ACE AVIATION

First Quarter 2017
Interim Unaudited
Condensed Consolidated Financial Statements and Notes

May 30, 2017

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 month period ended March 31, 2017, 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 March 31 2017**	**As at December 31 2016**
ASSETS			
Cash and cash equivalents	Note 2	$ 6,712	$ 6,736
Commodity taxes receivable		132	138
		$ 6,844	**$** 6,874
LIABILITIES			
Accounts payable and accrued liabilities		209	200
		$ 209	**$** 200
NET ASSETS IN LIQUIDATION		**$ 6,635**	**$ 6,674**
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 4	$ 0.20	$ 0.21

Contingencies, guarantees and indemnities [Notes 3 and 5]

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 March 31 2017	Year Ended December 31 2016	Three Months Ended March 31 2016
Net assets in liquidation, beginning of period		**$ 6,674**	**$ 18,957**	**$ 18,957**
Interest income		11	94	33
Administrative and other expenses		(50)	(377)	(75)
Loss before taxes		**(39)**	**(283)**	**(42)**
Provision for income taxes	Note 3	-	-	-
Loss for the period		**(39)**	**(283)**	**(42)**
Distribution to common shareholders	Note 1	-	**(12,000)**	-
Net assets in liquidation, end of period		$ **6,635**	$ **6,674**	$ **18,915**
Loss per share				
Basic and Diluted	Note 4	$ -	$ (0.01)	$ -

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 March 31** **2017**	**2016**
Cash flows from (used for)			
Loss for the period		$ (39)	$ (42)
Changes in non-cash working capital balances		15	1
		(24)	**(41)**
Investing			
Increase in short-term investments		-	-
		-	**-**
Decrease in cash and cash equivalents		**(24)**	**(41)**
Cash and cash equivalents, beginning of period		6,736	18,998
Cash and cash equivalents, end of period	Note 2	**$ 6,712**	**$ 18,957**

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, 40^{th} 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. 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 represented 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 covered any eventual reassessment of Air Canada’s input tax credit refund claims plus any related interest and ancillary legal costs. The reassessment periods for substantially all of the input tax credit claims covered by the indemnity in favour of Air Canada expired in 2014 and 2015, and the remaining reassessment period expired at the beginning of 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. The reassessment periods for the input tax credit claims covered by the indemnity in favour of Aveos expired at the end of 2014.

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, 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 was appealed by the air cargo carriers to the General Court of the European Union. In December 2015, the General Court of the European Union overturned the European Commission’s decision and cancelled the related fines. In March 2017, the European Commission issued a new decision which imposed the same fine initially levied against Air Canada in 2010. ACE was of the view that the Stichting Compensation Foundation’s claim was barred and 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. The Liquidator is not aware of any liabilities or contingent liabilities of ACTS LP. 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 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 proof of claims, 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. As a result of such tax indemnity arrangements entered into with Air Canada, ACTS LP could only be dissolved after the expiration of the indemnity arrangements. Since the last remaining reassessment period covered by such tax indemnity arrangements expired in 2016, ACE is proceeding with the dissolution of ACTS LP and its general partner.

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 had then expired, the Liquidator announced on April 28, 2015 that it intended to seek Court approval for a distribution to shareholders of ACE in the aggregate amount of $115,000, or approximately $3.54 per common share of ACE. The Court approved such distribution at a hearing held on May 8, 2015. The record date to determine shareholders entitled to receive the distribution was May 26, 2015 and the payment date for the distribution was June 2, 2015.

Given that the last reassessment period for the input tax credit claims covered by the indemnity in favour of Air Canada expired in 2016, the Liquidator announced on April 29, 2016 that it intended to seek Court approval for a distribution to shareholders of ACE in the aggregate amount of $12,000, or approximately $0.36 per common share of ACE. The Court approved such distribution at a hearing held on June 1, 2016. The record date to determine shareholders entitled to receive the distribution was June 14, 2016 and the payment date for the distribution was June 22, 2016. Following this distribution, ACE's only remaining assets at March 31, 2017 consist of cash in an aggregate amount of approximately $6,712.

ACE is completing the remaining corporate, administrative and tax processes to facilitate its dissolution and the final distribution of the remaining cash of ACE prior to its dissolution. The final distribution to shareholders, the cancellation of the shares of ACE and the dissolution of ACE will not occur until all necessary corporate, administrative and tax measures to dissolve ACE are completed and until the settlement of any remaining contingencies that may arise in connection with the remaining liquidation and dissolution steps of ACE. There is no certainty as to the timing or amount of such final distribution and dissolution.

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, 2016, 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 May 30, 2017.

C) SIGNIFICANT ACCOUNTING POLICIES

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2016 annual consolidated financial statements.

2. NET ASSETS IN LIQUIDATION

Cash

As at March 31, 2017, ACE's cash amounted to $6,712 (December 31, 2016 – $6,736). The Corporation did not hold any cash equivalents as at March 31, 2017 or December 31, 2016.

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. On August 21, 2015, ACE received a tax clearance certificate from the CRA in connection with all taxation years ended on or prior to December 31, 2013. On June 30, 2016, ACE received a tax clearance certificate from the CRA in connection with all taxation years ended on or prior to December 31, 2014.

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. ACE agreed to indemnify and hold harmless Air Canada should such refund claims be reassessed in the future. The reassessment periods for substantially all of the input tax credit claims covered by the indemnity in favour of Air Canada expired in 2014 and 2015, and the remaining reassessment period expired at the beginning of 2016.

A substantially similar process occurred with respect to GST payable on importation of aircraft parts 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.

ACE has claimed an aggregate refund of $400 from the Canada Revenue Agency and Revenu Québec further to the expiration of a statute of limitation for reassessment of the income of an operating partnership in which ACE previously had an interest. ACE has applied to the tax authorities to obtain such refund. ACE does not currently intend to dissolve until it has collected or otherwise settled such refund.

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 three months ended March 31, 2017, March 31, 2016 and the year ended December 31, 2016 include net provisions for other taxes of nil.

4. SHARE CAPITAL

The issued and outstanding common shares of ACE as at March 31, 2017 are as follows:

Outstanding shares ('000s)	As at March 31 2017	As at December 31 2016
Issued and Outstanding		
Common Shares	32,475	32,475
Total issued and outstanding	**32,475**	**32,475**

5. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Indemnification agreements

Refer to Note 1 (General Information) and Note 3 (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.