

ACE AVIATION

2022

Financial Statements and Notes

April 28, 2023



Independent auditor's report

To the Shareholders of ACE Aviation Holdings Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ACE Aviation Holdings Inc. (the Corporation) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Corporation's financial statements comprise:

- the statement of net assets in liquidation as at December 31, 2022 and 2021;
- the statement of changes in net assets in liquidation for the years then ended;
- the statement of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – liquidation basis of accounting

We draw attention to note 1 to the 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 modified in respect of this matter.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

We have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a



material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nicole Murray.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
April 28, 2023

Statement of Net Assets in Liquidation

(Canadian dollars in thousands except per share figures)		As at December 31 2022	As at December 31 2021
ASSETS			
Cash		\$ 6,039	\$ 6,181
Commodity taxes receivable		208	182
		\$ 6,247	\$ 6,363
LIABILITIES			
Accounts payable and accrued liabilities		80	99
		\$ 80	\$ 99
NET ASSETS IN LIQUIDATION		\$ 6,167	\$ 6,264
NET ASSETS IN LIQUIDATION PER SHARE			
Basic and Diluted	Note 4	\$ 0.19	\$ 0.19

Contingencies, guarantees and indemnities [Notes 3 and 8]

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

Statement of Changes in Net Assets in Liquidation

(Canadian dollars in thousands except per share figures)	Year Ended December 31	
	2022	2021
Net assets in liquidation, beginning of year	\$ 6,264	\$ 6,432
Interest income	109	28
Administrative and other expenses	(206)	(196)
Loss before income taxes	(97)	(168)
Recovery of income taxes Note 3	-	-
Net loss for the year	(97)	(168)
Net assets in liquidation, end of year	\$ 6,167	\$ 6,264
Net loss per share		
Basic and Diluted Note 5	\$ -	\$ (0.01)

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

Statement of Cash Flows

(Canadian dollars in thousands)		Year Ended December 31	
		2022	2021
Cash flows from (used for)			
Net loss for the year		\$ (97)	\$ (168)
Changes in non-cash working capital balances		(45)	(57)
Decrease in cash		(142)	(225)
Cash, beginning of year		6,181	6,406
Cash, end of year		\$ 6,039	\$ 6,181

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

For the years ended December 31, 2022 and 2021
(Canadian dollars in thousands except share amounts)

1. GENERAL INFORMATION and BASIS OF PRESENTATION

A) GENERAL INFORMATION

The accompanying financial statements (the “financial statements”) are of ACE Aviation Holdings Inc. (“ACE” or the “Corporation”). 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. 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 3 – 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 3 – Taxes. The reassessment periods for the input tax credit claims covered by the indemnity in favour of Aveos expired at the end of 2014.

The only remaining subsidiaries of ACE were 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 did not have any assets, and had not carried on any business since October 2007. The Liquidator was not aware of any liabilities or contingent liabilities of ACTS LP. In order to ensure that there were no such liabilities or contingent liabilities against ACTS LP and in anticipation of its 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. 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 completed the dissolution of ACTS LP and its general partner in September 2017.

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 material remaining assets at December 31, 2022 consist of cash in an aggregate amount of approximately \$6.0 million.

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.

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 Professional Accountants – Part 1 ("CICA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

B) BASIS OF PRESENTATION

The basis of preparing its financial statements is the liquidation basis of accounting.

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, 2023.

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.

A) BASIS OF MEASUREMENT

These financial statements have been prepared using the liquidation basis of accounting. Under the liquidation basis of accounting, the Corporation measures its assets based on their net realizable value and its liabilities based on settlement amounts.

B) FINANCIAL INSTRUMENTS

The Corporation accounts for its financial instruments using IFRS 9 "Financial Instruments". Financial assets and liabilities are recognized when the Corporation becomes party to the contract and are initially measured at fair value. Measurement in subsequent periods is dependent upon the classification of the financial instrument. Cash is measured at amortized cost which approximates the net realizable amount at December 31, 2022 and 2021.

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost which approximates the amount expected to be paid in settlement of these obligations.

C) 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.

D) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the income 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. There are no dilutive instruments outstanding.

3. 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:

	2022	2021
Loss before income taxes	\$ (97)	\$ (169)
Statutory income tax rate based on combined federal and provincial rates	26.5%	26.5%
Tax provision (recovery) based on statutory tax rates	(26)	(45)
Effects of:		
Impact of change in tax rates		
Changes in unrecognized (recognized) deferred income tax assets	26	45
Recovery of income taxes	\$ -	\$ -

The applicable statutory tax rates are 26.50% in 2022 and 26.50% in 2021. 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 \$11,400 (2021 - \$11,304) and deductible temporary differences of \$13,018 (2021 - \$13,018) 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	2,822
2031	4,573
2032	2,732
2036	283
2037	231
2038	113
2039	169
2040	212
2041	169
2042	96
	\$11,400

As at December 31, 2022 ACE also has estimated net capital losses (after 50 per cent capital loss inclusion rate) of \$576,857 (2021 - \$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.

In connection with the process leading to the issuance of tax clearance certificates in favour of ACE, 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. 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.

ACE claimed refunds from the CRA 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. In October 2017, ACE received a refund in the amount of approximately \$305 from the CRA, and a refund in the amount of approximately \$179 from Revenu Québec.

On March 15, 2022, a tax clearance certificate was issued by the CRA in connection with all taxation years ended on or prior to December 31, 2020. On December 16, 2021, Revenu Québec issued a certificate authorizing the distribution of property up to \$6.4 million. ACE does not expect to incur income tax liabilities for the taxation years ended December 31, 2022 and beyond.

4. SHARE CAPITAL

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

	As at December 31 2022	As at December 31 2021
Outstanding shares ('000s)		
Issued and Outstanding		
Common Shares	32,475	32,475
Total issued and outstanding	32,475	32,475

Terms of the Common Shares

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.

5. EARNINGS PER SHARE

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

(in thousands, except per share amounts)	2022	2021
Numerator:		
Numerator for basic and diluted loss per share:		
Net loss for the year	\$ (97)	\$ (168)
Adjusted numerator for diluted loss per share	\$ (97)	\$ (168)
Denominator:		
Denominator for basic and diluted loss per share:		
Weighted-average shares	32,475	32,475
Basic and diluted loss per share	\$ -	\$ (0.01)

*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.*

6. FINANCIAL INSTRUMENTS AND FINANCIAL INSTRUMENT RISK MANAGEMENT**Risk Management**

As at December 31, 2022, ACE's financial instruments include cash in the amount of \$6,039 (\$6,181 as at December 31, 2021) and accounts payable and accrued liabilities of \$80 (\$99 as at December 31, 2021). The risk exposure related to these holdings is described below.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities and contingencies. This risk is mitigated by the fact that as at December 31, 2022, the Corporation had cash of \$6,039 and accounts payable and accrued liabilities of \$80.

Credit Risk

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 balance, 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 is held with a Canadian bank with a high credit rating.

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 of \$6,039. The weighted average interest rate on ACE's cash as at December 31, 2022, is approximately 2.14%, which results in limited downside risk.

7. CAPITAL DISCLOSURES

ACE is an investment holding company.

Capital managed by ACE is as follows:

	2022	2021
Net assets in liquidation	\$ 6,167	\$ 6,264
Capital	\$ 6,167	\$ 6,264

As at December 31, 2022, ACE's capital amounted to \$6,167, a decrease of \$97 during 2022.

8. CONTINGENCIES, GUARANTEES AND INDEMNITIESIndemnification 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 and the status of such claims.