ACE AVIATION

Consolidated Financial Statements and Notes
2014

April 28, 2015

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Independent Auditor's Report

To the Shareholders of ACE Aviation Holdings Inc.

We have audited the accompanying consolidated financial statements of ACE Aviation Holdings Inc. which comprise the consolidated statement of net assets in liquidation as at December 31, 2014 and December 31, 2013 and the consolidated statements of changes in net assets in liquidation and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ACE Aviation Holdings Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Matter of Emphasis

We draw attention to note 1 to the consolidated financial statements which describes the liquidation basis of accounting and certain uncertainties as a result of the Corporation's intent to liquidate. Our opinion is not qualified in respect to this matter.

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Statement of Net Assets in Liquidation

(Canadian dollars in thousands except per share figures)		As at December 31 2014	As at December 31 2013
ASSETS			
Cash and cash equivalents	Note 4	$ 10,738	$ 11,210
Short-term investments	Note 4	123,019	121,638
Commodity taxes receivable		166	125
		$ 133,923	**$** 132,973
LIABILITIES			
Accounts payable and accrued liabilities		238	229
		$ 238	**$** 229
Contingencies	Note 5	-	-
NET ASSETS IN LIQUIDATION		**$ 133,685**	**$ 132,744**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 7	$ 4.12	$ 4.09

Contingencies, guarantees and indemnities [Notes 5 and 11]

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

(Canadian dollars in thousands except per share figures)		Year Ended December 31 2014	2013
Net assets in liquidation, beginning of period		**$ 132,744**	**$ 131,599**
Interest income		1,488	1,846
Administrative and other expenses		(547)	(701)
Income before taxes		**941**	**1,145**
Provision for income taxes	Note 5	-	-
Income for the period		**941**	**1,145**
Net assets in liquidation, end of period		$ **133,685**	$ **132,744**
Income per share			
Basic and Diluted	Note 8	$ 0.03	$ 0.04

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

Consolidated Statement of Cash Flows

(Canadian dollars in thousands)		Year Ended December 31 2014	2013
Cash flows from (used for)			
Income for the period		$ 941	$ 1,145
Changes in non-cash working capital balances		(32)	236
		909	**1,381**
Investing			
Increase in short-term investments	Note 4	(1,381)	(46,638)
		(1,381)	**(46,638)**
Decrease in cash and cash equivalents		**(472)**	**(45,257)**
Cash and cash equivalents, beginning of period		11,210	56,467
Cash and cash equivalents, end of period	Note 4	**$ 10,738**	**$ 11,210**

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

1. GENERAL INFORMATION, BASIS OF PRESENTATION

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 was 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 proofs of claim, 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 5 – Taxes. 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 expired at 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 Note 5 – Taxes (Certificate of Discharge and Tax Audits). The reassessment periods for the input tax credit claims covered by the indemnity in favour of Aveos expired at the end of 2014. ACE maintains a reserve for claims and other contingencies, which includes an amount for the indemnity in favour of Air Canada with respect to reassessment periods which have not yet expired. Such reserve will not be available for distribution to the shareholders pending the expiration of the related reassessment periods or settlement of such contingencies.

In 2013, ACE also received a claim from a plaintiff relating to a proposed class action initiated in the Ontario Superior Court of Justice by the plaintiff against Air Canada and ACE Aviation Holdings Inc., which alleged that Air Canada improperly charged the plaintiff and other class members for certain United States taxes in connection with the sale of airfare. The plaintiff alleged that as the former parent or shareholder of Air Canada, ACE was liable for the acts of Air Canada. The plaintiff 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 was of the view that this claim against ACE had no merit given that ACE is a separate entity from Air Canada and that ACE never sold airfare. Accordingly, the Liquidator delivered a notice of disallowance to the plaintiff and the plaintiff did not contest the notice of disallowance prior to the expiry date for such contestation. The plaintiff subsequently agreed to formally discontinue the action against ACE in the Ontario Superior Court of Justice.

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 relied 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. The Stichting Compensation Foundation has not filed a claim in the Liquidation. ACE was of the view that any claim is barred and that this potential claim against ACE had no merit in any event 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. On May 20, 2014, the Court issued an order confirming that the Stichting Compensation Foundation and the air cargo customers that it purports to represent are barred from advancing a claim against ACE in its liquidation process and shall not be entitled to receive any amount from the Liquidator in connection with ACE's liquidation process.

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 does not have any assets, and 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 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. In order to ensure that there are no such liabilities or contingent liabilities against ACTS LP and in anticipation of its eventual dissolution, the Liquidator has established a process for the identification, resolution and barring of any claims or other contingent liabilities against ACTS LP and its general partner. Pursuant to an order issued by the Court on May 20, 2014, any potential creditors of ACTS LP and its general partner had until July 18, 2014 to file their proofs of claim, failing which their claims against ACTS LP and its general partner would be barred and extinguished. The only proof of claim filed in response to such claims process was filed by Air Canada with respect to certain of the indemnity arrangements referred to above which were entered into by ACTS LP in addition to ACE.

Given the results of the claims process referred to above and taking into account that the reassessment periods for the large majority of the input tax credit claims covered by the indemnity in favour of Air Canada have expired, the Liquidator announced on April 28, 2015 that it intends to seek Court approval for a distribution to shareholders of ACE in the aggregate amount of $115,000. The Court hearing is scheduled for May 8, 2015. Any distribution to shareholders is subject to Court approval and there is no certainty as to the amount or timing of such distribution. The record date and payment date for such a distribution would be announced upon receipt of approval from the Court.

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).

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 ("CICA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the

International Accounting Standards Board ("IASB").

B) CHANGE IN BASIS OF PRESENTATION

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. 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 April 28, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are based on the accounting policies as described below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Under the liquidation basis of accounting, the Corporation measures its assets based on their net realizable value and its liabilities based on settlement amounts. As the Corporation's assets and liabilities consist primarily of financial instruments, the change in basis of accounting did not result in different measurements from those under the going concern basis of accounting.

A) BASIS OF MEASUREMENT

These financial statements have been prepared primarily using amortized cost.

B) PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Corporation and certain inactive subsidiaries.

C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents 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. The Corporation did not hold any cash equivalents as at December 31, 2014 (December 31, 2013 – nil).

D) 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 December 31, 2014 is 1.13% per annum (December 31, 2013 – 1.13%).

E) FINANCIAL INSTRUMENTS

The Corporation accounts for its financial instruments using IFRS 9 "Financial Instruments" and IAS 39 "Financial Instrument, Recognition and Measurement".

The investments in equity instruments of Air Canada were classified and measured at fair value through profit or loss ("FVTPL"). All gains and losses were recognized in profit or loss.

The Corporation's investment in Air Canada warrants were classified as derivatives and were initially recognized at fair value at the date the derivative contracts were entered into and were subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss was recognized in the profit or loss immediately.

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

F) PROVISIONS

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. If the effect of the time value of money is significant, the expected cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in profit or loss. Provisions do not include future costs to be incurred unless such costs represent onerous contracts. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

G) INCOME TAXES

The tax expense for the period comprises current and deferred income tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Corporation and its subsidiaries operate and generate taxable income. ACE periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. ACE establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Interest and penalties related to income taxes are recognized in current income tax expense.

H) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the income (loss) for the period attributable to the shareholders of ACE by the weighted average number of common shares outstanding during the period.

Diluted EPS and net assets in liquidation per share are calculated by adjusting the weighted average number of common shares outstanding for dilutive potential common shares.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas, with further information contained in the applicable accounting policy or note:

- Income taxes
    - Judgment and estimates are used in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and tax liabilities.

4. NET ASSETS IN LIQUIDATION

Cash and cash equivalents

As at December 31, 2014, ACE's cash and cash equivalents amounted to $10,738 (December 31, 2013 – $11,210). The Corporation did not hold any cash equivalents as at December 31, 2014 (December 31, 2013 – nil).

Short-term investments

As at December 31, 2014, ACE's short-term investments amounted to $123,019 (December 31, 2013 – $121,638). 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 December 31, 2014 is 1.13% per annum (December 31, 2013 – 1.13%).

5. TAXES

Income Tax Expense

The provision for income taxes differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

	2014	2013
Income (loss) before income taxes	$ 941	$ 1,146
Statutory income tax rate based on combined federal and provincial rates	26.90%	26.90%
Tax provision (recovery) based on statutory tax rates	253	308
Effects of:		
Tax rate changes on deferred income taxes	-	(6,523)
Unrecognized (recognized) deferred income tax assets	(253)	6,215
Provision for income taxes	**$ -**	**$ -**

The applicable statutory tax rates are 26.90% in 2014 and 26.90% in 2013. The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates.

Deferred Income Tax

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit is probable. The Corporation has unrecognized benefits from loss carry forwards of $10,168 (2013 - $10,861) and deductible temporary differences of $13,248 (2013 - $13,496) for which no deferred tax assets are recognized. However, the future tax deductions underlying these deferred tax assets remain available for use in the future to reduce taxable income.

The balances of loss carry forwards vary amongst different taxing jurisdictions. The following are the Federal tax loss expiry dates:

	Tax Losses
2029	$ 2,864
2031	4,573
2032	2,731
	$ 10,168

As at December 31, 2014 ACE also has estimated net capital losses (after 50 per cent capital loss adjustment) of $576,857 (2013 - $576,857) that have no expiry date. These estimates are subject to revision.

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.

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 expired at 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. The reassessment periods for the input tax credit claims covered by the indemnity in favour of Aveos expired in 2014.

See "Note 1 – General Information" for additional information relating to the proofs of claim filed by Air Canada and Aveos in connection with ACE's liquidation claims process and the claims process of ACTS LP and its general partner.

Administrative and other expenses for the year ended December 31, 2014 and December 31, 2013 include net provisions for other taxes of nil.

6. STOCK-BASED COMPENSATION

ACE Stock Option Plan

Certain of the Corporation's employees participated in the ACE stock option plan. Plan participation was limited to employees holding positions that, in the ACE Board's view (or a committee selected by the Board), had a significant impact on ACE's long term results. The stock option plan provided that the options had an exercise price of not less than 100% of the market price of the underlying shares at the time of grant. Under the terms of the stock option plan, fifty percent of all options vested over four years. The remaining options vested upon performance conditions that were based on net income targets established by the ACE Board over the same time period. All options expired after seven years. The terms of ACE's stock option plan specified that upon the retirement of the employee, options granted to that employee may be exercised as the options vested within three years of such retirement.

In compliance with the terms of the ACE stock option plan, in November 2007, the Board of ACE resolved to immediately vest all remaining unvested ACE stock options. This resulted in the immediate expense recognition of all deferred stock based compensation on outstanding ACE options granted, less amounts previously recognized as compensation expense. As a result of this immediate vesting of all ACE options granted, no further stock based compensation expense has been recorded related to the ACE stock option plan. All outstanding options under the ACE stock option plan expired in accordance with their terms on February 9, 2013.

A summary of the activity related to the Corporation's employees participating in the ACE stock option plan is as follows. Options are stated in whole numbers.

	2014		2013	
	Options	**Weighted Average Exercise Price/Share**	**Options**	**Weighted Average Exercise Price/Share**
Beginning of year	-	$ -	65,281	$ 4.69
Exercised	-	-	-	-
Forfeited	-	-	(65,281)	4.69
Outstanding options	**-**	**$ -**	**-**	**$ -**
Forfeited	-	-	-	-
Outstanding options, end of year	**-**	**$ n/a**	**-**	**$ n/a**
Options exercisable, end of year	**-**	**$ n/a**	**-**	**$ n/a**

7. SHARE CAPITAL

The issued and outstanding common shares of ACE, along with potential common shares, are set out below.

Outstanding shares ('000s)	**As at December 31 2014**	**As at December 31 2013**
Issued and Outstanding		
Common Shares	32,475	32,475
Total issued and outstanding (1) (2)	**32,475**	**32,475**

(1) This also represents the weighted average number of shares outstanding as at December 31, 2014 and December 31, 2013.

(2) All outstanding stock options expired in accordance with their terms on February 9, 2013.

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 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 was 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.

8. EARNINGS PER SHARE

The following table outlines the calculation of basic and diluted income per share:

(in thousands, except per share amounts)	2014	2013
Numerator:		
Numerator for basic and diluted income per share:		
Net income for the year	$ 941	$ 1,145
Adjusted numerator for diluted income per share	**$ 941**	**$ 1,145**
Denominator:		
Denominator for basic income per share:		
Weighted-average shares	32,475	32,475
Basic income per share	**$ 0.03**	**$ 0.04**

The calculation of earnings per share is based on whole dollars and not on rounded thousands.
As a result, the above amounts may not be recalculated to the per share amount disclosed above.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Financial Instruments

	Carrying Amounts				
	December 31, 2014				December 31, 2013
	Financial instruments classification				
	Financial assets at amortized cost	Financial assets at FVTPL	Financial liabilities at amortized cost	Total	
Financial Assets					
Cash and cash equivalents	$ 10,738	$ -	$ -	$ 10,738	$ 11,210
Short-term investments	123,019	-	-	123,019	121,638
	$ 133,757	$ -	$ -	$ 133,757	$ 132,848
Financial Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ 238	$ 238	$ 229
	$ -	$ -	$ 238	$ 238	$ 229

There have been no changes in classification of financial instruments in the current year.

Risk Management

As at December 31, 2014, ACE's financial instruments include cash in the amount of $10,738 ($11,210 as at December 31, 2013), short-term investments in the amount of $123,019 ($121,638 as at December 31, 2013) and accounts payable and accrued liabilities of $238 ($229 as at December 31, 2013). The risk exposure related to these holdings is described below.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. This risk is mitigated by the fact that as at December 31, 2014, the Corporation had cash and cash equivalents of $10,738 and accounts payable and accrued liabilities of $238.

<u>Credit Risk</u>

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. The Corporation is exposed to credit risk from its cash and cash equivalents, the maximum exposure of which is represented by the carrying amounts reported on the balance sheet. This risk is mitigated by the fact that cash and cash equivalents are held by major Canadian Banks.

<u>Market Risk</u>

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and price risk. The Corporation is exposed to interest rate risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk from its holding in cash and cash equivalents of $10,738. The weighted average interest rate on ACE's cash and cash equivalents at December 31, 2014, is approximately 1.13%, which results in limited downside risk.

10. CAPITAL DISCLOSURES

ACE is an investment holding company.

Capital managed by ACE is as follows:

	2014	2013
Net assets in liquidation	$ 133,685	$ 132,744
Capital	**$ 133,685**	**$ 132,744**

As at December 31, 2014, ACE's capital amounted to $133,685, an increase of $941 during 2014.

11. CONTINGENCIES, GUARANTEES AND INDEMNITIES

<u>Indemnification agreements</u>

Refer to Note 1 (General Information) and Note 5 (Taxes – Certificates of Discharge and Tax Audits) for a description of indemnification agreements between ACE and Air Canada related to certain commodity tax reassessments. Also refer to Note 1 (General Information) for a description of the proofs of claim filed in response to ACE's claims process.