ACE AVIATION

First Quarter 2012
Interim Unaudited
Condensed Consolidated Financial Statements and Notes

May 9, 2012

Consolidated Statement of Net Assets in Liquidation

Unaudited (Canadian dollars in millions except per share figures)		March 31 2012	December 31 2011
ASSETS			
Cash and cash equivalents	Note 2	$ 351	$ 356
Investment in Air Canada	Note 2	29	31
Air Canada warrants	Note 2	-	-
		$ 380	**$** 387
LIABILITIES			
Accounts payable and accrued liabilities		1	1
Income and other taxes payable	Note 3	-	4
		$ 1	**$** 5
Contingencies	Note 5	-	-
NET ASSETS IN LIQUIDATION		**$ 379**	**$ 382**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 4	$ 11.69	$ 11.77

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

Consolidated Statement of Changes in Net Assets in Liquidation

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2012	Year Ended December 31 2011	Three Months Ended March 31 2011
Net assets in liquidation, beginning of period		**$ 382**	**$ 472**	**$ 472**
Interest income		1	4	1
Unrealized loss on investment in Air Canada recorded at fair value	Note 2	(2)	(76)	(31)
Unrealized loss on Air Canada warrants recorded at fair value	Note 2	-	(5)	(2)
Administrative and other expenses		(2)	(11)	(3)
Loss before the following items		**(3)**	**(88)**	**(35)**
Provision for income taxes	Note 3			
Current		-	(2)	-
Deferred		-	-	-
Loss for the period		**(3)**	**(90)**	**(35)**
Transactions with owners		**-**	**-**	**-**
Net assets in liquidation, end of period		**$ 379**	**$ 382**	**$ 437**
Loss per share				
Basic and Diluted	Note 4	$ (0.08)	$ (2.76)	$ (1.08)

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

Consolidated Statement of Cash Flows in Liquidation

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2012	2011
Cash flows from (used for)			
Loss for the period		$ (3)	$ (35)
Non-cash adjustments			
Unrealized loss on investment in Air Canada recorded at fair value	Note 2	2	31
Unrealized loss on Air Canada warrants recorded at fair value	Note 2	-	2
Changes in non-cash working capital balances		(4)	1
Decrease in cash and cash equivalents		**(5)**	**(1)**
Cash and cash equivalents, beginning of period		356	363
Cash and cash equivalents, end of period	Note 2	**$ 351**	**$ 362**

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

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(Canadian dollars in millions)

1. GENERAL INFORMATION, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A) GENERAL INFORMATION

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

ACE, which was incorporated on June 29, 2004, is an investment company of aviation interests. Reference to the "Corporation" in the following notes to the financial statements refers to ACE and its aviation interests collectively. Refer to Note 2 for a description of ACE's investments. These financial statements include the accounts of ACE and certain inactive subsidiaries.

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. Refer to Note 6 for details of an initial distribution of $275 to shareholders declared on May 9, 2012.

B) BASIS OF PRESENTATION

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. These interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting".

In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

The Corporation changed the basis of preparing its financial statements from going concern to liquidation, effective January 1, 2011.

The consolidated 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 Board of Directors of the Corporation for issue on May 9, 2012.

C) SIGNIFICANT ACCOUNTING POLICIES

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2011 annual consolidated financial statements.

2. NET ASSETS IN LIQUIDATION

Cash and cash equivalents

As at March 31, 2012, ACE's cash and cash equivalents amounted to $351 (December 31, 2011 – $356). Cash equivalents of $344 (December 31, 2011 – $349) 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.

Investments in Air Canada

As at March 31, 2012, ACE's investments in Air Canada include:

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

(2) 2.5 million warrants for the purchase of Air Canada Shares at exercise prices of $1.51 (1.25 million warrants) and $1.44 (1.25 million warrants) per share which expire on July 30, 2013 and October 19, 2013, respectively.

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

The following table details the carrying value of ACE's investment in Air Canada until March 31, 2012:

Fair value of ACE's investment in Air Canada as at December 31, 2010	**$**	**107**
Unrealized loss on ACE's investment in Air Canada		(76)
Fair value of ACE's investment in Air Canada as at December 31, 2011	**$**	**31**
Unrealized loss on ACE's investment in Air Canada		(2)
Fair value of ACE's investment in Air Canada as at March 31, 2012	**$**	**29**

The fair value of ACE's holdings of Air Canada shares of $107 as at December 31, 2010, $31 as at December 31, 2011 and $29 as at March 31, 2012 are based on the closing prices of $3.45 per Air Canada Share as at December 31, 2010, $0.99 per Air Canada Share as at December 31, 2011 and $0.94 per Air Canada Share as at March 31, 2012, as quoted on the TSX.

The warrants are presented as Air Canada warrants and any changes in fair value are recorded within Unrealized gain (loss) on Air Canada warrants recorded at fair value. The fair value of the 2,500,000 warrants amounted to a nominal amount as at March 31, 2012 and December 31, 2011 using the Black-Scholes option valuation model.

3. TAXES

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 are now complete and additional reassessments of $4.1 were paid in Quarter 1, 2012. $3.9 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.

In 2010 and 2011, ACE received and paid notices of reassessment from Revenu Québec in the amount of $45.1. 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. $41.9 of such reassessments were recovered from Air Canada and other parties. The total recovery amount of $41.9 included $40.2 recovered from Air Canada and $1.1 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 Quarter 2, 2011, ACE received and paid a notice of reassessment for other taxes from Revenu Québec in the amount of $2.9.

Administrative and other expenses for Quarter 1, 2012, Quarter 1, 2011 and the year ended December 31, 2011 include net additional provisions for other taxes of $0.2, $1.4, and $3.2 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 4, 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.

4. SHARE CAPITAL

The issued and outstanding common shares of ACE as at March 31, 2012, along with potential common shares, are as follows:

Outstanding shares ('000s)	March 31 2012	December 31 2011
Issued and Outstanding		
Class A variable voting shares	22,212	23,871
Class B voting shares	10,263	8,604
Total issued and outstanding	**32,475**	**32,475**
Potential common shares issuable		
Stock options [(1)]	19	20
Total potential common shares	**19**	**20**

[(1)] The Corporation's stock option plan is described in Note 6 to the 2011 annual audited consolidated financial statements. All remaining rights to acquire shares, including outstanding stock options issued pursuant to the stock option plan of ACE, are to be terminated under the liquidation steps.

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 forms 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 a significant 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, right to vote and entitlement upon liquidation or dissolution are the same as the rights currently attaching to Class A variable voting shares and Class B voting shares of ACE. The Common Shares carry one vote per share and are not be 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 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 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 will be entitled to receive the remaining property of ACE and will be entitled to share equally, share for share, in all distributions of such assets.

The authorized share capital of ACE will no longer include a class of preferred shares.

5. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Guarantee of Air Canada obligation

On May 7, 2009, ACE intervened into the employment agreement between Air Canada and Mr. Calin Rovinescu, Air Canada's President and Chief Executive Officer, to guarantee the payments required of Air Canada under the agreement. The guarantee automatically terminated on April 25, 2012, the date on which the shareholders of ACE approved the winding-up and liquidation of ACE. In the event that a liquidator is not appointed within 180 days of the shareholders' vote, the guarantee shall automatically resume and continue in full force and effect until the earlier of (i) April 1, 2014 and (ii) the date on which such a liquidator shall have been appointed.

Indemnification agreements

Refer to Note 3 for a description of indemnification agreements between ACE, Air Canada and Aveos related to certain commodity tax reassessments.

6. SUBSEQUENT EVENT - INITIAL DISTRIBUTION OF $275 TO ACE SHAREHOLDERS

On May 9, 2012, ACE announced that it has declared an initial distribution in the aggregate amount of $275 (or approximately $8.46 per common share) to common shareholders of record as of June 1, 2012, which will be payable as of 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.