ACE AVIATION

Third Quarter 2012
Interim Unaudited
Condensed Consolidated Financial Statements and Notes

November 27, 2012

Notice required under National Instrument 51-102 - "Continuous Disclosure Obligations," Part 4.3 (3) (a).

The accompanying unaudited interim condensed consolidated financial statements for ACE Aviation Holdings Inc. as at and for the three and nine month periods ended September 30, 2012, together with the accompanying notes have not been reviewed by the Corporation's auditors.

Consolidated Statement of Net Assets in Liquidation

Unaudited (Canadian dollars in millions except per share figures)		As at September 30 2012	As at December 31 2011
ASSETS			
Cash and cash equivalents	Note 2	$ 49	$ 356
Short-term investments	Note 2	25	-
Investment in Air Canada	Note 2	39	31
		$ 113	**$** 387
LIABILITIES			
Accounts payable and accrued liabilities		1	1
Income and other taxes payable	Note 3	-	4
		$ 1	**$** 5
NET ASSETS IN LIQUIDATION		**$ 112**	**$ 382**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 5	$ 3.45	$ 11.77

Contingencies, guarantees and indemnities [Note 6]

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

Unaudited (Canadian dollars in millions except per share figures)		**Three Months Ended September 30 2012**	**Nine Months Ended September 30 2012**	**Year Ended December 31 2011**	**Three Months Ended September 30 2011**	**Nine Months Ended September 30 2011**
Net assets in liquidation, beginning of period		**$ 104**	**$ 382**	**$ 472**	**$ 431**	**$ 472**
Interest income		-	2	4	1	3
Unrealized gain (loss) on investment in Air Canada recorded at fair value	Note 2	9	8	(76)	(26)	(61)
Unrealized (loss) on Air Canada warrants recorded at fair value	Note 2	-	-	(5)	(1)	(4)
Administrative and other expenses		(1)	(5)	(11)	(2)	(7)
Income (loss) before taxes		**8**	**5**	**(88)**	**(28)**	**(69)**
Provision for income taxes						
Current		-	-	(2)	-	-
Deferred		-	-	-	-	-
Income (loss) for the period		**8**	**5**	**(90)**	**(28)**	**(69)**
Distribution to common shareholders	Note 4	**-**	**(275)**	**-**	**-**	**-**
Net assets in liquidation, end of period		$ **112**	$ **112**	$ **382**	$ **403**	$ **403**
Income (loss) per share						
Basic and Diluted	Note 5	$ 0.25	$ 0.15	$ (2.76)	$ (0.86)	$ (2.12)

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 September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Cash flows from (used for)					
Income (loss) for the period		$ 8	$ (28)	$ 5	$ (69)
Non-cash adjustments					
Unrealized (gain) loss on investment in Air Canada recorded at fair value	Note 2	(9)	26	(8)	61
Unrealized loss on Air Canada Warrants recorded at fair value	Note 2	-	1	-	4
Changes in non-cash working capital balances		1	-	(4)	(9)
		-	**(1)**	**(7)**	**(13)**
Financing					
Cash distribution paid to common shareholders	Note 4	-	-	(275)	-
Increase in short-term investments	Note 2	(25)	-	(25)	-
		(25)	**-**	**(300)**	**-**
Decrease in cash and cash equivalents		**(25)**	**(1)**	**(307)**	**(13)**
Cash and cash equivalents, beginning of period		74	351	356	363
Cash and cash equivalents, end of period	Note 2	**$ 49**	**$ 350**	**$ 49**	**$ 350**

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 interim condensed 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. Reference to the "Corporation" in the following notes to the financial statements refers to ACE and its wholly owned subsidiaries. Refer to Note 2 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 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 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.

Under the supervision of the Court, the Liquidator will establish a process for the identification, resolution and barring of claims and other contingent liabilities against ACE. The Liquidator will also proceed with the distribution of ACE's remaining net cash to its shareholders, after providing for outstanding liabilities, contingencies and costs of the liquidation.

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 the Liquidator'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. As a result, the financial statements as at December 31, 2011 and for the year ended have been prepared using a liquidation basis of accounting. This basis of presentation differs from the presentation adopted in the interim financial reports of the Corporation issued during 2011. The adoption of a liquidation basis of presentation on January 1, 2011 did not result in a change to net assets.

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 Liquidator for issue on November 27, 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 September 30, 2012, ACE's cash and cash equivalents amounted to $49 (December 31, 2011 – $356). Cash equivalents of nil (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.

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 September 30, 2012 is 1.4% per annum (December 31, 2011 – nil).

Investments in Air Canada

As at September 30, 2012 and December 31, 2011, ACE's investments in Air Canada include:

(1) an 11.13% (31 million shares ("Air Canada 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.

The following table details the carrying value of ACE's investment in Air Canada until September 30, 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 gain on ACE's investment in Air Canada		8
Fair value of ACE's investment in Air Canada as at September 30, 2012	**$**	**39**

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 $39 as at September 30, 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 30, 2011 and $1.27 per Air Canada Share as at September 28, 2012, as quoted on the TSX.

The warrants are presented as Investment in Air Canada 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 September 30, 2012 and December 31, 2011 using the Black-Scholes option valuation model.

Refer to Note 7 – "Subsequent Events" for an update with regard to ACE's cash and cash equivalents and its investments in Air Canada.

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 were completed in Quarter 1, 2012 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 the nine months ended September 30, 2012, September 30, 2011 and the year ended December 31, 2011 include net provisions for other taxes of nil, $1.4 and $3.2 respectively. For the three months ended September 30, 2012 and September 30, 2011, the net additional provisions for other taxes were nil.

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 5, 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. DISTRIBUTION TO COMMON SHAREHOLDERS

On May 9, 2012, ACE 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 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.

5. SHARE CAPITAL

The issued and outstanding common shares of ACE as at September 30, 2012, along with potential common shares, are as follows:

Outstanding shares ('000s)	As at September 30 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)	69	20
Total potential common shares	**69**	**20**

(1) This also represents the weighted average number of shares outstanding as at September 30, 2012 and December 31, 2011.

(2) The Corporation's stock option plan is described in Note 6 to the 2011 annual audited consolidated financial statements. All of the outstanding stock options of ACE will expire in accordance with their terms in February 2013.

In accordance with the terms of the ACE stock option plan, the cash distribution to shareholders of $275 during Q2 2012 (Refer to Note 4) 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 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 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 at the discretion of the Liquidator, 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.

6. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Indemnification agreements

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

7. SUBSEQUENT EVENTS

Subsequent to the quarter end, 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. As a result, ACE no longer holds any shares or warrants in the capital of Air Canada.