

ACE AVIATION

Quarter 1 2012

Management's Discussion and Analysis

May 9, 2012

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1. Preface

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment company of aviation interests. ACE is listed on the Toronto Stock Exchange ("TSX") where its Class A variable voting shares and Class B voting shares are traded under the symbols ACE.A and ACE.B, respectively.

As at April 30, 2012, ACE's principal assets are cash and cash equivalents of approximately \$351 million and an 11.11% equity interest in Air Canada.

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 announced that it has declared an initial distribution in the aggregate amount of \$275 million (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.

The final distribution to shareholders and the cancellation of the shares of ACE will not occur earlier than mid-year 2013 in order to allow that any remaining contingent liabilities be settled or otherwise provided for. The distributions will generally be treated as deemed dividends from a Canadian tax standpoint. The aforementioned deemed dividends will be designated as eligible dividends for the purposes of the Income Tax Act (Canada).

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 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".

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.

This MD&A should be read in conjunction with ACE's interim unaudited condensed consolidated financial statements and notes for Quarter 1 2012, which can be found on SEDAR at www.sedar.com. Reference to the "Corporation" in this MD&A refers to ACE and its aviation interests collectively. Except as otherwise noted, all monetary amounts are stated in Canadian dollars. Except as otherwise noted, this MD&A is current as of May 9, 2012.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" in section 2 of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. See section 9 "Risk Factors" of this MD&A.

The ACE Audit, Finance & Risk Committee has reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes and ACE's Board of Directors approved these documents prior to their release. For further information on ACE's public disclosure file, including ACE's Annual Information Form, please consult SEDAR at www.sedar.com, or ACE's website at www.aceaviation.com.

2. Caution Regarding Forward-Looking Information

ACE's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements, including statements as to the liquidation and the timeline of distributions, are included in this MD&A and may be included in other filings with regulatory authorities and securities regulators. Forward-looking statements may relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, market, regulatory developments or proceedings, and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 14 "Risk Factors" of ACE's 2011 MD&A. See section 9 "Risk Factors" of this MD&A. No assurance can be given as to the timeline of the liquidation and distributions. The forward-looking statements contained in this MD&A represent ACE's expectations as of the date of this MD&A, and are subject to change after such date. However, ACE disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

3. Financial and Capital Management

The following table presents the net assets in liquidation of ACE as at April 30, 2012, March 31, 2012 and December 31, 2011.

(Canadian dollars in millions, except per share amounts)	April 30 2012	March 31 2012	December 31 2011
Cash and cash equivalents	\$ 351	\$ 351	\$ 356
Air Canada shares	31	29	31
Air Canada warrants	-	-	-
	382	380	387
Current obligations	(1)	(1)	(5)
Contingencies	-	-	-
	(1)	(1)	(5)
Net assets in liquidation	381	\$ 379	\$ 382
Net assets in liquidation per share – Basic and diluted	\$ 11.73	\$ 11.69	\$ 11.77

ACE has no operations other than managing its net assets in liquidation and related activities.

3.1 Analysis of Net Assets in LiquidationCash and cash equivalents

Cash and cash equivalents amounted to \$351 million, \$351 million and \$356 million at April 30, 2012, March 31, 2012 and December 31, 2011 respectively. The reduction of \$5 million from December 31, 2011 to March 31, 2012 was primarily due to the final payment of tax reassessments of \$4 million in Quarter 1 2012.

Air Canada shares

As at April 30, 2012, ACE had an 11.11% (31,000,000 shares) ownership interest in Air Canada.

The following table details the carrying value and fair value of ACE's investment in Air Canada shares until April 30, 2012:

Fair value of ACE's investment in Air Canada as at December 31, 2010 ⁽¹⁾	\$ 107
Unrealized loss on ACE's investment in Air Canada	(76)
Fair value of ACE's investment in Air Canada as at December 31, 2011 ⁽¹⁾	\$ 31
Unrealized loss on ACE's investment in Air Canada	(2)
Fair value of ACE's investment in Air Canada as at March 31, 2012 ⁽¹⁾	\$ 29
Fair value of ACE's investment in Air Canada as at April 30, 2012 ⁽¹⁾	\$ 31

(1) The fair value of ACE's holdings of Air Canada shares of \$107 million as at December 31, 2010, \$31 million as at December 31, 2011, \$29 million as at March 31, 2012 and \$31 million as at April 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 31, 2011, \$0.94 per Air Canada Class share as at March 31, 2012 and \$1.00 per Air Canada share as at April 30, 2012, as quoted on the TSX.

Air Canada warrants

Under an Air Canada credit facility, ACE received 1,250,000 warrants on July 30, 2009 for the purchase of Air Canada shares with 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 shares with an exercise price of \$1.44 per share, exercisable at any time, and expiring on October 19, 2013. The fair value of the 2,500,000 warrants amounted to a nominal amount as at April 30, 2012 and December 31, 2011 using the Black-Scholes option valuation model.

Current obligations

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 million were paid in Quarter 1, 2012. \$3.9 million 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 million. ACE does not expect to incur income tax liabilities for the taxation years ended December 31, 2011 and beyond, or to incur any tax liabilities for other taxes over and above amounts incurred in the ordinary course of business.

In 2010 and 2011, ACE received and paid notices of reassessment from Revenu Québec in the amount of \$45.1 million. 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 million of such reassessments were recovered from Air Canada and other parties. The total recovery amount of \$41.9 million included \$40.2 million recovered from Air Canada and \$1.1 million 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 million.

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 million, \$1.4 million, and \$3.2 million 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 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.

Contingencies

As part of the wind-up process, a claims process will be initiated pursuant to which any claims against the Corporation will be identified and resolved. While the Corporation believes that its financial statements reflect all liabilities that are probable, it is possible that, through this process, additional liabilities will be identified and accrued.

Refer to section 9 of this MD&A for a discussion of risk factors.

Future costs

Future costs will be incurred up to and during liquidation. These costs will include Directors & Officers indemnification insurance coverage up to and post the dissolution of the Corporation, liquidator fees and other operating costs up to and during liquidation. In addition future interest income is expected to be earned on cash and cash equivalents.

3.2 Cash Flows in Liquidation

The following table summarizes ACE's cash flows in Liquidation for the indicated periods.

	Quarter 1	
	2012	2011
Decrease in cash and cash equivalents during the period	(5)	(1)
Cash and cash equivalents, beginning of period	356	363
Cash and cash equivalents, end of period	\$ 351	\$ 362

As discussed in Section 3.1, cash used of \$5 million in Quarter 1 2012, reflects mainly the payment of tax reassessments.

3.3 Share Information

At April 30, 2012, the issued and outstanding common shares of ACE, along with common shares potentially issuable, were as follows:

Number of shares (000)	April 30, 2012	December 31, 2011
Issued and outstanding common shares		
Common shares	32,475	-
Class A variable voting shares	-	23,871
Class B voting shares	-	8,604
Total issued and outstanding common shares	32,475	32,475
Common shares potentially issuable		
Stock options ⁽¹⁾	19	20
Total outstanding and potentially issuable common shares	32,494	32,495

(1) The Corporation's stock option plan is described in Note 6 to the 2011 audited consolidated financial statements. At April 30, 2012, a total of 18,841 stock options with a weighted exercise price of \$19.23 were outstanding. 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.

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 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 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.

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

4. Accounting Policies

This MD&A should be read in conjunction with ACE's interim unaudited condensed consolidated financial statements and notes for Quarter 1 2012.

Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation (Refer to section 1 of this MD&A). The adoption of a liquidation basis of presentation did not result in a change to the Corporation's accounting policies that were applied on a going concern basis of presentation.

For additional information on ACE's significant accounting policies and methods used in preparation of ACE's 2011 audited consolidated financial statements and notes, please refer to Note 2 to ACE's 2011 audited consolidated financial statements.

The preparation of ACE's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. ACE evaluates these estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual amounts could differ materially from those estimates and assumptions. Refer to section 8 of this MD&A for a discussion of ACE's critical accounting estimates.

5. Consolidated Statement of Changes in Net Assets in Liquidation

(Canadian dollars in millions, except per share amounts)	Quarter 1 2012	Year Ended December 31 2011	Quarter 1 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	(2)	(76)	(31)
Unrealized loss on Air Canada warrants recorded at fair value	-	(5)	(2)
Administrative and other expenses	(2)	(11)	(3)
Loss before the following items	(3)	(88)	(35)
Provision for income taxes	-	(2)	-
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	\$ (0.08)	\$ (2.76)	\$ (1.08)

In Quarter 1 2012 ACE recorded an unrealized loss on investment in Air Canada recorded at fair value of \$2 million. In the same period in 2011, ACE recorded an unrealized loss on investment in Air Canada recorded at fair value of \$31 million. For the year ended 2011 ACE recorded an unrealized loss on investment in Air Canada at fair value of \$76 million. The unrealized loss on Air Canada warrants recorded at fair value in Quarter 1, 2012, amounted to nil; an unrealized loss of \$2 million was recorded in Quarter 1, 2012. For the year ended 2011 the unrealized loss on Air Canada warrants recorded was \$5 million.

ACE recorded administrative and other expenses of \$2 million in Quarter 1, 2012, including net additional provisions for other taxes of \$0.2 million. In the same period in 2011, ACE recorded administrative and other expenses of \$3 million which included net additional provisions for other taxes of \$1.4 million. For the year ended 2011, ACE recorded administrative and other expenses of \$11 million which included net additional provisions for other taxes of \$3.2 million.

The loss in Quarter 1, 2012, amounted to \$3 million or \$(0.08) per diluted share. In Quarter 1 2011, ACE recorded a loss of \$35 million or \$(1.08) per diluted share. For the year ended 2011, ACE recorded a loss of \$90 million or \$(2.76) per diluted share.

6. Quarterly Financial Information

(\$ millions, except per share amounts)	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾	Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾	Q1 ⁽¹⁾
	2010 (Going Concern)	2010 (Going Concern)	2010 (Going Concern)	2011 ⁽²⁾ (Liquidation Basis)	2011 (Liquidation Basis)	2011 (Liquidation Basis)	2011 (Liquidation Basis)	2012 (Liquidation Basis)
Interest income	\$ 5	\$ 3	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Gain on sale of ACE's investment in Air Canada	-	-	26	-	-	-	-	-
Unrealized gain (loss) on investment in Air Canada recorded at fair value	-	-	15	(31)	(4)	(26)	(15)	(2)
Proportionate share of Air Canada's income (loss)	(65)	62	21	-	-	-	-	-
Unrealized gain (loss) on Air Canada warrants recorded at fair value	(1)	2	2	(2)	(1)	(1)	(1)	-
Administrative and other expenses	(3)	(1)	(4)	(3)	(2)	(2)	(4)	(2)
Provision for income taxes	-	-	-	-	-	-	(2)	-
Income (loss)	\$ (64)	\$ 66	\$ 61	\$ (35)	\$ (6)	\$ (28)	\$ (21)	\$ (3)
Earnings (loss)⁽²⁾ per share – basic and diluted	\$(1.99)	\$2.03	\$1.87	\$(1.08)	\$(0.17)	\$(0.86)	\$(0.65)	\$(0.08)

(1) ACE transitioned to IFRS as of January 1, 2011 with comparative figures in 2010.

(2) Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation. The consolidated statement of changes in net assets in liquidation includes the results of operations and transactions with owners. The financial information for Q1, Q2 and Q3 2011 was changed to the liquidation basis of presentation from that disclosed in ACE's previously filed interim MD&As.

7. Off-Balance Sheet Arrangements
Guarantee of Air Canada obligation

On May 7, 2009, ACE intervened into the employment agreement between Air Canada and Mr. Calin Rovinescu, 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 Section 3.1 of this MD&A for a description of indemnification agreements between ACE, Air Canada and Aveos related to certain commodity tax reassessments.

8. Critical Accounting Estimates

Critical accounting estimates are those that are most important to the portrayal of ACE's financial condition and results of operations. Information on ACE's critical accounting estimates is disclosed in section 13 of ACE's 2011 MD&A dated February 9, 2012.

9. Risk Factors

For a detailed description of the risk factors associated with the Corporation, refer to Section 14 "Risk Factors" of ACE's 2011 MD&A dated February 9, 2012. There have been no material changes to the Corporation's risk factors from what was disclosed at that time with the exception of the approval of the wind-up by ACE's shareholders.

10. Controls and Procedures**Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Corporation's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

The Corporation filed certifications, signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), with the Canadian Securities Administrators ("CSA") upon filing the Corporation's 2012 Annual Information Form. In those filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporation's CEO and CFO also certify the appropriateness of the financial disclosures in the Corporation's interim filings with securities regulators. In those interim filings, the Corporation's CEO and CFO certify the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

Management's Report on Disclosure Controls and Procedures

Management, with the participation of the Corporation's CEO and CFO, concluded, as at March 31, 2012, that such disclosure controls and procedures were designed to provide reasonable assurance that:

- (i) material information relating to the Corporation was made known to its Disclosure Policy Committee by others; and
- (ii) information required to be disclosed by the Corporation in its annual filings, interim filings and other reports filed or submitted by the Corporation under securities legislation was recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management's Report on Internal Controls over Financial Reporting

Management, with the participation of the Corporation's CEO and CFO, concluded, as at March 31, 2012, that the Corporation's internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

Management and the CEO and CFO use the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework to design the Corporation's control framework.

Changes in Internal Controls over Financial Reporting

There have been no changes in internal controls over financial reporting during Quarter 1 2012 that have materially affected or are reasonably likely to materially affect its internal controls over financial reporting.