ACE AVIATION

Consolidated Financial Statements and Notes
2012

April 29, 2013

April 29, 2013

Independent Auditor's Report

To the Shareholders of ACE Aviation Holdings Inc.

We have audited the accompanying consolidated financial statements of ACE Aviation Holdings Inc. and its subsidiaries (the "Corporation") which comprise the consolidated statement of net assets in liquidation as at December 31, 2012 and December 31, 2011 and the consolidated statements of changes in net assets in liquidation and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
We draw attention to note 1 to the consolidated financial statements which describes the liquidation basis of accounting and certain uncertainties as a result of the Corporation's intent to liquidate. Our opinion is not qualified in respect to this matter.

PricewaterhouseCoopers LLP

Chartered Accountants

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Consolidated Statement of Net Assets in Liquidation

(Canadian dollars in thousands except per share figures)		As at December 31 2012	As at December 31 2011
ASSETS			
Cash and cash equivalents	Note 4	$ 56,467	$ 356,194
Short-term investments	Note 4	75,000	-
Investment in Air Canada	Note 4	-	30,690
Commodity taxes receivable		175	178
		$ 131,642	**$** 387,062
LIABILITIES			
Accounts payable and accrued liabilities		43	794
Income and other taxes payable	Note 5	-	4,150
		$ 43	**$** 4,944
Contingencies	Note 5	-	-
NET ASSETS IN LIQUIDATION		**$ 131,599**	**$ 382,118**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 8	$ 4.05	$ 11.77

Contingencies, guarantees and indemnities [Notes 5 and 12]

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

Ernst & Young Inc.,
In its capacity as Court-appointed Liquidator of ACE Aviation Holdings Inc.
and not in its personal capacity

Per: (signed) Sharon Hamilton

Consolidated Statement of Changes in Net Assets in Liquidation

(Canadian dollars in thousands except per share figures)		Year Ended December 31 2012	2011
Net assets in liquidation, beginning of period		**$ 382,118**	**$ 471,757**
Interest income		1,942	3,657
Gain (loss) on investment in Air Canada	Note 4	26,428	(76,260)
Gain (loss) on Air Canada warrants	Note 4	918	(5,000)
Administrative and other expenses		(4,807)	(9,866)
Income (loss) before taxes		**24,481**	**(87,469)**
Provision for income taxes	Note 5		
Current		-	(2,200)
Income (loss) for the period		**24,481**	**(89,669)**
Issue of shares through stock options exercised	Note 6	**-**	**30**
Distribution to common shareholders	Note 7	**(275,000)**	**-**
Net assets in liquidation, end of period		$ **131,599**	$ **382,118**
Income (loss) per share			
Basic and Diluted	Note 9	$ 0.75	$ (2.76)

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

Consolidated Statement of Cash Flows

(Canadian dollars in thousands)		Year Ended December 31 2012	2011
Cash flows from (used for)			
Income (loss) for the period		$ 24,481	$ (89,669)
Non-cash adjustments			
(Gain) loss on investment in Air Canada	Note 4	(26,428)	76,260
(Gain) loss on Air Canada warrants	Note 4	(918)	5,000
Changes in non-cash working capital balances		(4,898)	1,781
		(7,763)	**(6,628)**
Financing			
Issue of common shares through stock options exercised	Note 6	-	30
Cash distribution paid to common shareholders	Note 7	(275,000)	-
		(275,000)	**30**
Investing			
Increase in short-term investments	Note 4	(75,000)	-
Proceeds from sale of investments in Air Canada	Note 4	58,036	-
		(16,964)	**-**
Decrease in cash and cash equivalents		**(299,727)**	**(6,598)**
Cash and cash equivalents, beginning of period		356,194	362,792
Cash and cash equivalents, end of period	Note 4	**$ 56,467**	**$ 356,194**

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

For the years ended December 31, 2012 and 2011
(Canadian dollars in thousands except share amounts)

1. GENERAL INFORMATION, BASIS OF PRESENTATION

A) GENERAL INFORMATION

The accompanying consolidated financial statements (the “financial statements”) are of ACE Aviation Holdings Inc. (“ACE”). ACE is incorporated and domiciled in Canada. The address of its registered office is 1155 René-Lévesque West, 40th Floor, Montreal, Québec, H3B 3V2, Canada.

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

On April 25, 2012, at ACE's annual and special meeting, ACE's shareholders approved a special resolution providing for an amendment to the articles of ACE pursuant to which all Class A variable voting shares and Class B voting shares of ACE were converted into a new class of common shares of ACE on a one-for-one basis.

The shareholders of ACE also approved a special resolution providing for the voluntary liquidation of ACE pursuant to Section 211 of the *Canada Business Corporations Act*, through distribution of its remaining assets to shareholders, after providing for outstanding liabilities, contingencies and costs of the liquidation, the appointment of a liquidator at a time to be determined by the board of directors of ACE and the ultimate dissolution of ACE in the future, once all the liquidation steps have been completed.

On May 9, 2012, ACE declared a distribution in the aggregate amount of $275,000 (or approximately $8.46 per common share) to common shareholders of record as of June 1, 2012, which was paid on June 8, 2012. This distribution represents the initial distribution to shareholders of amounts to be paid in the course of the voluntary liquidation of ACE pursuant to Section 211 of the *Canada Business Corporations Act*.

On June 28, 2012, the Superior Court of Québec (Commercial Division) (the "Court") issued an order appointing Ernst & Young Inc. as liquidator of ACE (the “Liquidator”). Effective June 28, 2012, all of the directors and officers of ACE have resigned from their positions and the Liquidator is vested with the powers of the directors of ACE.

On July 16, 2012, ACE announced that the TSX advised ACE that it no longer met the continued listing requirements of the TSX as a result of the previously announced appointment of the Liquidator of ACE and the resignation of all of the directors and officers of ACE. The TSX had advised ACE that if it did not voluntarily delist by September 14, 2012, the TSX would delist its common shares. As a result, ACE delisted its common shares from the TSX effective at the close of business on September 14, 2012.

ACE transferred the listing of its common shares from the TSX to the NEX board of the TSX Venture Exchange on September 17, 2012, the trading day immediately following the delisting from the TSX.

Pursuant to an order issued by the Court on February 25, 2013, the Liquidator established a process for the identification, resolution and barring of claims and other contingent liabilities against ACE. Creditors have until May 13, 2013 to file their proof of claims, failing which their claims will be barred and extinguished. Following the completion of such process, the review of any claims and the provision for or settlement of any contingencies, the Liquidator will proceed with the distribution of ACE's remaining net cash to its shareholders. The final distribution to shareholders and the cancellation of the shares of ACE will not occur until all remaining contingent liabilities are settled or otherwise provided for.

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada (“GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 (“CICA Handbook”) which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

B) CHANGE IN BASIS OF PRESENTATION

The Corporation changed the basis of preparing its financial statements from going concern to liquidation, effective January 1, 2011. As a result, the financial statements have been prepared using a liquidation basis of accounting. This basis of presentation differs from the presentation adopted in the interim financial reports of the Corporation issued during 2011. The adoption of a liquidation basis of presentation on January 1, 2011 did not result in a change to net assets.

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

These financial statements were approved by the Liquidator for issue on April 29, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are based on the accounting policies as described below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

A) BASIS OF MEASUREMENT

These financial statements have been prepared primarily using fair values.

B) PRINCIPLES OF CONSOLIDATION

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

C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in bankers' acceptances and bankers' discount notes that are readily convertible to known amounts of cash and are subject to insignificant changes in fair value and have original maturities of three months or less. The Corporation did not hold any cash equivalents as at December 31, 2012 (December 31, 2011 – $349,434).

D) SHORT-TERM INVESTMENTS

Short-term investments comprise bankers' acceptances and bankers' discount notes that have original maturities over three months, but not more than one year. The average interest rate on short-term investments as at December 31, 2012 is 1.28% per annum (December 31, 2011 – nil).

E) FINANCIAL INSTRUMENTS

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

The investments in equity instruments of Air Canada were classified and measured at fair value through profit or loss ("FVTPL"). All gains and losses were recognized in profit or loss.

The Corporation's investment in Air Canada warrants were classified as derivatives and were initially recognized at fair value at the date the derivative contracts were entered into and were subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss was recognized in the profit or loss immediately.

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

F) PROVISIONS

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

G) INCOME TAXES

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

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

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

H) EARNINGS PER SHARE

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- Income taxes
  - Judgment and estimates are used in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation’s deferred and current tax assets and tax liabilities.

4. NET ASSETS IN LIQUIDATION

Cash and cash equivalents

As at December 31, 2012, ACE's cash and cash equivalents amounted to $56,467 (December 31, 2011 – $356,194). Cash and cash equivalents include investments in bankers' acceptances and bankers' discount notes that are readily convertible to known amounts of cash and are subject to insignificant changes in fair value and have original maturities of three months or less. The Corporation did not hold any cash equivalents as at December 31, 2012 (December 31, 2011 – $349,434).

Short-term investments

As at December 31, 2012, ACE's short-term investments amounted to $75,000 (December 31, 2011 – nil). Short-term investments comprise bankers' acceptances and bankers' discount notes that have original maturities over three months, but not more than one year. The average interest rate on short-term investments as at December 31, 2012 is 1.28% per annum (December 31, 2011 – nil).

Investments in Air Canada

On November 13, 2012 ACE sold a total of 31 million shares and 2.5 million warrants which represented its entire remaining investment in Air Canada. The net proceeds obtained as a result of the sale of ACE's investment in Air Canada amounted to $58,036 resulting in a gain of $1,616 represented by a gain on the sale of the shares and warrants of $698 and $918, respectively. Following the sale, ACE no longer holds any shares or warrants in the capital of Air Canada.

The following table details the carrying value of ACE's investment in Air Canada.

Fair value of ACE's investment in Air Canada as at December 31, 2010	**$**	**106,950**
Unrealized loss on ACE's investment in Air Canada from January 1 to December 31, 2011		(76,260)
Fair value of ACE's investment in Air Canada as at December 31, 2011	**$**	**30,690**
Unrealized gain on ACE's investment in Air Canada from January 1 to November 13, 2012		25,730
Fair value of ACE's investment in Air Canada as at November 13, 2012	**$**	**56,420**
Sale of remaining Air Canada shares on November 13, 2012 (31 million shares)		(56,420)
Fair value of ACE's investment in Air Canada as at December 31, 2012	**$**	**-**

- *The fair value of ACE's holdings of Air Canada shares of $106,950 as at December 31, 2010, $30,690 as at December 31, 2011 and $56,420 as at November 13, 2012 are based on the closing prices of $3.45 per Air Canada Class B Voting Share as at December 31, 2010, $0.99 per Air Canada Class B Voting Share as at December 31, 2011 and $1.82 per Air Canada Class B Voting Share as at November 13, 2012, as quoted on the TSX.*

5. TAXES

Income Tax Expense

	2012	2011
Current income tax	$ -	$ 2,200
Deferred income tax	-	-
Provision for income taxes	**$ -**	**$ 2,200**

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

	2012	2011
Income (loss) before income taxes	$ 24,698	$ (87,469)
Statutory income tax rate based on combined federal and provincial rates	25.80%	27.21%
Tax provision (recovery) based on statutory tax rates	6,372	(23,797)
Effects of:		
Non-taxable portion of capital gains (losses)	(3,528)	11,054
Non-deductible expenses (non-taxable income)	67	-
Tax rate changes on deferred income taxes	(571)	3,103
Unrecognized (recognized) deferred income tax assets	(4,638)	8,920
Adjustment in respect of prior years	2,298	2,920
Provision for income taxes	**$ -**	**$ 2,200**

The applicable statutory tax rates are 25.80% in 2012 and 27.21% in 2011. The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates. The decrease is mainly due to the reduction of the Federal income tax rate in 2012 from 16.5% to 15%.

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

	2012	2011
Net gain on Air Canada investment	$ -	$ -
Recognized deferred income tax assets	-	-
Provision for income taxes in Other comprehensive income	**$ -**	**$ -**

Deferred Income Tax

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit is probable. The Corporation has unrecognized deferred tax asset on loss carry forwards of $151,859 (2011 - $90,748) and temporary differences of $4,563 (2011 - $259,840) for which no deferred tax assets are recognized. However, the future tax deductions underlying these deferred tax assets remain available for use in the future to reduce taxable income.

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

	Tax Losses
2029	$ 4,536
2031	4,572
2032	2,732
	$ 11,740

As at December 31, 2012 ACE also has estimated net capital losses (after 50 per cent capital loss adjustment) of $576,857 (2011 - $339,607) that have no expiry date. These estimates are subject to revision based on the ongoing tax audits further discussed below.

Certificates of Discharge and tax audits

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

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

The audits of income taxes and other taxes were completed in Quarter 1, 2012 and additional reassessments of $4,094 were paid in Quarter 1, 2012. Approximately $3,900 had been accrued in respect of these reassessments as at December 31, 2011.

On March 7, 2012, a tax clearance certificate was issued by the CRA in connection with all taxation years ended on or prior to December 31, 2010. On March 12, 2012, Revenu Québec issued an equivalent certificate authorizing the distribution of property up to $500,000.

In 2010 and 2011, ACE received and paid notices of reassessment from Revenu Québec in the amount of $45,091. The reassessments primarily related to audits of GST and QST in respect of ACTS LP, and its predecessor ACTS Limited Partnership, for periods prior to ACE's monetization of ACTS LP in October 2007. Approximately $41,900 of such reassessments were recovered from Air Canada and other parties. The total recovery amount of $41,900 included approximately $40,140 recovered from Air Canada and $1,096 from Aveos. ACE has agreed to indemnify and hold harmless Air Canada and Aveos from loss should related additional Input Tax Credit claims by Air Canada and Aveos be reassessed in the future.

In addition, in Quarter 2, 2011, ACE received and paid a notice of reassessment for other taxes from Revenu Québec in the amount of $2,900.

Administrative and other expenses for the year ended December 31, 2012 and December 31, 2011 include net provisions for other taxes of nil and $3,200 respectively.

Advance Tax Ruling

In Quarter 1, 2012, ACE obtained an advance tax ruling from the CRA in order to confirm that neither the share conversion, described in Note 8, nor the other liquidation steps will result in the Common Shares of ACE being considered short-term preferred shares or taxable preferred shares for the purpose of the Income Tax Act (Canada) (the "Tax Act") and the regulations thereunder, such that no tax under Part VI.1 of the Tax Act will be payable by ACE in connection with the liquidation steps.

6. STOCK-BASED COMPENSATION

ACE Stock Option Plan

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

In compliance with the terms of the ACE stock option plan, in November 2007, the Board of ACE resolved to immediately vest all remaining unvested ACE stock options. This resulted in the immediate expense recognition of all deferred stock based compensation on outstanding ACE options granted, less amounts previously recognized as compensation expense. As a result of this immediate vesting of all ACE options granted, no further stock based compensation expense is expected to be recorded related to the ACE stock option plan. All outstanding options under the ACE stock option plan expired in accordance with their terms on February 9, 2013.

In 2012, the amount credited to share capital for ACE stock options exercised was nil (2011 - $30). For ACE stock options exercised, shares from treasury are issued by the Corporation.

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

	2012		2011	
	Options	Weighted Average Exercise Price/Share	Options	Weighted Average Exercise Price/Share
Beginning of year	19,760	$ 19.23	37,500	$ 15.36
Exercised	-	-	(2,714)	11.05
Forfeited	(2,125)	19.23	(15,026)	11.05
Outstanding options, prior to May 9, 2012 distribution	**17,635**	**$ 19.23**	**19,760**	**$ 19.23**
Adjustment - ACE distribution [(a)]	54,687	-	-	-
Outstanding options, after May 9, 2012 distribution	**72,322**	**$ 4.69**	**19,760**	**$ 19.23**
Forfeited	(7,041)	4.69	-	-
Outstanding options, end of year	**65,281**	**$ 4.69**	**19,760**	**$ 19.23**
Options exercisable, end of year	**65,281**	**$ 4.69**	**19,760**	**$ 19.23**

(a) In accordance with the terms of the ACE stock option plan, the cash distribution to shareholders of $275,000 on June 8, 2012 (Refer to Note 7) triggered an adjustment to the exercise price and the number of options outstanding. Effective on the applicable date of the distribution, the adjustment was applied to all unexercised ACE stock options.

		2012 Outstanding and Exercisable Options				
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Number of Exercisable Options	Weighted Average Exercise Price/Share	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share
$4.69	2013	65,281	65,281	$ 4.69	$ 0.10	$ 4.69
		65,281	**65,281**	**$ 4.69**		**$ 4.69**

		2011 Outstanding and Exercisable Options				
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Number of Exercisable Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Weighted Average Exercise Price/Share
$19.23	2013	19,760	19,760	$ 1.10	$ 19.23	$ 19.23
		19,760	**19,760**		**$ 19.23**	**$ 19.23**

7. DISTRIBUTION TO COMMON SHAREHOLDERS

On May 9, 2012, ACE declared a distribution in the aggregate amount of $275,000 (or approximately $8.46 per common share) to common shareholders of record as of June 1, 2012, which was paid on June 8, 2012. This distribution represents the initial distribution to shareholders of amounts to be paid in the course of the voluntary liquidation of ACE pursuant to Section 211 of the *Canada Business Corporations Act*, which was approved at the annual and special meeting of shareholders held on April 25, 2012, as described in Note 1.

8. SHARE CAPITAL

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

Outstanding shares ('000s)		**As at December 31 2012**	**As at December 31 2011**
Issued and Outstanding			
Common Shares		32,475	
Class A variable voting shares			23,871
Class B voting shares			8,604
Total issued and outstanding (1)		**32,475**	**32,475**
Potential common shares issuable			
Stock options(2)	Note 6	65	20
Total potential common shares		**65**	**20**

(1) This also represents the weighted average number of shares outstanding as at December 31, 2012 and December 31, 2011.

(2) All outstanding stock options expired in accordance with their terms on February 9, 2013.

In accordance with the terms of the ACE stock option plan, the cash distribution to shareholders of $275,000 (Refer to Note 7) triggered an adjustment to the exercise price and the number of options outstanding. Effective on the applicable date of the distribution, the adjustment was applied to all unexercised ACE stock options.

Share Conversion

On April 25, 2012, ACE's shareholders approved a special resolution providing for an amendment to the articles of ACE pursuant to which all Class A variable voting shares and Class B voting shares were converted, on a one-for-one basis, into a new class of common shares (the "Common Shares"), each entitled to one vote per share (the "Share Conversion").

The Share Conversion formed part of the steps being implemented by ACE in order to complete its liquidation described in Note 1 in a tax-efficient manner for ACE and its shareholders. At the time of incorporation of ACE in 2004, when ACE controlled Air Canada, the articles of ACE provided for ownership restrictions through a dual-class share structure to ensure that ACE, as the controlling shareholder of Air Canada, remained Canadian under the Canada Transportation Act ("CTA"). ACE no longer holds an interest in any holder of a license under the CTA and accordingly, ACE's dual class structure is no longer necessary.

Terms of the New Common Shares

The terms of the Common Shares pertaining to dividend entitlements and entitlement upon liquidation or dissolution are the same as the rights previously attached to Class A variable voting shares and Class B voting shares of ACE. The Common Shares carry one vote per share and are not subject to any ownership restriction.

The holders of the Common Shares are entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE and each Common Share confers the right to one vote in person or by proxy at all meetings of shareholders of ACE.

With respect to dividends, the holders of the Common Shares will, if declared, 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 Common 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 Common Shares are entitled to receive the remaining property of ACE and are entitled to share equally, share for share, in all distributions of such assets.

Since April 25, 2012, the authorized share capital of ACE no longer includes a class of preferred shares.

9. EARNINGS PER SHARE

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

(in thousands, except per share amounts)	2012	2011
Numerator:		
Numerator for basic income (loss) per share:		
Net income (loss) for the year	$ 24,481	$ (89,669)
Effect of potential dilutive securities:		
Stock options	-	-
Adjusted numerator for diluted income (loss) per share	**$ 24,481**	**$ (89,669)**
Denominator:		
Denominator for basic income (loss) per share:		
Weighted-average shares	32,475	32,475
Effect of potential dilutive securities:		
Stock options	-	-
Adjusted denominator for diluted income (loss) per share	**32,475**	**32,475**
Basic income (loss) per share	**$ 0.75**	**$ (2.76)**
Diluted income (loss) per share	**$ 0.75**	**$ (2.76)**

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

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

Excluded from the calculation of diluted earnings per share in 2012 were 65,281 (2011 – 19,760) outstanding options where the options' exercise prices were greater than the average market price of the common shares for the year. Refer to Note 6.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Financial Instruments

	Carrying Amounts				
	December 31, 2012				December 31, 2011
	Financial instruments classification				
	Financial assets at amortised cost	Financial assets at FVTPL	Financial liabilities at amortised cost	Total	
Financial Assets					
Cash and cash equivalents	$ 56,467	$ -	$ -	$ 56,467	$ 356,194
Short-term investments	75,000	-	-	75,000	-
Investment in Air Canada	-	-	-	-	30,690
	$ 131,467	$ -	$ -	$ 131,467	$ 386,884
Financial Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ 43	$ 43	$ 794
	$ -	$ -	$ 43	$ 43	$ 794

There have been no changes in classification of financial instruments in the current year.

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

- The Investment in Air Canada of $30,690 as at December 31, 2011 was valued using quoted prices in an active market (level 1).
- The Air Canada warrants as at December 31, 2011 were valued using significant other observable inputs (level 2).

Risk Management

As at December 31, 2012, ACE's financial instruments include cash and cash equivalents in the amount of $56,467 ($356,194 as at December 31, 2011), short-term investments in the amount of $75,000 (nil as at December 31, 2011), Air Canada warrants of nil (nominal amount as at December 31, 2011) and accounts payable and accrued liabilities of $43 ($794 as at December 31, 2011). The risk exposure related to these holdings is described below.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. This risk is mitigated by the fact that as at December 31, 2012, the Corporation had cash and cash equivalents of $56,467 and accounts payable and accrued liabilities of $43.

<u>Credit Risk</u>

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

Market Risk

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

Interest Rate Risk

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

The Corporation is exposed to interest rate risk from its holding in cash and cash equivalents of $56,467. The weighted average interest rate on ACE's cash and cash equivalents at December 31, 2012, is approximately 1.28%, which results in limited downside risk.

11. CAPITAL DISCLOSURES

ACE is an investment holding company.

Capital managed by ACE is as follows:

	2012	2011
Net assets in liquidation	$ 131,599	$ 382,118
Capital	**$ 131,599**	**$ 382,118**

As at December 31, 2012, ACE's capital amounted to $131,599, a decrease of $250,519 during 2012. This decrease was mainly driven by the initial distribution in the aggregate amount of $275,000 (or approximately $8.46 per common share) to common shareholders, as described in Note 7. ACE's strategy, to maximize shareholder value and to return capital to its shareholders, has influenced its capital management objectives. Consistent with those objectives, on November 13, 2012 ACE sold a total of 31 million shares and 2.5 million warrants which represented its entire remaining investment in Air Canada. The net proceeds obtained as a result of the sale of ACE's investment in Air Canada amounted to $58,036 resulting in a gain of $1,616. Following the sale, ACE no longer holds any shares or warrants in the capital of Air Canada.

12. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Indemnification agreements

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

13. COMPENSATION OF KEY MANAGEMENT

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

	2012	2011
Directors' fees and Officers' consultancy fees	$ 1,409	$ 3,265
	$ 1,409	**$** 3,265