntreCap Financial, LLC. Mr. Ingersoll holds a Masters of Business Administration from Harvard Business School and a Bachelor of Arts from Brigham Young University.

(iv) Robert F. MacLellan is the Chairman of Northleaf Capital Partners. Mr. MacLellan was previously Executive Vice President and Chief Investment Officer of TD Bank Financial Group from 2003 to 2009. Prior to joining TD Bank in 1995, Mr. MacLellan was Managing Director of Lancaster Financial Holdings and prior to 1988 was Vice President and Director of McLeod Young Weir (Scotia McLeod). Mr. MacLellan holds a Bachelor of Commerce from Carleton University and a Masters of Business Administration from Harvard University, and is a member of the Institute of Chartered Accountants. Mr. MacLellan is a director of Maple Leaf Sports and Entertainment Ltd. (Chair, Audit Committee) and of T. Rowe Price Group Inc. (Member, Compensation Committee), a member of the Board of Trustees of the United Way of Greater Toronto (Chair, Investment Committee) and serves on the Advisory Committee to Birch Hill Equity Partners.



### Pre-approval Policies and Procedures

The Audit Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by ACE's external auditor prior to the commencement of such work. In this regard, the Audit Committee will prepare a report for presentation to the shareholders of ACE quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period.

The Audit Committee will also require and review a report from the external auditor of all relationships between the external auditor and its related entities and ACE and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of ACE and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

### Auditors' Fees

PricewaterhouseCoopers LLP has served as ACE's auditing firm since June 29, 2004. Fees payable for the years ended December 31, 2010 and December 31, 2009 to PricewaterhouseCoopers LLP and its affiliates are \$277,938 and \$1,844,548, respectively. Fees payable to PricewaterhouseCoopers LLP and its affiliates in 2010 and 2009 are detailed below.

	Year ended December 31, 2010	Year ended December 31, 2009
Audit fees	\$199,038	\$1,195,177
Audit-related fees	\$16,900	\$359,756
Tax fees	-	\$56,615
All other fees	\$62,000	\$233,000
	<b>\$277,938</b>	<b>\$1,844,548</b>

In 2009, Air Canada fees are included above through to October 27, 2009 only, at which time Air Canada ceased to be a subsidiary of ACE. Fees for ACE in 2009, on an unconsolidated basis, include "Audit fees" of \$437,750 and "All other fees" of \$142,000, for "Total fees" of \$579,750.

The nature of each category of fees is described below.

#### Audit fees

Audit fees were paid for professional services rendered for the audit of annual financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements.

#### Audit-related fees

Audit-related fees were paid for professional services related to pension plan audits, specified procedures reports and other items related to the audit.

**Tax fees**

Tax fees were paid for professional services rendered with respect to income taxes.

**Other Fees**

Other fees were paid for translation services.

**INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as described elsewhere in this Annual Information Form, none of (i) the directors or executive officers of ACE, (ii) any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Variable Voting Shares or the Voting Shares, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the past three years or during the current financial year that has materially affected or is reasonably expected to materially affect ACE.

**TRANSFER AGENT AND REGISTRAR**

The Transfer Agent and registrar for the Variable Voting Shares and Voting Shares of ACE is CIBC Mellon Trust Company at its principal transfer offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

**MATERIAL CONTRACTS**

There are no contracts that are material to ACE and that were entered into within the year ended December 31, 2010 or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with Section 12.2 of National Instrument 51-102 — Continuous Disclosure Obligations.

**EXPERTS**

ACE's independent auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have issued an auditors' report dated February 9, 2011 in respect of ACE's consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, changes in shareholders' equity, comprehensive income (loss) and cash flows for the years then ended. PricewaterhouseCoopers LLP has advised that they are independent with respect to ACE within the meaning of the Code of Ethics of the *Ordre des comptables agréés du Québec*.

### ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the ACE's securities and securities authorized for issuance under equity compensation plans will be contained in ACE's management proxy circular for its 2011 annual meeting of shareholders to be held on May 10, 2011. Additional financial information is provided in ACE's financial statements and management's discussion and analysis for the year ended December 31, 2010. The above information and additional information relating to ACE are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The following documents can be obtained by sending your request to the Corporate Secretary of ACE, at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2:

- (i) this Annual Information Form, together with any document incorporated herein by reference;
- (ii) the 2010 Management's Discussion & Analysis / 2010 audited Consolidated Annual Financial Statements and Notes of ACE and any interim financial statements filed after the audited annual consolidated financial statements for ACE's most recently completed financial year;
- (iii) ACE's management proxy circular for the 2011 annual shareholder meeting to be held on May 10, 2011; and
- (iv) any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus pursuant to which securities of ACE are in the course of a distribution.

Except when securities of ACE are in the course of distribution pursuant to a short form prospectus or a preliminary short form prospectus, ACE may require the payment of a reasonable charge from persons, other than security holders of ACE, requesting copies of these documents.

**APPENDIX A - CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE OF THE  
BOARD OF DIRECTORS OF ACE AVIATION HOLDINGS INC.**

**1. Structure, Procedure, Qualifications**

The Audit, Finance and Risk Committee (the "Audit Committee") of ACE Aviation Holdings Inc. (the "Corporation") shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors (the "Board"). The members of the Audit Committee shall have no relationships with management, the Corporation and its related entities that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit Committee member shall not receive, other than for service on the Board or the Audit Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related parties or subsidiaries. The members of the Audit Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit Committee and in particular each member of the Audit Committee shall be "financially literate" and at least one member shall be a "financial expert" as defined by relevant securities legislation or regulations.

A quorum of the Audit Committee shall be a majority of the members, and a majority of the members present shall be required to pass a resolution of the Audit Committee. The Audit Committee shall be responsible to the Board of Directors of the Corporation. The Chairman and the members of the Audit Committee shall be appointed annually by the Board.

**2. Objectives**

- (a) The objectives of the Audit Committee are as follows:
- (i) To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.
  - (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
  - (iii) To assist the Board of Directors in its oversight of the independence, qualifications and appointment of the external auditor.
  - (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
  - (v) To provide independent communication between the Board and the internal auditor and the external auditor.
  - (vi) To facilitate in-depth and candid discussions between the Audit Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

### 3. Duties

To achieve its objectives, the Audit Committee shall:

- (a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analyses ("MD&As") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews will include:
  - (i) Discussions with management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;
  - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case may be, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
  - (iii) a review of significant adjustments arising from an audit;
  - (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements. The Audit Committee is responsible for the resolution of disagreements between management and the external auditor regarding financial reporting;
  - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
  - (vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;
  - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;
  - (viii) a review to ascertain that various covenants are complied with; and
  - (ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.

- (c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.
- (d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements. The Audit Committee should be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and must periodically assess the adequacy of those procedures.
- (e) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department. The Audit Committee is responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.
- (f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Audit Committee. The Corporation shall ensure that funding is available to the Audit Committee for payment of compensation to the external auditor.
- (g) Review
  - (i) and approve, or delegate to a member of the Audit Committee the responsibility to review and approve, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period. The pre-approval of non-audit services by a member of the Audit Committee to whom such authority is delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval;
  - (ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.
- (h) Review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once a year the Audit Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five

- years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.
- (i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.
  - (j) At least once each year:
    - (i) Meet privately with management to assess the performance of the external auditor.
    - (ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.
  - (k) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.
  - (l) Regarding the services provided by the internal audit department, the Audit Committee will:
    - (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;
    - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;
    - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;
    - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
    - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
    - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
  - (m) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.

- (n) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.
- (o) Establish policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal accounting controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Audit Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Audit Committee.
- (p) Review policies for approval of senior management expenses.
- (q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.
- (r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- (s) Review and approve all related party transactions as such term is defined from time to time in Policy Statement Q-27 of the Autorité des marchés financiers and Rule 61-501 issued by the Ontario Securities Commission, as may be amended from time to time.
- (t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- (u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall ensure that funding is available to the Audit Committee in respect of the aforementioned activities.
- (v) Report regularly to the Board in writing on the activities, findings and conclusions of the Audit Committee.
- (w) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.
- (x) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.
- (y) Perform such other functions as may be delegated from time to time by the Board.
- (z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.
- (aa) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.



**OTHER****(a) Public Disclosure**

The Audit Committee shall:

- (i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices;
- (ii) Where practicable, management will review with the Audit Committee or the Chairman of the Audit Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting by the Corporation which are expected by management to be material in relation to the market price of any of the Corporation's securities.

**(b) Risk Identification and Management**

The Audit Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board of Directors of the Corporation. The Audit Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Audit Committee shall be entitled, from time to time, to retain experts and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

**(c) Contingent Liabilities**

The Audit Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of these duties, the Audit Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Audit Committee shall make recommendations, from time to time, to the Board of Directors of the Corporation on these matters.

**(d) Corporate Authorizations Policies**

The Audit Committee shall:

- (i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;
- (ii) Periodically review any administrative resolutions adopted from time to time pursuant to the Corporation's By-laws pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;
- (iii) Review, monitor and approve the Corporate Donations Policy and any changes thereto and the annual Corporate Donations Budget; and
- (iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

**(e) Performance to Budget**

The Audit Committee shall review actual financial performance compared to budget.

**(f) Meetings**

- (i) The Audit Committee shall meet at least quarterly at the call of the Chairman of the Audit Committee, any other member of the Audit Committee or the external auditors.
- (ii) An "in-camera" session of the members of the Committee shall be held as part of each meeting of the Committee.

**(g) Responsibilities**

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board of Directors' responsibility to ensure the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Audit Committee. Even though the Audit Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor.

February 7, 2008