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ACE AVIATION

Quarter 1 2013

Management's Discussion and Analysis

May 29, 2013

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1. Preface

ACE Aviation Holdings Inc. ("ACE"), was incorporated on June 29, 2004. As at December 31, 2012, ACE is listed on the NEX board of the TSX Venture Exchange where its common shares are traded under the symbol ACE.H.

As at March 31, 2013, ACE's only assets are cash and short-term investments of approximately $132 million.

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 had declared a 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 was paid as of June 8, 2012.

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 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.

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 million. Following the sale, ACE no longer holds any shares or warrants in the capital of Air Canada.

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 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 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).

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.

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 2013, which can be found on SEDAR at www.sedar.com. Reference to the "Corporation" in this MD&A refers to ACE and its wholly-owned subsidiaries. Except as otherwise noted, all monetary amounts are stated in Canadian dollars. Except as otherwise noted, this MD&A is current as of May 29 2013.

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 Liquidator has reviewed and approved this MD&A and the audited consolidated financial statements and notes prior to their release. For further information on ACE's public disclosure file, 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 referred to in 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 March 31, 2013 and December 31, 2012.

Unaudited **(Canadian dollars in millions, except per share amounts)**	**March 31 2013**	**December 31 2012**
Cash	$ 12	$ 56
Short-term investments	120	75
Investment in Air Canada	-	-
Commodity taxes receivable	-	-
	132	131
Accounts payable and accrued liabilities	-	-
Income and other taxes payable	-	-
	-	-
Net assets in liquidation	**$ 132**	**$ 131**
Net assets in liquidation per share – Basic and diluted	**$ 4.07**	**$ 4.05**

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

3.1 Analysis of Net Assets in Liquidation

Cash
Cash was $12 million and $56 million as at March 31, 2013 and December 31, 2012 respectively. The reduction of $44 million was primarily due to cash being invested in Guaranteed Investment Certificates ("GICs") categorized as Short-term investments as a result of their maturity of more than three months.

Short-term investments
Short-term investments of $120 million comprise investments in GICs with a maturity date of more than three months. The average interest rate on these GICs as of March 31, 2013 is 1.25% per annum (December 31, 2012: 1.28%).

Investment 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 million resulting in a gain of $1.6 million represented by a gain on the sale of the shares and the warrants of $0.7 million and $0.9 million 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.

	(Canadian dollars in millions)
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 from January 1 to December 31, 2011	(76)
Fair value of ACE's investment in Air Canada as at December 31, 2011 (1)	**$ 31**
Unrealized gain on ACE's investment in Air Canada from January 1 to November 13, 2012	25
Fair value of ACE's investment in Air Canada as at November 13, 2012 (1)	**$ 56**
Sale of remaining Air Canada shares on November 13, 2012 (31 million shares)	(56)
Fair value of ACE's investment in Air Canada as at December 31, 2012 (1)	**$ -**

(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 and $56 million 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 30, 2011 and $1.82 per Air Canada Common Share as at November 13, 2012 as quoted on the TSX.

Income and other taxes payable
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 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 $40.1 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. The reassessment periods for the large majority of such input tax credit claims will expire by the end of 2014, with the remaining reassessment periods gradually expiring by 2016. Any required payment by ACE pursuant to such indemnities would reduce the amount available for distribution to shareholders of ACE in connection with the liquidation referred to in the Preface.

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 the three months ended March 31, 2013, March 31, 2012 and the year ended December 31, 2012 include net provisions for other taxes of nil, $0.2 million and nil 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 referenced in section 3.3 below 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 has been 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 and have not been accrued. These costs include liquidator fees and other operating costs. In addition, future interest income is expected to be earned on cash and cash equivalents.

3.2 Cash Flows in Liquidation

As discussed in Section 3.1, cash used of $44 million was primarily due to cash equivalents reinvested in Guaranteed Investment Certificates ("GICs") categorized as Short-term investments as a result of their maturity of more than three months.

3.3 Share Information

At March 31, 2013, the issued and outstanding common shares of ACE, along with common shares potentially issuable, were as follows:

Number of shares (000)	March 31, 2013	December 31, 2012
Issued and outstanding common shares		
Common shares	32,475	32,475
Total issued and outstanding common shares	**32,475**	**32,475**
Common shares potentially issuable		
Stock options (1)	-	65
Total outstanding and potentially issuable common shares	**32,475**	**32,540**

(1) The Corporation's stock option plan is described in Note 6 to the 2012 audited consolidated financial statements. At December 31, 2012, a total of 65,281 stock options with a weighted exercise price of $4.69 were outstanding. All of the outstanding stock options of ACE expired in accordance with their terms on February 9, 2013.

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 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.

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 2013.

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 2012 audited consolidated financial statements and notes, please refer to Note 2 to ACE's 2012 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

Unaudited **(Canadian dollars in millions except per share figures)**	**Three Months Ended March 31 2013**	**Year Ended December 31 2012**	**Three Months Ended March 31 2012**
Net assets in liquidation, beginning of period	**$ 131**	**$ 382**	**$ 382**
Interest income	1	2	1
Gain (loss) on investment in Air Canada	-	26	(2)
Gain (loss) on Air Canada warrants	-	1	-
Administrative and other expenses	-	(5)	(2)
Income (loss) before taxes	**1**	**24**	**(3)**
Provision for income taxes	-	-	-
Income (loss) for the period	**1**	**24**	**(3)**
Distribution to common shareholders	**-**	**(275)**	**-**
Net assets in liquidation, end of period	$ **132**	$ **131**	$ **379**
Income (loss) per share			
Basic and Diluted	$ 0.01	$ 0.75	$ (0.08)

ACE sold its entire investment in Air Canada prior to the commencement of Quarter 1 2013. Previous to that, ACE recorded a gain on investment in Air Canada at fair value of $26 million in the year ended December 31, 2012 and a loss of $2 million in the three months ended March 31, 2012.

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 shares of Air Canada amounted to $57 million resulting in a gain of $1 million. The net proceeds obtained as a result of the sale of ACE's investment in warrants of Air Canada amounted to $1 million resulting in a gain of $1 million.

ACE recorded administrative and other expenses of $0.2 million in Quarter 1, 2013 ($5 million in the year ended December 31, 2012). In the same period in 2012, ACE recorded administrative and other expenses of $2 million.

The income in Quarter 1, 2013 amounted to $0.4 million or $0.01 per diluted share. In Quarter 1, 2012 ACE recorded a loss of $3 million or $0.08 per diluted share. For the year ended December 31, 2012, ACE recorded income of $24 million or $0.75 per diluted share primarily due to the gain recorded on the investment in Air Canada as referred to above.

6. Quarterly Financial Information

($ millions, except per share amounts)	Q2[1] 2011 (Liquidation Basis)	Q3[1] 2011 (Liquidation Basis)	Q4[1] 2011 (Liquidation Basis)	Q1[1] 2012 (Liquidation Basis)	Q2[1] 2012 (Liquidation Basis)	Q3[1] 2012 (Liquidation Basis)	Q4[1] 2012 (Liquidation Basis)	Q1[1] 2013 (Liquidation Basis)
Interest income	$ 1	$ 1	$ 1	$ 1	$ 1	$ -	$ -	$ 1
Gain (loss) on investment in Air Canada	(4)	(26)	(15)	(2)	1	9	18	-
Gain (loss) on Air Canada warrants	(1)	(1)	(1)	-	-	-	1	-
Administrative and other expenses	(2)	(2)	(4)	(2)	(2)	(1)	-	-
Provision for income taxes	-	-	(2)	-	-	-	-	-
Income (loss)	**$ (6)**	**$ (28)**	**$ (21)**	**$ (3)**	**$ -**	**$ 8**	**$ 19**	**$ 1**
Earnings (loss)[2] per share – basic and diluted	**$(0.17)**	**$(0.86)**	**$(0.65)**	**$(0.08)**	**$ -**	**$ 0.25**	**$ 0.58**	**$ 0.01**

(1) ACE transitioned to IFRS as of January 1, 2011.
(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 distributions to shareholders. 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

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 10 of ACE's 2012 MD&A dated April 29, 2013.

9. Risk Factors

For a detailed description of the risk factors associated with the Corporation, refer to Section 11 "Risk Factors" of ACE's 2012 MD&A dated April 29, 2013.