ACE AVIATION

Third Quarter 2013
Interim Unaudited
Condensed Consolidated Financial Statements and Notes

November 28, 2013

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 period ended September 30, 2013, 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 thousands except per share figures)**		**As at September 30 2013**	**As at December 31 2012**
ASSETS			
Cash and cash equivalents	Note 2	$ 11,217	$ 56,467
Short-term investments	Note 2	121,278	75,000
Commodity taxes receivable		120	175
		$ 132,615	**$** 131,642
LIABILITIES			
Accounts payable and accrued liabilities		161	43
Income and other taxes payable	Note 5	-	-
		$ 161	**$** 43
Contingencies	Note 3	-	-
NET ASSETS IN LIQUIDATION		**$ 132,454**	**$ 131,599**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 5	$ 4.08	$ 4.05

Contingencies, guarantees and indemnities [Notes 3 and 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 thousands except per share figures)**		**Three Months Ended September 30 2013**	**Nine Months Ended September 30 2013**	**Year Ended December 31 2012**	**Three Months Ended September 30 2012**	**Nine Months Ended September 30 2012**
Net assets in liquidation, beginning of period		**$ 132,157**	**$ 131,599**	**$ 382,118**	**$ 104,116**	**$ 382,118**
Interest income		453	1,458	1,942	84	1,743
Gain on investment in Air Canada	Note 2	-	-	26,428	8,990	8,680
Gain on Air Canada warrants	Note 2	-	-	918	-	-
Administrative and other expenses		(156)	(603)	(4,807)	(308)	(4,659)
Income before taxes		**297**	**855**	**24,481**	**8,766**	**5,764**
Provision for income taxes	Note 3					
Current		-	-	-	-	-
Deferred		-	-	-	-	-
Income for the period		**297**	**855**	**24,481**	**8,766**	**5,764**
Distribution to common shareholders	Note 4	**-**	**-**	**(275,000)**	**-**	**(275,000)**
Net assets in liquidation, end of period		$ **132,454**	$ **132,454**	$ **131,599**	$ **112,882**	$ **112,882**
Income per share						
Basic and Diluted	Note 5	$ 0.01	$ 0.03	$ 0.75	$ 0.25	$ 0.15

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

Consolidated Statement of Cash Flows in Liquidation

Unaudited (Canadian dollars in thousands)		Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Cash flows from (used for)					
Income for the period		$ 297	$ 8,766	$ 855	$ 5,764
Non-cash adjustments					
Gain on investment in Air Canada	Note 2	-	(8,990)	-	(8,680)
Changes in non-cash working capital balances		26	47	173	(4,544)
		323	**(177)**	**1,028**	**(7,460)**
Financing					
Cash distribution paid to common shareholders	Note 7	-	-	-	(275,000)
		-	**-**	**-**	**(275,000)**
Investing					
Increase in short-term investments	Note 2	(373)	(25,000)	(46,278)	(25,000)
		(373)	**(25,000)**	**(46,278)**	**(25,000)**
Increase (decrease) in cash and cash equivalents		**(50)**	**(25,177)**	**(45,250)**	**(307,460)**
Cash and cash equivalents, beginning of period		11,267	73,911	56,467	356,194
Cash and cash equivalents, end of period	Note 2	**$ 11,217**	**$ 48,734**	**$ 11,217**	**$ 48,734**

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

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 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 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 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 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 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 had until May 13, 2013 to file their proof of claims, failing which their claims would be barred and extinguished.

In response to ACE's claims process, Air Canada filed a contingent claim related to the previously disclosed tax indemnities which are described herein under Note 3 – Certificates of Discharge and Tax Audits. The contingent claim, in the amount of $50,161, covers any eventual reassessment of Air Canada's input tax credit refund claims plus any related interest and ancillary legal costs. The reassessment periods for the large majority of the input tax credit claims covered by the indemnity in favour of Air Canada will expire by the end of 2014, with the remaining reassessment periods gradually expiring by 2016. Aveos filed a similar contingent claim in the amount of $1,600 with respect to any eventual reassessment of input tax credit refund claims and any related interest and ancillary costs referred to under Section 3.1. ACE will maintain a reserve in the amount of the Air Canada and Aveos claims which will not be available for distribution to the shareholders pending the expiration of the related reassessment periods or settlement of such contingencies.

ACE also received a claim from Teri Prince relating to a proposed class action initiated by Ms. Prince against Air Canada and ACE Aviation Holdings Inc., which alleges that Air Canada improperly charged Ms. Prince and other class members for certain United States taxes in connection with the sale of airfare. The plaintiff alleges (improperly in ACE's view) that as the former parent or shareholder of Air Canada, ACE is liable for the acts of Air Canada. Ms. Prince therefore filed a proof of claim against ACE in the liquidation claims process in the amount of $200,000, pending determination of the allegedly overcharged amounts. No breakdown or calculation was provided in relation to the amount claimed. ACE is of the view that this claim against ACE has no merit given that ACE is a separate entity from Air Canada and that ACE never sold airfare. Accordingly, the Liquidator has delivered a notice of disallowance to Ms. Prince and the Liquidator will take appropriate measures to cause this claim to be disallowed and to have ACE removed as a defendant in this class action.

In addition, the Liquidator received a letter from a group acting on behalf of certain air cargo customers (the "Stichting Compensation Foundation") claiming an unspecified amount of compensation from ACE in connection with surcharges for fuel and security for the period from January 1, 2000 to December 31, 2006, which are alleged to have been implemented by certain air cargo carriers in violation of European Union competition law. The Stichting Compensation Foundation relies on a decision of the European Commission issued on November 9, 2010 pursuant to which the European Commission imposed fines on eleven air cargo carriers, including Air Canada the former subsidiary of ACE, for such alleged actions. The decision of the European Commission is being appealed by the air cargo carriers. ACE is of the view that this potential claim against ACE has no merit given that ACE is a separate entity from Air Canada, ACE has never operated an air cargo business or sold cargo fares and no penalties, fines or other measures were imposed or taken by the European Commission against ACE. ACE will take appropriate measures to cause this potential claim to be disallowed.

The only remaining subsidiaries of ACE are ACTS LP and its general partner, 4378555 Canada Inc. ACTS LP previously operated a business of aircraft maintenance, repair and overhaul prior to the sale of its business to a consortium of private equity firms in October 2007. ACTS LP has not carried on any business since October 2007. As a result of the tax indemnity arrangements entered into with Air Canada, which are referred to above, ACTS LP will be liquidated and dissolved only after the expiration of the indemnity arrangements with Air Canada. The Liquidator is not aware of any liabilities or contingent liabilities of ACTS LP other than contingent liabilities in respect of the tax indemnity agreements referred to above. The Liquidator will be seeking directions from the Court with respect to ACTS LP.

The Liquidator will not proceed with any further distributions to shareholders pending satisfactory resolution of the matters referred to above and any other contingencies that may arise in the course of the liquidation process.

Future distributions of ACE's remaining net cash to its shareholders are subject to the expiration or settlement of any contingencies and there is no certainty as to the timing or amount of such distributions. 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 distributions will generally be treated as deemed dividends from a Canadian tax standpoint. Such deemed dividends will be designated as eligible dividends for the purposes of the Income Tax Act (Canada).

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, 2012, 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 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 November 28, 2013.

C) SIGNIFICANT ACCOUNTING POLICIES

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2012 annual consolidated financial statements.

2. NET ASSETS IN LIQUIDATION

Cash

As at September 30, 2013, ACE's cash amounted to $11,217 (December 31, 2012 – $56,467). The Corporation did not hold any cash equivalents as at September 30, 2013 or December 31, 2012.

Short-term investments

As at September 30, 2013, ACE's short-term investments amounted to $121,278 (December 31, 2012 – $75,000). 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, 2013 is 1.25% per annum (December 31, 2012 – 1.28%).

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.*

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.

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.

As previously disclosed, in connection with the process leading to the issuance of tax clearance certificates in favour of ACE for all taxation years ended on or prior to December 31, 2010, Revenu Québec conducted a sales tax audit of ACE and its subsidiaries in 2010 and 2011. Revenu Québec issued notices of reassessment in the amount of $37,700 primarily with respect to certain importations of aircraft parts on the basis that it was Air Canada, and not ACE's subsidiary ACTS LP, which should have paid GST and should have been allowed to claim the related refund. Revenu Québec also issued additional notices of reassessment in the amount of $7,400 relating, inter alia, to certain intercompany transactions on which Revenu Québec considers that ACE or ACTS LP should have charged Air Canada sales tax in the amount of $6,800. All such reassessments were paid by ACE and ACTS LP, and Air Canada paid an aggregate amount of approximately $40,140 to ACE and ACTS LP and then claimed additional GST/QST refunds for the same amount. The reassessment periods for the large majority of the input tax credit claims covered by the indemnity in favour of Air Canada will expire by the end of 2014, with the remaining reassessment periods gradually expiring by 2016. ACE agreed to indemnify and hold harmless Air Canada should such refund claims be reassessed in the future.

A substantially similar process occurred with respect to GST payable on importation on behalf of Aveos and Aveos agreed to claim additional GST refunds in the amount of $1,096 and to pay such amount to ACE to reimburse it for GST paid in connection with the importations. ACE agreed to indemnify and hold harmless Aveos should such refund claims be reassessed in the future.

See "Note 1 – General Information" for additional information relating to the proof of claims filed by Air Canada and Aveos in connection with ACE's liquidation claims process.

Administrative and other expenses for the three months ended September 30, 2013, September 30, 2012 and the year ended December 31, 2012 include net provisions for other taxes of 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 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.

5. SHARE CAPITAL

The issued and outstanding common shares of ACE as at September 30, 2013, along with potential common shares, are as follows:

Outstanding shares ('000s)	**As at September 30 2013**	**As at December 31 2012**
Issued and Outstanding		
Common Shares	32,475	32,475
Total issued and outstanding [1]	**32,475**	**32,475**
Potential common shares issuable		
Stock options [2]	-	65
Total potential common shares	**-**	**65**

[1] This also represents the weighted average number of shares outstanding as at September 30, 2013 and December 31, 2012.

[2] The Corporation's stock option plan is described in Note 6 to the 2012 annual audited consolidated financial statements. All of the outstanding stock options of ACE expired 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 $275,000 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 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.

6. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Indemnification agreements

Refer to Note 1 (General Information) and Note 3 (Certificates of Discharge and Tax Audits) for a description of indemnification agreements between ACE, Air Canada and Aveos related to certain commodity tax reassessments. Also refer to Note 1 (General Information) for a description of the proof of claims filed in response to ACE's claims process.