

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985. c. C-36, AS AMENDED**

**IN THE MATTER OF SECTION 191 OF THE *CANADA BUSINESS
CORPORATIONS ACT*, R.S.C. 1985, C-44 AS AMENDED**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
AIR CANADA AND THE APPLICANTS SET OUT IN SCHEDULE "A"**

**THIRTY-SECOND REPORT OF THE MONITOR
DATED MAY 27, 2005**

1. On April 1, 2003, Air Canada and certain of its subsidiaries (collectively the "Applicants" and the "Company") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, *as amended* (the "CCAA"). The terms of this proceeding are governed by an order of this Court dated April 1, 2003 (the "Initial Order"). Pursuant to the Initial Order, Ernst & Young Inc. ("EYI") was appointed as monitor (the "Monitor") of the Applicants during these CCAA proceedings.
2. Capitalized terms not defined in this Report are as defined in the Initial Order, the First through Thirty-First Reports of the Monitor or the Applicants' Consolidated Plan of Reorganization, Compromise and Arrangement (the "Plan"). All references to dollars are in Canadian currency unless otherwise noted.
3. The purpose of this Thirty-Second Report of the Monitor (the "Report") is to provide this Honourable Court with a report regarding the resolution of claims pursuant to the Plan.

TERMS OF REFERENCE

4. In developing this Report, the Monitor has relied upon unaudited company prepared financial information, company records, and discussions with management of the Applicants. The Monitor has not performed an audit or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants (“CICA”) Handbook has not been performed. Future oriented financial information relied upon in this report is based on management’s assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

STATUS OF CLAIMS

5. In its Thirtieth Report, the Monitor provided its last update to this Honourable Court with respect to the status of claims pursuant to the Plan as well as its certification that the threshold conditions for setting the Initial Determination Date (as defined in the Plan) had been met. Shortly afterward, the initial distribution of ACE shares pursuant to the Plan was made. Additional ACE shares were held in escrow by the Monitor pending resolution of the remaining Disputed Unsecured Claims as defined in the Plan and reported on by the Monitor in its Thirtieth Report.
6. Since the date of the Thirtieth Report, the Monitor has continued to work towards resolving the remaining Disputed Unsecured Claims. Pursuant to the Plan, the Monitor is required to certify to this Honourable Court that all remaining Disputed Unsecured Claims have been finally resolved prior to the final distribution of shares of ACE shares being made.
7. Appendix A provides an updated report on the status of claims. Appendix A indicates that Proven Claims as of the date of this Report are \$8,280,590,101 and that there are no remaining Disputed Unsecured Claims. As a result, the Monitor has issued the certificate dated May 27, 2005 attached as Appendix B. In accordance with the Plan,

the remaining ACE shares held in escrow by the Monitor will be released to creditors holding Proven Claims within the next twenty-one days, subject to paragraph 8 below.

8. The Plan provides that each holder of a Proven Claim that is to receive a distribution pursuant to this Plan shall have sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental entity on account of such distribution and that no distribution shall be made to or on behalf of such holder pursuant to the Plan unless and until such holder has made arrangements satisfactory to the Monitor for the payment and satisfaction of such tax obligations. There are two remaining Proven Claims in respect of which withholding obligations have not been resolved with the relevant governmental authorities. The Monitor has communicated with these holders of Proven Claims to advise them of their responsibility for making such arrangements. Until such arrangements satisfactory to the Monitor are made, the Monitor will continue to hold in escrow any ACE shares allocated to these holders of Proven Claims.

THE RIGHTS OFFERING

17. As noted to this Honourable Court in the Thirtieth Report, the Monitor received Subscription Notices and subscription funds from Affected Unsecured Creditors that chose to exercise Rights for ACE Rights Shares in accordance with the Plan. Aggregate subscription funds for ACE Rights Shares of \$674 million were received by the Monitor on or before the Election Date of August 27, 2004 out of a maximum available value of ACE Rights Shares of \$850 million.
18. An initial distribution of ACE Rights Shares was made shortly after the date of the Thirtieth Report to Affected Unsecured Creditors whose subscriptions were reviewed and determined to be valid pursuant to the Plan as well as to the standby purchaser under the Restated Standby Purchase Agreement. Additional ACE Rights Shares were held in escrow by the Monitor pending resolution of the remaining Disputed Unsecured Claims. As the Monitor has now certified that all remaining Disputed

Unsecured Claims have been finally resolved, these additional ACE Rights Shares will be released to subscribing Affecting Unsecured Creditors and / or the Standby Purchaser within the next twenty-one days.

RECOMMENDATIONS

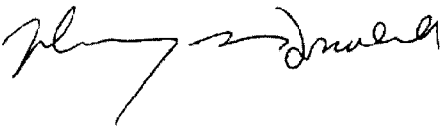
19. The Monitor recommends that this Honourable Court authorize it to proceed with the final distribution of shares in accordance with the Plan as outlined above.

All of which is respectfully submitted by:

ERNST & YOUNG INC.

In its capacity as Court Appointed Monitor of Air Canada
and certain of its subsidiaries

Per:

A handwritten signature in black ink, appearing to read 'Murray A. McDonald', written in a cursive style.

Murray A. McDonald
President

Air Canada
Summary of Claims for DISTRIBUTION Purposes
As at May 27, 2005
 (in Cdn \$millions)

STATUS OF CLAIMS	Claims Filed (net of claims withdrawn) Initial Claim Amount	Claims Accepted to Date Final Claim Value	Claims in Dispute - Note 2		Claims Determined by the Court and Subject to Appeal Periods / Appeals - Note 2		Claims Under Review Amount per Claimant
			Amount per Claimant	Amount per Air Canada	Amount per Claimant	Claim as Determined	
Aircraft Lessor	\$ 4,827.4	\$ 2,251.8	\$ -	\$ -	\$ -	\$ -	\$ -
Bondholder	3,402.8	3,002.4	-	-	-	-	-
Employee Related Claims	8,487.6	972.2	-	-	-	-	-
Litigation	83,459.3	42.4	-	-	-	-	-
Long Term Debt	1,668.0	748.5	-	-	-	-	-
Supplier Repudiation / Termination	1,925.9	947.2	-	-	-	-	-
Trade Creditor	396.1	306.5	-	-	-	-	-
Other	275.2	9.6	-	-	-	-	-
Total	\$ 104,442.2	\$ 8,280.6	\$ -	\$ -	\$ -	\$ -	\$ -

SUMMARY OF ALL CLAIMS TO DATE	
Total Proven Claims	\$ 8,280.6

SUMMARY OF FINANCIAL CLAIMS	
Subordinated Claims	\$ 1,293.5
Senior Claims	\$ 2,565.2

Air Canada
Illustration of Basic Allowances for purposes of the Rights Offering - Note 1
As At May 27, 2005

<u>AFFECTED UNSECURED CREDITORS (Other than Holders of Affected Senior Claims and Affected Subordinated Claims)</u>	
Basic Allowance (in # of shares) =	$\frac{\text{Your Proven Claim}}{\$8,280,590,101} \times 42,500,000 \text{ shares}$

<u>AFFECTED UNSECURED CREDITORS WHO ARE HOLDERS OF AFFECTED SUBORDINATED CLAIMS</u>	
Basic Allowance (in # of shares) =	$\frac{\text{Your Proven Claim} \times 26\%}{\$8,280,590,101} \times 42,500,000 \text{ shares}$

<u>AFFECTED UNSECURED CREDITORS WHO ARE HOLDERS OF AFFECTED SENIOR CLAIMS</u>	
Basic Allowance (in # of shares) =	$\frac{\text{Your Proven Claim} + \left(\frac{\text{Your Proven Claim}}{\$2,565,188,167} \times \$1,293,501,021 \times 74\% \right) \times 42,500,000 \text{ shares}}{\$8,280,590,101}$

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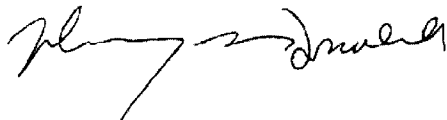
**CERTIFICATE OF THE MONITOR
DATED MAY 27, 2005**

Pursuant to the Applicants' Consolidated Plan of Reorganization, Compromise and Arrangement (the "Plan"), the Monitor hereby certifies to this Honourable Court that all Disputed Unsecured Claims (as defined in the Plan) have been finally resolved as between the Claimants and Applicants.

ERNST & YOUNG INC.

In its capacity as Court Appointed Monitor of Air Canada
and certain of its subsidiaries

Per:



Murray A. McDonald
President

SCHEDULE "A"

3838722 Canada Inc.

Air Canada Capital Ltd.

Jazz Air Inc.

Manoir Int'l Finance Inc.

Simco Leasing Ltd.

Wingco Leasing Inc.

Zip Air Inc.