

ACE AVIATION

2013

Management's Discussion and Analysis

April 25, 2014

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1. Preface

General

ACE Aviation Holdings Inc. ("ACE"), was incorporated on June 29, 2004. As at December 31, 2013, 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 December 31, 2013, ACE's only assets are cash and short-term investments of approximately \$133 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 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 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.

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 Air Canada.

Liquidation Claims Process

Pursuant to an order issued by the Court on February 25, 2013, the Liquidator established a process for the identification, resolution and barring of claims and other contingent liabilities against ACE. Creditors had until May 13, 2013 to file their proof of claims, failing which their claims would be barred and extinguished.

As previously disclosed, in connection with the process leading to the issuance of tax clearance certificates in favour of ACE for all taxation years ended on or prior to December 31, 2010, Revenu Québec conducted a sales tax audit of ACE and its subsidiaries in 2010 and 2011. Revenu Québec issued notices of reassessment in the amount of \$37.7 million 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 \$7.4 million 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 \$6.8 million. All such reassessments were paid by ACE and ACTS LP, and Air Canada paid an aggregate amount of approximately \$40.1 million 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.

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 \$1.1 million 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.

In response to ACE's claims process, Air Canada filed a contingent claim related to the tax indemnities referred to above. The contingent claim, in the amount of \$50.1 million, covers any eventual reassessment of Air Canada's input tax credit refund claims plus any related interest and ancillary legal costs. The reassessment periods for the large majority of the input tax credit claims covered by the indemnity in favour of Air Canada will expire by the end of 2014, with the remaining reassessment periods gradually expiring by 2016. Aveos filed a similar contingent claim in the amount of \$1.6 million with respect to any eventual reassessment of input tax credit refund claims and any related interest and ancillary costs. ACE will maintain a reserve in the amount of the Air Canada and Aveos claims which will not be available for distribution to the shareholders pending the expiration of the related reassessment periods or settlement of such contingencies.

ACE also received a claim from a plaintiff relating to a proposed class action initiated in the Ontario Superior Court of Justice by Ms. Prince against Air Canada and ACE Aviation Holdings Inc., which alleged that Air Canada improperly charged Ms. Prince and other class members for certain United States taxes in connection with the sale of airfare. The plaintiff 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 million, 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 relies on a decision of the European Commission issued on November 9, 2010 pursuant to which the European Commission imposed fines on eleven air cargo carriers, including Air Canada the former subsidiary of ACE, for such alleged actions. The decision of the European Commission is being appealed by the air cargo carriers. The Stichting Compensation Foundation has not filed a claim in the Liquidation. ACE is of the view that any claim is barred and that this potential claim against ACE has 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. ACE will take appropriate measures to confirm that this claim is barred or disallowed.

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

indemnity agreements referred to above. The Liquidator will be seeking directions from the Court with respect to ACTS LP.

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

Future distributions of ACE's remaining net cash to its shareholders are subject to the expiration or settlement of any contingencies and there is no certainty as to the timing or amount of such distributions. The final distribution to shareholders and the cancellation of the shares of ACE will not occur until all remaining contingent liabilities are settled or otherwise provided for. The distributions will generally be treated as deemed dividends from a Canadian tax standpoint. Such deemed dividends will be designated as eligible dividends for the purposes of the Income Tax Act (Canada).

Accounting Principles and Additional Information

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 audited consolidated financial statements and notes for 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 April 25, 2014.

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 11 "Risk Factors" of this MD&A.

The Liquidator has reviewed and approved this MD&A and the audited consolidated financial statements and notes for 2013 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 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, future actions, the timing of the liquidation and distributions to shareholders, the potential amount of ACE's contingencies and liability under claims filed, the final distribution to shareholders and the cancellation of the shares of ACE. 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 11 "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 December 31, 2013 and December 31, 2012.

(Canadian dollars in thousands, except per share amounts)	December 31 2013	December 31 2012
Cash and Cash Equivalents	\$ 11,210	\$ 56,467
Short-term investments	121,638	75,000
Commodity taxes receivable	125	175
	132,973	131,642
Accounts payable and accrued liabilities	229	43
Net assets in liquidation	\$ 132,744	\$ 131,599
Net assets in liquidation per share – Basic and diluted	\$ 4.09	\$ 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 and Cash Equivalents

Cash was \$11 million and \$56 million as at December 31, 2013 and December 31, 2012 respectively. The reduction of \$45 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 \$122 million comprise investments in GICs with a maturity date of more than three months. The average interest rate on these GICs as of December 31, 2013 is 1.13% 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 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 Class B Voting 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.

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.

As previously disclosed, in connection with the process leading to the issuance of tax clearance certificates in favour of ACE for all taxation years ended on or prior to December 31, 2010, Revenu Québec conducted a sales tax audit of ACE and its subsidiaries in 2010 and 2011. Revenu Québec issued notices of reassessment in the amount of \$37.7 million 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 \$7.4 million 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 \$6.8 million. All such reassessments were paid by ACE and ACTS LP, and Air Canada paid an aggregate amount of approximately \$40.1 million 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 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 of ACE. For additional information, see "Section 1. Preface – Liquidation Claims Process".

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 \$1.1 million 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. For additional information, see "Section 1. Preface – Liquidation Claims Process".

Administrative and other expenses for the year ended December 31, 2013 and the year ended December 31, 2012 include net provisions for other taxes of nil.

Advance Tax Ruling

In 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 was initiated in order to identify and resolve claims against the Corporation. See "Preface – Liquidation Claims Process" for a description of certain claims filed in response to the Corporation's liquidation claims process. Refer to section 11 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 \$45 million in the year ended December 31, 2013, was primarily due to cash equivalents being 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 December 31, 2013, the issued and outstanding common shares of ACE, along with common shares potentially issuable, were as follows:

Number of shares (000)	December 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 2013 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 audited consolidated financial statements and notes for 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 2013 audited consolidated financial statements and notes, please refer to Note 2 to ACE's 2013 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 10 of this MD&A for a discussion of ACE's critical accounting estimates.

5. Consolidated Statement of Changes in Net Assets in Liquidation

	Three Months Ended December 31	Year Ended December 31	Three Months Ended December 31	Year Ended December 31
(Canadian dollars in thousands, except per share amounts)	2013	2013	2012	2012
Net assets in liquidation, beginning of period	\$ 132,454	\$ 131,599	\$ 112,882	\$ 382,118
Interest income	388	1,846	198	1,942
Gain on investment in Air Canada	-	-	17,748	26,428
Gain on Air Canada warrants	-	-	918	918
Administrative and other expenses	(98)	(701)	(147)	(4,807)
Income for the period	290	1,145	18,717	24,481
Provision for income taxes	-	-	-	-
Income for the period	290	1,145	18,717	24,481
Distributions to Shareholders	-	-	-	(275,000)
Net assets in liquidation, end of period	\$ 132,744	\$ 132,744	\$ 131,599	\$ 131,599
Income per share – Basic and diluted	\$ 0.01	\$ 0.04	\$ 0.58	\$ 0.75

ACE sold its entire investment in Air Canada in Quarter 4 2012. ACE recorded a gain on investment in Air Canada at fair value of \$26 million in the year ended December 31, 2012, and a gain of \$18 million in the three months ended December 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 \$0.7 million in the year ended December 31, 2013 (\$0.1 million in the three months ended December 31, 2013). In the same period in 2012, ACE recorded administrative and other expenses of \$5 million (\$0.1 million in the three months ended December 31, 2012).

The income for the year and the three months ended December 31, 2013 amounted to \$1.1 million or \$0.04 per diluted share and \$0.3 million or \$0.01 per diluted share. The income for the year and the three months ended December 31, 2012 amounted to \$24 million or \$0.75 per diluted share and \$19 million or \$0.58 per diluted share primarily due to the gain recorded on the investment in Air Canada as referred to above.

6. Quarterly Financial Information

(\$ thousands, except per share amounts)	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)	Q2 ⁽¹⁾ 2013 (Liquidation Basis)	Q3 ⁽¹⁾ 2013 (Liquidation Basis)	Q4 ⁽¹⁾ 2013 (Liquidation Basis)
Interest income	\$ 913	\$ 747	\$ 84	\$ 198	\$ 622	\$ 383	\$ 453	\$ 388
Gain (loss) on investment in Air Canada	(1,550)	1,240	8,990	17,748	-	-	-	-
Gain on Air Canada warrants	-	-	-	918	-	-	-	-
Administrative and other expenses	(1,903)	(2,449)	(308)	(147)	(202)	(245)	(156)	(98)
Provision for income taxes	-	-	-	-	-	-	-	-
Income (loss)	\$ (2,540)	\$ (462)	\$ 8,766	\$ 18,717	\$ 420	\$ 138	\$ 297	\$ 290
Earnings (loss) per share – basic and diluted	\$ (0.08)	\$ -	\$ 0.25	\$ 0.58	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01

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

7. Selected Annual Information

The following table provides selected annual information for ACE for the years 2013, 2012 and 2011.

(\$ thousands, except per share figures)	2013	2012	2011*
Operating revenues	\$ -	\$ -	\$ -
Administrative and other expenses	(701)	(4,807)	(9,866)
Operating income (loss)	(701)	(4,807)	(9,866)
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax	1,846	29,288	(79,803)
Net income (loss)	\$ 1,145	\$ 24,481	\$ (89,669)
Earning (loss) per share - Basic and Diluted	\$ 0.04	\$ 0.75	\$ (2.76)
Cash and cash equivalents	\$ 11,210	\$ 56,467	\$ 356,194
Total assets	\$ 132,973	\$ 131,642	\$ 387,062

* Effective January 1, 2011, the Corporation changed the basis of presenting its financial statements from going concern to liquidation and the consolidated statement of changes in net assets includes the results of operations and transactions with owners. The financial information is derived from ACE's statement of changes in net assets and from ACE's statement of net assets in liquidation.

8. Financial Instruments and Risk Management

As at December 31, 2013, ACE's financial instruments include cash and cash equivalents in the amount of \$11 million (\$56 million as at December 31, 2012), short-term investments in the amount of \$122 million (\$75 million as at December 31, 2012) and accounts payable and accrued liabilities of \$0.2 million (\$0.1 million as at December 31, 2012). 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. This risk is mitigated by the fact that as at December 31, 2013, the Corporation had cash and cash equivalents of \$11 million and accounts payable and accrued liabilities of \$0.2 million.

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 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.

Market Risk

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 \$11 million. The weighted average interest rate on ACE's cash and cash equivalents and short-term investments at December 31, 2013, is approximately 1.13%, which results in limited downside risk.

9. Off-Balance Sheet Arrangements

Indemnification agreements

Refer to Section 1. (Preface – Liquidation Claims Process) and 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. Refer to section 1 (Preface – Liquidation Claims Process) for a description of the proofs of claim filed in response to ACE's claims process.

10. Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS 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. No material provision for uncertain tax positions has been recognized by the Corporation.

11. Risk Factors

The risks described herein may not be the only risks faced by the Corporation. Other risks which the Corporation is not aware of or which the Corporation currently deems to be immaterial may surface and have a material adverse impact on the Corporation's business income and financial condition.

Contingent Liabilities

As part of the winding-up process, a claims process has been initiated pursuant to which any claims against the Corporation that are identified will be resolved. Refer to section 1 (Preface – Liquidation Claims Process) for a description of the proofs of claim filed in response to ACE's claims process. It is possible that through this process additional liabilities will be identified and accrued or that claims will be filed that may result in costs to ACE. In addition, the contingent liabilities described in sections 1 and 3.1 of this MD&A, including those relating to GST indemnity agreements, may impact the amount and timing of distributions to shareholders.

Timeline of distributions

The timing and amounts of distributions under the liquidation process will be at the discretion of the Liquidator. Distributions may be delayed as a result of matters or events outside of the control of the Liquidator. No assurances can be given as to the timing and amount of any distribution, under the liquidation process.

A Substantial Portion of ACE's Cash is Invested in Cash Equivalents and Short-Term Investments

A substantial portion of ACE's cash is invested in short-term investments which are subject to credit exposure and interest rate fluctuations which could change the value of these investments. These investments are made in accordance with an investment policy approved by the Liquidator. Although ACE's investment policy is designed to provide for short-term liquidity and low levels of risk, such investments are subject to credit exposure and interest rate fluctuations.