

**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"**

**FIFTEENTH REPORT OF THE MONITOR
DATED DECEMBER 15, 2003**

1. On April 1, 2003, Air Canada and certain of its subsidiaries (collectively the "Applicants" or 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, as amended (the "Amended and Restated Initial Order"). Pursuant to the Amended and Restated 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 (as defined below) are as defined in the Amended and Restated Initial Order or the First through the Fourteenth Reports of the Monitor. All references to dollars are in Canadian currency unless otherwise noted.
3. The purpose of this Fifteenth Report of the Monitor (the "Report") is to update this Honourable Court regarding the further developments in the Equity Solicitation Process.

TERMS OF REFERENCE

4. In preparing this Report, the Monitor has relied upon unaudited Company prepared financial information, Company records and discussions with management

(“Management”) of the Company. The Monitor has not performed an audit, a review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants 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 may vary from this information and the variations may be material.

CERBERUS OFFER

5. On December 10, 2003, Cerberus provided an unsolicited executed binding offer (the “Cerberus Offer”) to the Company, the Company’s financial adviser and the Monitor for consideration by the Board of Directors of Air Canada in accordance with section 9(4) of the Trinity Investment Agreement pursuant to the chambers attendance on December 4, 2003.
6. The Cerberus Offer is complex and requires a substantial amount of detailed financial and qualitative analysis. Immediately upon receipt of the Cerberus Offer, the Company forwarded a copy to Trinity pursuant to the Company’s obligations under the Trinity Investment Agreement, and commenced a detailed review of the Cerberus Offer with its financial and legal advisers. The Monitor began its own detailed review of the Cerberus Offer, and at the time that this report was finalized, the analysis of the Cerberus Offer is continuing.
7. Various stakeholders, including the UCC, the ad hoc bondholder group and representatives of Air Canada’s unions and pension beneficiaries are seeking a copy of the Cerberus Offer. The Company believes that the Trinity Investment Agreement requires it to obtain the consent of Trinity for distribution of the Cerberus Offer and has sought Trinity’s consent to release the Cerberus Offer to various Air Canada’s stakeholders. Trinity has not consented to the release of the Cerberus Offer to any party as described below.

TRINITY'S STATED POSITION

8. On December 13, 2003, Trinity wrote a letter to the Board of Directors which is attached as Exhibit "1".
9. In its letter, Trinity expressed its concern that the restructuring of Air Canada has been "de-railed" inter alia that Cerberus did not submit its final and best offer on November 7, 2003 and any further delay could be harmful to the Company and reduce the recovery for all of the stakeholders. Trinity also expresses its concern that confidentiality obligations of certain parties have been breached. Trinity advises the Board that these breaches have damaged Trinity's interests and cast uncertainty on the process going forward.
10. Trinity advises the Board that in view of these concerns it may discuss with the Company certain consensual modifications to the Trinity Investment Agreement to address any perceived superior characteristics of the Cerberus proposals if Trinity is satisfied that:
 - The evaluation process for the selection of the equity plan sponsor going forward shall be as agreed in chambers on December 4, 2003 and reflected in this Honourable Court's reasons for judgement given on December 8, 2003;
 - Cerberus will not be allowed to submit any further investment proposals or improve its latest investment proposal made on December 10, 2003 in response to any consensual modifications to the Trinity Investment Agreement; and
 - The provisions of section 9(4) of the Trinity Investment Agreement shall have no further application on the basis that Trinity believes that potential equity plan sponsors have had a full opportunity to submit investment proposals through-out the process to-date.
11. Trinity further advises the Board of Directors that given the confidentiality provisions of the Trinity Investment Agreement, it will not consent to the disclosure of the Cerberus Offer to the Applicants' stakeholders since Trinity believes that certain parties have

breached confidentiality restrictions and that there is no assurance that there will not be any future breaches of the confidentiality restrictions.

12. Trinity's counsel has written a letter dated December 15, 2003 to counsel for the Monitor, and the letter is attached as Exhibit "2".
13. In its letter to the Monitor's counsel, Trinity's counsel advises the Monitor that its position is that:
 - All parties should respect the confidentiality agreements to which they are a party;
 - The Cerberus Offer should be treated as final and unamendable; and
 - Trinity believes it is entitled to amend the Investment Agreement and therefore it is allowed the same opportunity as Cerberus in amending its agreement with Air Canada now that the final offer from Cerberus has been provided to Trinity.
14. Trinity further advises the Monitor that in the event the Court orders, or the Company pursues, a further auction process amongst Cerberus and Trinity, it will consider such event as a deemed withdrawal of any amended proposal made by it.

OTHER MATTERS

15. Since the receipt of the Cerberus Offer, the Board of Directors has met on two occasions with the Monitor in attendance.
16. The Board is reviewing several matters including:
 - The evaluation of the Cerberus Offer;
 - The Company's responsibilities to Trinity under the Investment Agreement;
 - Provision of the Cerberus Offer to the restricted members of the UCC and the UCC's advisors for purposes of receiving UCC input into the Board's decision-making process; and

- Bringing closure to the selection of the equity plan sponsor given the standstill state of Air Canada's other restructuring initiatives which have now been deferred pending the outcome of the equity plan sponsor process.
17. The Company has advised the Monitor that it is attempting to balance the UCC's request that the restricted members of the UCC and the UCC advisors be provided a copy of the Cerberus Offer to enable the UCC to provide the Company with informed input against not breaching the confidentiality provisions of the Trinity Investment Agreement and the requirements of Trinity as set out in Trinity's letter dated December 13, 2003 to the Board of Directors. Consequently, the Company has advised the Monitor that it will be seeking the immediate direction of this Honourable Court on this matter.

MONITOR'S CONCLUSIONS

18. In the Monitor's view, it is essential that Air Canada complete the process of the selection of the equity plan sponsor in order for the Company to re-commence critical restructuring initiatives that have been deferred since November 8, 2003 as a result of management's focus on the equity plan sponsorship issues.
19. In order to achieve finality in the selection of the equity plan sponsor, the Monitor is of the view that there must be a definitive process and timeline for Trinity to respond to the Cerberus Offer. The Monitor is also of the view that directions from this Court are necessary to determine the basis on which information concerning the Cerberus Offer is distributed to stakeholders who have signed confidentiality agreements, given the position taken by Trinity in its December 13, 2003 correspondence to Air Canada's Board of Directors.
20. The Monitor believes that the best interests of the stakeholders will be met by the achievement of finality in the choice of an equity plan sponsor. Cerberus has made its final proposal in accordance with the procedures agreed to in the chambers attendance on December 4, 2003 and Trinity has indicated a desire to respond to the Cerberus Offer should there be adequate protection to Trinity that the outcome of the last comparison will be final and not subject to further amendment or topping process.

21. The Monitor will continue with its own review and analysis of the Cerberus Offer and its review of the Company's deliberations in connection with the Cerberus Offer and will provide further reports to this Honourable Court in this regard.

MONITOR'S RECOMMENDATION

22. The Monitor concurs with the Company's step to immediately seek advice and directions of this Honourable Court in connection with:

- The possible disclosure of the Cerberus Offer to the restricted members of the UCC and the UCC advisors; and
- Bringing finality to the Equity Solicitation Process.

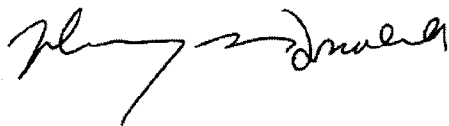
23. The Monitor recommends that Air Canada be directed to report to this Honourable Court as soon as possible regarding its assessment of the Cerberus Offer and any further proposal that might be submitted by Trinity.

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:



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.

Trinity Time Investments Limited

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P.O. Box 7289, Station "A" Saint John,
New Brunswick E2L 4S6
Canada*

The Board of Directors
Air Canada
Air Canada Centre
7373 Cote-Vertu Boulevard West
Saint-Laurent, Quebec H4Y 1H4
Canada.

Gentlemen,

As contemplated in our Investment Agreement, we have now received and are considering the final investment proposal materials provided by Cerberus on December 10th. We have requested that this letter be placed before you at the earliest opportunity in order that in your deliberations relative to the Cerberus materials you should have the clearest possible understanding of our present position in this matter.

Firstly, you should know that our objective remains unchanged, and that is to successfully lead the restructuring as Equity Plan Sponsor and on that foundation to build for all stakeholders, including customers, employees and suppliers, an Air Canada that will be a strong and financially sound competitor in aviation globally and a proud symbol of Canada around the world. In pursuing this objective, we of course do not rule out possible consensual modifications to our Investment Agreement, among other things to address any perceived "superior" characteristics of the Cerberus proposals.

We hope the Board appreciates that it was with considerable reluctance that we acceded to the Court's suggestion, since embodied in its order, that Cerberus be permitted to benefit from the provisions of Section 9.4 of our Agreement. Cerberus' conduct both in failing to submit its "final and best" bid in the equity solicitation process as well as in the discussions and media circus that followed was in our view disruptive to say the least. Arguably, Cerberus should not have been put in a position to benefit from its own turpitude. Nevertheless, we agreed to the Court's suggestion in the interests of ensuring the fullest scope for the Board to discharge its obligations relative to Section 9.4 of our Agreement and to enable finality to be achieved in the selection of an Equity Sponsor quickly. It is our view that the re-structuring has been effectively de-railed for over one month now, and that further delay and uncertainty is extremely harmful to the Air Canada's business and prospects, and risks seriously impairing the value of its estate.

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8th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong
Facsimile No.: (852) 2128 8001*

Regretfully, despite the Orders of the Court and without any fault on the part of Air Canada, its advisers, or the Monitor, the behavior of certain creditor groups, some of which we believe may be acting in concert with Cerberus, continues to cast considerable uncertainty over the process going forward. In particular, the perpetuation of the media circus by the so called "ad hoc committee of certain creditors", Mizuho and their advisers, along with innuendo and threats of protracted further litigation, are placing us in the intolerable position of being uncertain our interests can be fairly protected by respecting the process going forward. It is also clear to us that confidential information damaging to our interests has been obtained by Cerberus, and we are highly suspicious that trust and confidentiality obligations have been egregiously disregarded by various of these parties.

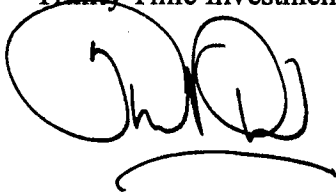
Accordingly, we hope that you will understand in the circumstances that we will not enter into any further discussion whatsoever of the terms of our Investment Agreement with you or your advisers unless we can be satisfied that:

1. Cerberus will not under any circumstances while our Investment Agreement remains in force be permitted to modify, qualify or amend, waive or in any manner "improve" any of the terms of its proposals as set out in the December 10th materials, including in response to any consensual amendments to our Investment Agreement, or to sponsor, support or participate directly or indirectly in any way in any other proposal that might be put forward in any manner in relation to the Air Canada re-structuring in future. We wish through this assurance only to achieve certainty that the December 10th proposals, which represent the third set of proposals from Cerberus since the "last and best" offers submitted on November 8th, will indeed be their only last and best offer.
2. The decision on the selection of an Equity Plan Sponsor will be made by the Board in the exercise of its business judgment as agreed in the Chambers Conference of December 4th and reflected in the reasons for judgment given by the Court on December 8th. We wish through this to make clear that if it appears some other process is to be imposed for taking the re-structuring forward either on Appeal or in response to threats of litigation, we may seek to terminate any further involvement in the process.
3. If we are selected as Equity Plan Sponsor, Air Canada will be committed to completing and placing before Creditors and the Courts the Plan of Restructuring contemplated in our Investment Agreement provided only that the conditions contemplated in the Agreement have been fulfilled. We believe that it can no longer be argued that any reasonable would-be "sponsor" has not had a full opportunity to submit proposals in respect of the re-structuring. Accordingly, we do not believe that the procedure in Section 9.4 of our Investment Agreement should have further application following determination of the Cerberus matter.

Finally, we must advise that in light of previous misuses of confidential information by third parties we will not consent to any disclosure whatsoever of information that is subject to confidentiality obligations under our Investment Agreement, including the Cerberus materials, to any third parties including members of the Unsecured Creditors Committee and their advisers.

We continue to believe that, in a disciplined and fair working environment, we will be able to be able to achieve a re-structuring that will achieve a superior outcome for all stakeholders in Air Canada than will obtain under the Cerberus proposals. We hope the conditions will be created which allow this to occur.

Yours faithfully,
For and on behalf of
Trinity Time Investments Limited

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

Director

John Evans
Direct Dial: 416-862-6789
jevans@osler.com
Our Matter Number: 1040725

December 15, 2003

SENT BY FACSIMILE

Lenczner Slaght Royce Smith Griffin
2600 - 130 Adelaide Street West
Toronto, ON M5H 3P5

Attention: Peter Griffin

Dear Sirs:

Air Canada and Trinity Time Investments Limited

I have been requested to express, on behalf of Trinity Time Investments Limited ("Trinity"), its concerns regarding the restructuring process of Air Canada. Let me underline that Trinity has no complaints concerning the actions and procedures followed by the Monitor or Air Canada to date.

The same cannot be said regarding other parties involved.

What began as a rather conventional and straight-forward process whereby parties were invited to make their best proposal after which a "winner" was to be selected has deteriorated to where non-complying parties are accommodated to the detriment of proper process and, equally important, to the future of Air Canada.

Rather than reviewing the non-compliance, leaked information, misinformation, breach of agreements and attempts to avoid compliance with judicial orders, I would like to deal with the process going forward and to clearly indicate the position of Trinity.

That position is as follows:

- (a) parties should be held to strict compliance with confidentiality agreements;
- (b) the proposal of December 10, 2003 provided by Cerberus ACE Investment, LLC ("Cerberus") is to be treated as final, binding and unamendable;
- (c) Trinity, which has complied with the process throughout, cannot be constrained in the way in which Cerberus now is. To put the matter clearly, Trinity is entitled, as contemplated by its terms, to amend its agreement of November 8. This

entitlement levels the playing field since Cerberus was given an opportunity to amend its position after receiving full particulars of the Trinity agreement; and

- (d) should Trinity amend its existing agreement, no response by Cerberus would be acceptable or countenanced as they were ordered to submit their final and binding proposal, and the process must come to an end. It is also consistent with Cerberus' final proposal, which eliminated any further fiduciary out in section 9(4).

While the foregoing is focussed on fair play and even-handedness, one should not lose sight of the consequential effects of the delay in the process of selecting the ultimate equity sponsor upon Air Canada and its future prospects. The longer that Air Canada is subject to the CCAA proceedings, the less able is it to compete effectively in the marketplace and the more likely that there will result adverse effects on the company, its stakeholders and the flying public.

I am unable to say at this time whether Trinity will amend its existing agreement with Air Canada. However, I can assure you that if Trinity does, it will only be on the express condition that if a further auction process is allowed by either Air Canada or the Court, that will constitute a deemed withdrawal of any amendment by Trinity. This letter supplements the letter from Trinity sent yesterday to the Board of Directors of Air Canada. The Court has already recognized that the process to date has proceeded slowly and that time is of the essence. I respectfully concur with both observations.

Yours faithfully,


John T. Evans

cc. Murray MacDonald, *Ernst & Young Inc.*

bcc. Bernardine Lam
Don Roberts
Carl Wong
Alex Schrantz
Don Gilchrist
Edward Sellers
Mark Gelowitz