

**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"**

**SEVENTEENTH REPORT OF THE MONITOR
DATED DECEMBER 16, 2003**

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, as amended (the "Amended and Restated Initial Order"). Pursuant to the Amended and Restated Initial Order, Ernst & Young Inc. ("EYT") 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 Amended and Restated Initial Order or the First through Sixteenth Reports of the Monitor. All references to dollars are in Canadian currency unless otherwise noted.
3. The purpose of this Seventeenth Report of the Monitor (the "Report") is to provide this Honourable Court with an update on:
 - a. The equity solicitation process;
 - b. The Amex Card Partner Agreement;

- c. Pension matters;
- d. The status of discussions with labour unions;
- e. Negotiations with aircraft lessors;
- f. The GE Capital Aviation Services (“GECAS”) comprehensive aircraft and financing agreement;
- g. Restructuring of other contractual commitments;
- h. Product Distribution systems;
- i. Operating Results;
- j. Cash flow projections to March 5, 2005;
- k. Estimated obligations of the Company arising subsequent to April 1, 2003;
- l. Operating agreements with Lufthansa;
- m. Claims process;
- n. Progress in the development of the restructuring plan;
- o. Ancillary proceedings under Section 304 of the US Bankruptcy Code; and,
- p. Extension to the stay of proceedings.

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.

THE EQUITY SOLICITATION PROCESS

5. In the Twelfth to Fourteenth Reports, the Monitor provided this Honourable Court with an overview of the equity solicitation process undertaken by the Company culminating in the

selection of Trinity as the equity plan sponsor to provide a large component of the exit financing necessary for Air Canada to emerge from protection under the CCAA. In particular, the Twelfth to Fourteenth Reports of the Monitor included:

- A detailed description of the steps taken in the equity solicitation process leading to the submission of two competing offers and the ultimate selection of the Trinity offer;
 - A summary of the factors considered by the Board of Directors in selecting Trinity as the equity plan sponsor;
 - A summary of the major terms and conditions contained in the Trinity Investment Agreement;
 - An overview of a Standby Agreement entered into between Air Canada and Deutsche Bank Securities Inc. in connection with a rights offering to be made available to the Applicants' creditors;
 - A discussion with respect to certain unsolicited investment proposals received by the Monitor from Cerberus after the conclusion of the equity solicitation process and the selection of Trinity as the equity plan sponsor as well as this Honourable Court's direction with respect to these offers;
 - Disclosure of an agreement reached in a chambers attendance with this Honourable Court on December 4, 2003, in which Cerberus indicated that it would submit only one further investment proposal on or before December 12, 2003 and in which Air Canada agreed that provided the Trinity Investment Agreement was approved by this Honourable Court, it would submit such further Cerberus proposal to its Board of Directors for consideration, in accordance with section 9(4) of the Trinity Investment Agreement.
6. On December 8, 2003, pursuant to a motion brought by the Applicants, this Honourable Court approved the Trinity Investment Agreement, the Standby Agreement and the transactions contemplated therein.

7. On December 10, 2003, Cerberus submitted its final investment proposal (the “Cerberus Offer”) to the Applicants, the Monitor and the Applicants’ Board of Directors. The Monitor’s Fifteenth Report provides an update on the issues since the receipt of the Cerberus Offer.

AMEX CARD PARTNER AGREEMENT

8. In its Eleventh Report to this Honourable Court, the Monitor provided an overview of a) the co-brand charge card agreement and membership rewards agreement (collectively, the “Amex Agreement”) entered into between Air Canada, Aeroplan Limited Partnership (“Aeroplan”) and Amex Bank of Canada (“Amex”) in respect of co-branded charge cards and participation by Air Canada and Aeroplan in the Amex Membership Rewards program; and b) an agreement between Amex, Air Canada and Aeroplan for the provision of an \$80 million non-revolving financing facility, and related security, by Amex to Air Canada and Aeroplan (the “Amex Facility”).
9. On December 10, 2003, this Honourable Court approved, in principle, the Amex Agreement on the basis of this Honourable Court’s interpretation of provisions in the Amended New Agreement with CIBC in connection with the Aerogold contract.
10. As described in the Monitor’s Eleventh Report, funding pursuant to the Amex Facility is to be advanced on or before September 30, 2004, subject to certain conditions precedent outlined in the Amex Facility including the expiry of all appeal periods with respect to this Honourable Court’s order of December 10, 2003, the entering into of definitive agreements in respect of the Amex Facility, receipt by Amex of borrower certificates, confirmation of security and certain other undertakings as outlined in the Amex Facility.
11. The Amex Facility is expected to become available in early January 2004.

PENSION MATTERS

12. In the Tenth Report, the Monitor updated this Honourable Court on the status of the Company's discussions with representatives of the Office of the Superintendent of Financial Institutions ("OSFI"), its Canadian labour unions and its non-unionized employees and retirees, to address the funding of the solvency deficit in its registered pension plans in light of the Applicants' current financial situation, its Court protection under the CCAA, its effort to seek new equity and other long term financing and to restructure its pre-filing liabilities which are currently stayed under the CCAA.
13. Subsequent to the date of the Tenth Report, substantial discussion and negotiation took place with the various stakeholders in connection with the Company's continuing efforts to reach an agreement on resolution of the pension plan funding deficit which would be acceptable to all parties. OSFI provided the Company with a set of guidelines and subsequently, amended guidelines in respect of the factors it required be considered in any proposal which it might find acceptable. On October 27, 2004, the Company presented its final proposal, incorporating the guidelines received from OSFI, to representatives of its Canadian labour unions, non-unionized employees and retirees. These parties provided a counter proposal to Air Canada on October 31, 2003. Both the October 27 and October 31 proposals were provided to Trinity and Cerberus as the pension funding issue was an important factor in each of the equity finalists preparing its investment agreement. In addition, the Company met with representatives of OSFI in November to discuss any amendments to the Company's October 27, 2003 proposal which might be required to address the regulator's concerns together with addressing the guidelines provided by OSFI concerning the pension deficit funding matter.
14. Shortly after the October meetings held with the pension plan beneficiaries, the Company received investment proposals from the two finalists in the equity solicitation process. Both proposals provided that any agreement reached between Air Canada and the pension plan beneficiaries would have to be satisfactory to the equity plan sponsor. As a result, it was determined that any further discussion should only be held once approval of a final investment agreement was obtained from this Honourable Court and representatives of the equity plan

sponsor were available to participate in such discussions. As a result of the unsolicited Cerberus proposal, no such discussions have been held between Trinity and the pension plan beneficiaries. It is expected that discussions between Air Canada, the equity plan sponsor, OSFI and the pension plan beneficiaries will resume shortly after matters with respect to the equity solicitation process are definitively settled.

15. In the interim, the Company has recently announced its intention to resume remittance of current service contributions to all of its pension plans. On December 10, 2003, an order was issued by this Honourable Court, amending the Amended and Restated Initial Order to permit such contributions to be made to the Jazz defined contribution plans as well as to permit matching contributions to the retirement compensation accounts for the benefit of pilots who contributed to such accounts in 2003. On December 17, 2003, this Honourable Court is expected to hear a motion to authorize a similar amendment in respect of all of the other pension plans. On this basis, the Company expects to remit any overdue 2003 current service contributions by December 31, 2003. The aggregate sum of 2003 current service contributions expected to be made to all plans is approximately \$120 million. The Company has confirmed in its press release that the payment of these amounts has been approved by its Board of Directors and Trinity.

THE STATUS OF DISCUSSIONS WITH LABOUR UNIONS

16. All of the Company's Canadian, U.S. and United Kingdom unions have now ratified the agreements reached between the Company and the union representatives as previously reported to this Honourable Court.
17. As a result of these agreements and certain other cost reduction measures initiated prior to the Applicants' filing for court protection, the Applicants have reduced employment levels during the stay period by approximately 5,600 employees. This represents a net additional reduction of 100 employees from the figure reported in the Monitor's Tenth Report as some of the additional staff reductions implemented since that date have been partially offset by the recall

of approximately 150 flight attendants resulting from capacity growth in excess of anticipated levels.

NEGOTIATIONS WITH AIRCRAFT LESSORS

18. As reported in the Monitor's previous Reports to this Honourable Court, the Company undertook to reduce its fleet size by approximately 40 aircraft to properly match current and anticipated capacity requirements and to re-negotiate aircraft leasing costs to reflect current market rates.
19. The table below summarizes the status of the Company's fleet reduction / re-negotiation efforts:

	<i>Air Canada</i>	<i>Jazz</i>
Total Number of Aircraft as at April 1, 2003	259	130
Less: owned and parked aircraft	(19)	(51)
Number of Aircraft subject to re-negotiation	240	79
<i>Status of Re-Negotiations:</i>		
Repudiations	21	5
Consensual returns or lease expirations	13	2
Re-negotiated under the GECAS agreement (<i>note 1</i>)	61	10
Re-negotiated under the ECA agreement	38	n/a
Re-negotiated pursuant to other signed MOUs	52	20
Re-negotiated in principle, with MOUs pending	55	21
Other settled aircraft arrangements (<i>note 2</i>)	n/a	20
Lease remaining to be re-negotiated	0	1

Note 1 – The agreement entered into between Air Canada and GECAS covers an additional 3 Air Canada aircraft and 20 Jazz aircraft for which leases have expired or the aircraft have been returned on consent as well as an additional 10 aircraft covered by the ECA agreement for a total of 104 aircraft.

Note 2 - This represents 20 F-28 aircraft that were owned by Jazz and had been previously parked. Pursuant to a pre-filing agreement, GECAS was to take title to these aircraft. Under the terms of the Global Restructuring Agreement reached with Air Canada subsequent to its CCAA filing, GE has given up the right to take title to the F-28s.

Status of Fleet Reductions

20. As reflected in the table above, the Applicants have reduced their total fleet size by 61 aircraft since April 1, 2003, including repudiated and returned aircraft. Of these 61, only 38 were actually in use by the Applicants as at April 1, 2003 since the remaining 23 are comprised of:
- 3 aircraft already sub-leased to an external third party. The Applicants have since removed themselves from the leases by having the third party assume the lease obligation directly; and
 - 20 F28s parked and not in use.
21. In addition to the above and as agreed to under the agreement with GECAS, the Applicants have accepted delivery of 3 new aircraft since April 1, 2003. The rental rates on these new aircraft reflect the Applicants' view of current fair market lease rates. Accordingly, after considering unused aircraft and newly delivered aircraft, the Applicants have made a net reduction in their operating fleet of 35 aircraft. It is anticipated that further reductions will occur as certain re-negotiated leases provide for the early return of aircraft over the next 24 months.
22. Based on 2002 cost data, the net reduction in annual aircraft lease payments with respect to all repudiated and returned aircraft to date, offset by the cost of the newly delivered aircraft is estimated to be approximately \$140 million.

Status of Lease Re-Negotiations

23. The Company continues to defer the stay period lease payments for the one remaining Jazz aircraft still under negotiation as well as the 55 Air Canada aircraft and the 20 Jazz aircraft for which re-negotiated terms have been agreed to in principle but for which actual memorandums of understanding ("MOUs") have yet to be executed. The Applicants continue to work towards finalizing the remaining MOUs to formalize these agreements in principle and expect to have them completed by January 31, 2004. As additional MOUs are signed, the lease payments will be made at the revised lease rates (where applicable) while the deficiency

claims, if any, arising from the amended lease agreements will be dealt with in the Claims Process.

24. As reported in the Monitor's Tenth Report, the Applicants have entered into a tentative restructuring agreement with respect to 38 Airbus aircraft involving syndicates of lenders supported by the Export Credit Agencies of the United Kingdom, France and Germany (the "ECA Agreement"). The ECA Agreement is subject to the approval of the lending syndicates members' internal credit departments as well as numerous other financial parties accessory to the leases. Discussions between the Applicants and certain of these financial parties are continuing. Accordingly, the ECA Agreement has not been finalized and payments on the 38 aircraft have not yet resumed.
25. As reflected in the table above, there remains only one aircraft for which the Company has not yet executed an MOU or reached an agreement in principle. Accordingly, the Company believes that it has made substantial progress in the restructuring of its aircraft leases.

THE GECAS COMPREHENSIVE AIRCRAFT AND FINANCING AGREEMENT

26. In the Tenth Report, the Monitor provided an overview of a global restructuring agreement (the "GRA") executed by the Company and GECAS (and their relevant affiliates) on i) the restructuring of owned and managed aircraft leases, ii) new exit financing for use upon emergence from CCAA, and iii) aircraft financing to be used for the future acquisition of new regional aircraft. Included in the Monitor's Tenth Report is a summary of the major issues addressed by the GRA. The Monitor indicated that it expected additional details with respect to the new exit financing and aircraft financing to be provided upon filing of the Company's Plan of Arrangement.
27. On November 6, 2003, the Unsecured Creditors Committee (the "UCC") brought a motion seeking, among other things, an order requiring the Company to obtain court approval of the GRA prior to filing its plan of arrangement. On December 9, 2003, this Honourable Court granted such order. Accordingly, the Company has indicated to the Monitor that it will be

bringing a motion for approval of the GRA as soon as practical in 2004. It is expected that further detail with respect to the terms and conditions contained in the GRA, particularly with respect to the new exit financing and aircraft financing, will be provided at that time.

RESTRUCTURING OF OTHER CONTRACTUAL COMMITMENTS

28. The Company continues to analyze all of its contractual commitments and outsourcing contracts with a view to i) consolidating purchasing to benefit from volume discounts; ii) identifying contracts which do not reflect current market pricing; and iii) adapting current business processes to align them to evolving airline best practices as well as general industrial best practices in the fields of maintenance and inventory management. Contracts have been repudiated where necessary to achieve these objectives.
29. To date, the Company has achieved recurring annual savings of approximately \$250 million from the restructuring of various contracts and business processes, including contracts in respect of telecommunications, fuel, technology, in-flight catering, real estate and inventory management. The Company has identified further business processes and contract obligations, which are subject to restructuring with a view to achieving total annual cash savings of approximately \$350 million.

PRODUCT DISTRIBUTION SYSTEMS

30. Product distribution represents a significant cost to Air Canada, particularly with respect to fees paid by Air Canada to global distribution systems (“GDS”) which are used by most travel distributors to access airline schedules and inventories and book airline tickets on behalf of their customers. The current regulatory regime in Canada, which governs the relationship between airlines and GDSs, is under review by Transport Canada and other federal government departments. A similar review of the comparable rules in the United States is also currently being conducted by the United States Department of Transportation. Air Canada

supports these reviews and has expressed its views on the revisions required to such regulatory regimes to these regulatory bodies.

31. It is still necessary for Air Canada to re-negotiate its existing agreements with GDSs to reduce the overall costs of these GDS agreements to reflect today's market environment. Similar to the Company's other cost reduction efforts, its ability to implement a new business model with the GDSs that is financially less onerous is essential to Air Canada's restructuring. To this end, the Company hopes to eventually achieve significant annual cost savings which would make its distribution cost competitive with domestic Canadian carriers while also achieving significant global cost reductions.
32. Discussions on this subject took place between Air Canada and the GDSs prior to April 1, 2003 and have continued since then. In its Tenth Report, the Monitor reported that it had been notified by Sabre Inc., a substantial GDS, that it would be seeking certain relief from this Honourable Court if successful negotiations were not completed with Air Canada on modifications to their GDS agreement. On September 18, 2003, Sabre Inc. brought a motion in respect of these issues, returnable on January 26, 2004. The parties have agreed that if there is no resolution of the issues by January 9, 2004, they will participate in a one day mediation session.

OPERATING RESULTS

Monthly Operating Statistics

33. On October 10, November 14 and December 10, 2003, Air Canada Mainline and Jazz reported traffic statistics for the months of September, October and November 2003 respectively. These statistics are summarized in the table below:

	Air Canada			Jazz		
	September			September		
	2003	2002	change (%)	2003	2002	change (%)
Traffic (RPMs millions)	3 368	3 845	-12.4%	127	128	-0.8%
Capacity (ASMs millions)	4 588	5 163	-11.1%	232	226	2.7%
Load Factor	73.4%	74.5%	-1.1 pts	54.7%	56.6%	-1.9 pts
	October			October		
	2003	2002	change (%)	2003	2002	change (%)
Traffic (RPMs millions)	3 121	3 502	-10.9%	138	135	2.2%
Capacity (ASMs millions)	4 262	4 705	-9.4%	240	232	3.4%
Load Factor	73.2%	74.4%	-1.2 pts	57.5%	58.2%	-0.7 pts
	November			November		
	2003	2002	change (%)	2003	2002	change (%)
Traffic (RPMs millions)	2 625	2 690	-2.4%	124	120	3.3%
Capacity (ASMs millions)	3 793	4 007	-5.3%	217	225	-3.6%
Load Factor	69.2%	67.1%	+2.1 pts	57.1%	53.3%	+3.8 pts
	Year to date (November)			Year to date (November)		
	2003	2002	change (%)	2003	2002	change (%)
Traffic (RPMs millions)	34 756	40 008	-13.1%	1 475	1 445	2.1%
Capacity (ASMs millions)	46 986	52 856	-11.1%	2 474	2 619	-5.5%
Load Factor	74.0%	75.7%	-1.7 pts	59.6%	55.2%	+4.4 pts

34. As reported by management, while cumulative traffic volumes still remain substantially lower than last year, demonstrating the severe and lasting impact of the Iraq war and SARS, the Company has started to see an improvement in traffic volumes over the last few months as they start to return to levels closer to 2002 traffic. As illustrated in the table above, Air Canada traffic volumes for September, October and November 2003 were 12%, 11% and 2% lower than for the same months in 2002. Year over year, Air Canada cumulative traffic as at November 2003 is below 2002 levels by 13% (vs. 15% as at the end of August as reported in the Monitor's Tenth Report). Jazz traffic volumes have increased year over year in October and November 2003 and at the end of November, are higher than 2002 levels by 2%. However, this traffic recovery has only been achieved through lower pricing of certain

fares in order to compete with the high growth in emerging low cost Canadian carriers and to maintain market share.

Third quarter 2003 consolidated operating results

35. On November 26, 2003, the Company released its consolidated third quarter 2003 results.

Highlights from these results are as follows:

- Third quarter operating profit was \$17 million compared to \$168 million in 2002;
- Revenue for the third quarter decreased \$435 million or 19% from the prior year, with almost two thirds of this reduction attributable to international revenues and particularly Asian routes. However, this represents an improvement from second quarter revenues which were 26% below the corresponding period from 2002;
- Third quarter domestic revenues were 17% lower than the prior year although traffic for the same period was only 4% lower. This is due to competitive pressures resulting in decreased prices;
- In the US transborder market, third quarter revenue was 23% lower than the prior year while traffic was 21% lower;
- Overall international revenues were 18% lower than in 2002, largely due to a 52% decline in the Pacific region as a result of the severe impact of SARS;
- Operating costs continue to decline on a year over year basis as a result of a combination of both renegotiated contractual commitments (labour, aircraft leases and trade suppliers) and reduced overall system capacity.

CASH FLOW PROJECTIONS TO MARCH 5, 2004

36. Attached as Exhibit A to this Report is a summary of the Applicants' unaudited receipts and disbursements from April 1 to December 5, 2003, and a forecast cash flow projection

prepared by the Applicants with the assistance of the Monitor for the period of December 6 to March 5, 2004 (the “Cash Flow Projection”). The Applicants recorded net cash inflow of approximately \$465.8 million for the period of April 1 to December 5, 2003. As a result, the Applicants’ combined cash balance in its Canadian and United States bank accounts as at December 5, 2003 was \$889.6 million or approximately \$193 million higher than forecast in the cash flow projection included in the Monitor’s Tenth Report. This is primarily due to a stronger than expected increase in cash receipts in the last few months, consistent with the improvement in operating results during the months of September, October and November as described in paragraphs 33 and 34.

37. The Cash Flow Projection indicates that for the period from December 6, 2003 to March 5, 2004, the Applicants expect to have net cash outflow of approximately \$405.3 million after payment of aircraft lease payments to lessors who have executed restructured lease agreements as of the current date but prior to payment of any additional amounts to any other lessors. The amount of the net cash outflow is largely a result of the forecast payment of \$129 million of 2003 current service contributions and \$149 million of aircraft lease payments, as there are numerous semi-annual lease payments which come due in January, 2004. This would result in an ending cash balance at March 5, 2004 of \$484.2 million. Net cash outflow after all current contractual lease payments is projected to be \$1,020.5 million.

ESTIMATED OBLIGATIONS OF THE COMPANY ARISING SUBSEQUENT TO APRIL 1, 2003

38. Attached as Exhibit B to this Report is a summary of the estimated obligations of the Company that arose between April 1, 2003 and October 31, 2003 (the “Post-Filing Obligations”). This analysis has been prepared on a similar basis to that which was included in the Monitor’s Tenth Report and has been updated for changes between September 1, 2003 and October 31, 2003.

39. Based on information provided by the Company, the Monitor estimates that the Post-Filing Obligations as at October 31, 2003 total \$1,267.9 million, consisting of \$251.5 million of trade credit, \$415.8 million in accrued and unpaid aircraft lease charges, \$120.7 million of trust amounts which are not yet due and accordingly, have not been remitted, \$140.4 million owing to the Canadian Imperial Bank of Commerce with respect to the prepayment facility advanced in connection with the Aerogold contract and \$339.5 million in accrued and unpaid payroll and other employee related charges.
40. The Company's cash on hand as of October 31, 2003 was approximately \$850.2 million. Accordingly, as of that date the Monitor estimates that the Company's Post-Filing Obligations exceeded cash on hand by approximately \$417.7 million (the "Post-Filing Deficiency").
41. Deferred ticket revenues, representing advance ticket sales collected, were approximately \$510 million on October 31, 2003 or approximately \$56 million less than at April 1, 2003. After performing a detailed analysis of the October 31, 2003 deferred ticket revenues, the Company estimates that approximately \$505 million of the balance relates to tickets sold subsequent to April 1, 2003 and this amount is not included in the Post-Filing Deficiency amount of \$417.7 million referred to above.
42. The Post-Filing Deficiency amount of \$417.7 million has increased from August 31, 2003 at which time it was approximately \$393.7 million. When combined with the amount of post-filing advance tickets sales of \$510 million, the overall deficiency is significant and accordingly, the Monitor notes that in the event the Company's restructuring is not successful and the Company is liquidated there will be limited assets available from realization to fund these post-filing deficiencies.

OPERATING AGREEMENTS WITH LUFTHANSA

43. In the Monitor's Tenth Report to this Honourable Court, it reported on the Company's relationship with Deutsche Lufthansa Aktiengesellschaft ("Lufthansa"), one of Air Canada's most important commercial partners and an issue surrounding a pre-filing loan obtained by

3838722 Canada Inc. and guaranteed by Lufthansa. This issue is discussed in much further detail in the Monitor's Sixteenth Report.

CLAIMS PROCESS

44. On September 18, 2003, this Honourable Court issued an Order authorizing the Applicants to conduct a process for calling for and determining claims of its creditors (the "Claims Procedure Order"). Among other things, the Claims Procedure Order established the following bar dates:
- November 17, 2003 with respect to claims arising prior to April 1, 2003 or after April 1, 2003 as a result of the restructuring, repudiation or termination on or before September 17, 2003 of any contract, lease, employment agreement or other;
 - December 15, 2003 for bondholders who wish to file a claim for voting purposes only. (The Claims Procedure Order provides that any trustee or agent in respect of any issue of bonds may file a proof of claim on or before November 17, 2003, for distribution purposes only, on behalf of the bondholders for which such trustee or agent acts);
45. As of December 11, 2003, the value of claims filed was in excess of \$103 billion. The trustees or agents in respect of all issues of bonds filed global claims which are included in this figure. However, this figures does not include further claims expected to be filed in respect of aircraft leases and other contracts which are yet to be restructured or which were restructured subsequent to September 17th, 2003. The Monitor and the Applicants are currently in the process of reviewing individual claims filed in accordance with the Claims Procedure Order and expect that the value of allowed claims will be significantly lower.

PROGRESS IN THE DEVELOPMENT OF THE RESTRUCTURING PLAN

46. As reported in the Monitor's Fifteenth Report, certain critical restructuring initiatives have been deferred since November 8, 2003 as management has been focussed on dealing with issues concerning the equity solicitation process. Notwithstanding the same, the Company continues to develop the other critical components of its financial restructuring plan. The Applicants have executed agreements to reduce its operating costs with its labour unions and either executed or reached in principle agreements with its aircraft lessors in respect of all but one of its aircraft. Further time is required for the Applicants to complete the documentation with respect to the agreements reached in principle and to complete its renegotiation of the lease covering the remaining aircraft as well as contracts covering other goods and services.
47. The Company has conducted a competition between several aircraft manufacturers to supply its business plan requirements for 105 regional jets (up to 110 seats) and expects to announce the results of this competition in the coming weeks. In addition the Air Canada Pilots' Association and Airline Pilots' Association are participating in a process before arbitrator Martin Teplitsky to determine the allocation of aircraft up to 110 seats as between Air Canada and Jazz.
48. The Company has arranged approximately \$600 million in exit financing and subject to the aircraft selection process being finalized and documentation in respect of it being completed, \$950 million in aircraft financing as part of the GECAS aircraft lease renegotiations.
49. The Company has entered into the Trinity Investment Agreement and the Standby Agreement which, collectively, will allow it to raise a further \$1.1 billion in equity financing upon its emergence from CCAA protection.

ANCILLARY PROCEEDINGS UNDER SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE

50. On October 10, 2003, the Applicants sought and obtained from the Honourable Prudence Carter Beatty of the United States Bankruptcy Court for the Southern District of New York a

continuation of the stay of proceedings in the United States pursuant to a Modified and Continued Preliminary Injunction Order. As required under this Order, the Applicants are to appear at a hearing to be held on January 8, 2004 or soon thereafter to address the continuation of the Preliminary Injunction on a basis consistent with the Amended and Restated Initial Order. It is expected that the Applicants will request a continuation of the Preliminary Injunction to on or about March 31, 2004 consistent with the stay period extension being requested from this Honourable Court in the CCAA proceedings.

REQUEST FOR AN EXTENSION TO THE STAY OF PROCEEDINGS TO MARCH 31, 2004

51. The Applicants are seeking an extension of the stay period to and including March 31, 2004. An extension of the stay period is necessary for the Applicants to complete the renegotiation of the remaining aircraft leases, complete the renegotiation of operating contracts, allow for the resolution of the current issues before this Honourable Court with respect to the equity plan sponsor, complete the review of claims filed pursuant to the Claims Procedure Order and prepare its formal plan of arrangement and compromise. All of this activity must occur before the Applicants will be in a position to fully develop and file a Plan of Arrangement with this Honourable Court.
52. In the Monitor's view, the Applicants are acting in good faith and proceeding to negotiate a restructuring with its constituents on an accelerated timeline. As reported above, the Applicants have commenced a claims process at an early stage to accelerate the completion of the restructuring. Further time is required for the Applicants to complete their restructuring due to the massive size of the endeavour combined with the extensive efforts required to provide multiple constituents with the necessary financial information to support their decision-making processes.
53. The Monitor believes the Applicants have made substantial progress in the first nine months of the formal restructuring period. The Monitor recommends that the Applicants' request for an

extension of the stay period to March 31, 2004 be granted. The Monitor also recommends that this Honourable Court further amend the Amended and Restated Initial Order to permit the Applicants to make 2003 current service contributions to all of its registered pension plans.

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". The signature is written in a cursive style with a long horizontal stroke extending to the right.

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.

Exhibit A
Air Canada
Consolidated Cash Flow Forecast
For the Period April 1, 2003 - March 5, 2004
(in Cdn \$ millions)
(Unaudited)

	Notes	ACTUAL				ACTUAL 1-Apr to 5-Dec	FORECAST													13 Weeks Ended Mar 5
		W/E 14-Nov	W/E 21-Nov	W/E 28-Nov	W/E 5-Dec		W/E 12-Dec	W/E 19-Dec	W/E 26-Dec	W/E 2-Jan	W/E 9-Jan	W/E 16-Jan	W/E 23-Jan	W/E 30-Jan	W/E 6-Feb	W/E 13-Feb	W/E 20-Feb	W/E 27-Feb	W/E 5-Mar	
RECEIPTS:																				
Credit Card and Direct Passenger Receipts	1	115.6	110.1	107.0	106.1	3,675.2	98.7	83.2	46.0	58.0	99.8	114.8	109.9	105.0	106.2	114.5	111.0	111.3	110.5	1,268.9
Airline and Travel Agent Settlement	1	36.9	46.6	9.4	29.7	1,174.9	38.4	20.9	23.2	13.3	24.0	24.1	29.2	11.5	22.3	21.0	29.2	18.1	26.1	301.2
Cargo/Freight	2	4.3	1.4	6.1	0.9	133.5	4.5	1.0	4.5	1.0	4.5	1.0	4.5	1.0	4.5	1.0	4.5	1.0	4.5	37.5
Accounts Receivable	3	3.9	4.6	3.8	3.7	199.7	4.3	3.8	3.8	4.5	3.8	3.8	4.5	3.8	3.8	3.8	3.8	5.0	3.8	54.0
Miscellaneous		12.4	18.3	3.0	0.2	180.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CIBC Facility	4	-	-	-	-	319.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Funding From Pension Plan Re: Retiree Pmts	5	6.2	-	-	-	98.0	6.0	-	-	-	6.0	-	-	-	-	6.0	-	-	-	18.0
TOTAL RECEIPTS		179.3	181.0	129.3	140.6	5,781.0	151.9	108.9	77.5	76.8	138.1	143.7	147.4	123.5	136.8	146.3	148.5	135.4	144.9	1,679.6
DISBURSEMENTS:																				
Payroll & Benefits	6	(27.8)	(65.6)	(38.6)	(43.0)	(1,692.9)	(36.0)	(59.8)	(34.1)	(43.9)	(35.7)	(72.2)	(22.3)	(55.6)	(36.7)	(36.6)	(52.6)	(61.2)	(29.1)	(575.8)
Retiree Payments	7	(5.9)	-	-	(1.6)	(135.9)	(6.0)	-	-	(2.0)	(6.0)	-	-	-	-	(8.0)	-	-	(8.0)	(30.0)
Pension Contributions	8	-	-	-	-	-	-	(93.0)	-	-	-	-	-	(36.0)	-	-	-	-	-	(129.0)
Fuel	9	(17.3)	(40.2)	(19.2)	(20.5)	(867.7)	(19.9)	(24.3)	(21.0)	(35.3)	(20.6)	(25.5)	(19.9)	(20.9)	(25.9)	(20.9)	(25.9)	(20.9)	(36.8)	(317.7)
Airport Related Charges	10	(28.8)	(11.3)	(10.9)	(13.1)	(503.2)	(26.9)	(11.2)	(9.4)	(15.2)	(8.6)	(29.9)	(10.6)	(13.6)	(10.6)	(32.1)	(11.2)	(16.7)	(13.2)	(209.2)
Aircraft Maintenance	11	(6.5)	(5.3)	(4.7)	(8.5)	(213.5)	(6.3)	(5.2)	(4.9)	(8.4)	(6.0)	(5.5)	(5.9)	(8.6)	(6.3)	(6.3)	(6.5)	(7.0)	(7.3)	(84.2)
Food, Beverage & Supplies	12	(5.0)	(4.8)	(5.9)	(3.8)	(154.7)	(3.6)	(4.5)	(3.2)	(6.4)	(5.0)	(5.0)	(5.0)	(5.2)	(5.2)	(5.3)	(5.1)	(5.2)	(4.9)	(63.4)
IBM Advantis (Computer Support)	13	-	-	(15.7)	(3.2)	(147.6)	-	-	-	(18.0)	(2.0)	-	-	(18.0)	(2.0)	-	-	(18.0)	(2.0)	(60.0)
Marketing	14	(1.7)	(0.2)	(1.1)	(0.1)	(26.8)	(2.2)	(0.5)	(0.5)	(0.5)	(1.2)	(1.5)	(1.2)	(1.5)	(1.2)	(1.5)	(1.2)	(1.2)	(1.2)	(15.4)
Travel Agent Incentive Commission	15	(0.1)	(5.7)	(4.6)	(0.4)	(78.9)	(0.8)	-	(0.1)	(6.5)	(0.2)	(0.2)	(0.2)	(6.5)	(0.2)	(0.2)	(0.2)	(6.5)	-	(21.6)
Insurance	16	(2.2)	-	(0.6)	(0.6)	(53.0)	-	(0.2)	(0.2)	(6.0)	(0.2)	(0.2)	(10.6)	(0.2)	(0.2)	(0.5)	(0.2)	-	-	(18.5)
Funding of Foreign Operations	17	-	(10.8)	-	(5.1)	(100.6)	-	(8.0)	-	-	(7.5)	-	(7.5)	-	-	(7.5)	-	-	(4.0)	(34.5)
Other Operating Costs	18	(9.7)	(13.3)	(11.4)	(17.3)	(439.4)	(16.5)	(12.0)	(7.0)	(16.5)	(14.0)	(13.0)	(13.0)	(17.0)	(13.0)	(13.0)	(13.5)	(17.5)	(12.5)	(178.5)
US Immigration Tax Remittances	19	-	-	-	-	(22.5)	-	-	-	(3.4)	-	-	-	(11.6)	-	-	-	-	-	(15.0)
Airport Improvement Fees	19	-	-	(8.2)	(7.4)	(123.8)	-	-	-	(14.0)	-	-	-	(7.0)	(7.0)	-	-	(7.0)	(7.5)	(42.5)
GST Remittances	19	-	-	(20.6)	-	(128.8)	-	-	-	(15.0)	-	-	-	(15.0)	-	-	-	-	(15.0)	(45.0)
Transportation Tax	19	(5.7)	-	(6.0)	-	(73.8)	(4.8)	-	(4.8)	-	-	(4.9)	-	(4.2)	-	(4.2)	-	(4.6)	-	(27.5)
Security Tax Remittances	19	-	-	(0.8)	(13.4)	(150.7)	-	-	-	(14.5)	-	-	-	(14.5)	-	-	-	(2.0)	(14.0)	(45.0)
Professional Fees	20	(3.9)	(2.3)	(1.4)	(0.9)	(39.5)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(13.0)
OPERATING DISBURSMENTS		(114.6)	(159.5)	(149.7)	(138.9)	(4,953.3)	(124.0)	(219.7)	(86.2)	(204.6)	(104.0)	(164.9)	(97.2)	(206.7)	(138.8)	(137.1)	(117.4)	(168.8)	(156.5)	(1,925.7)
Capital Expenditures	21	-	-	-	-	(8.7)	-	-	-	(0.1)	(1.1)	(2.1)	(4.1)	(4.3)	(4.2)	(3.8)	(3.8)	(3.8)	(3.8)	(31.1)
Repayment of CIBC Facility	22	-	-	(31.9)	-	(179.7)	-	-	-	(30.9)	-	-	-	(29.8)	-	-	-	(29.8)	-	(90.5)
Interest Payments and Fees re: CIBC Facility	22	-	-	-	(0.6)	(9.3)	-	-	(0.6)	-	-	-	-	(0.5)	-	-	-	-	(0.3)	(1.4)
Other		(0.8)	-	-	(2.9)	(68.2)	(2.0)	(3.0)	(11.7)	(0.5)	-	-	-	(0.5)	-	-	-	-	(0.5)	(18.2)
NON-OPERATING DISBURSEMENTS		(0.8)	-	(31.9)	(3.5)	(265.9)	(2.0)	(3.0)	(11.7)	(32.1)	(1.1)	(2.1)	(4.1)	(34.1)	(5.2)	(3.8)	(3.8)	(33.6)	(4.6)	(141.2)
Net Aeroplan Cashflows	23	-	(3.0)	28.1	(0.3)	185.7	(2.1)	(2.1)	(2.1)	30.0	(3.1)	(2.5)	(3.1)	27.8	(5.1)	(3.2)	(2.1)	27.8	(2.1)	58.1
Net Air Canada Vacations Cashflows	23	(4.7)	(3.9)	(4.7)	12.2	(9.2)	(4.0)	(4.0)	(4.0)	31.0	(4.0)	(4.0)	(4.0)	(4.0)	36.0	(4.0)	(4.0)	(4.0)	46.0	73.0
CASH FLOWS RE: NON-CCAA APPLICANTS		(4.7)	(6.9)	23.4	11.9	176.5	(6.1)	(6.1)	(6.1)	61.0	(7.1)	(6.5)	(7.1)	23.8	30.9	(7.2)	(6.1)	23.8	43.9	131.1
AIRCRAFT LEASE PAYMENTS	24	(5.4)	(7.7)	(41.5)	(3.9)	(272.5)	(4.7)	(9.6)	(6.8)	(7.5)	(4.1)	(29.8)	(8.6)	(44.3)	(3.8)	(6.6)	(9.0)	(9.0)	(5.4)	(149.2)
NET CASH INFLOW / (OUTFLOW)		53.8	6.9	(70.4)	6.2	465.8	15.1	(129.5)	(33.4)	(106.3)	21.8	(59.5)	30.4	(137.8)	19.9	(8.4)	12.2	(52.2)	22.3	(405.3)
OPENING CASH BALANCE		893.1	946.9	953.8	883.4	423.9	889.6	904.7	775.2	741.8	635.5	657.3	597.7	628.2	490.3	510.3	501.9	514.1	461.9	889.6
ENDING CASH BALANCE	25	946.9	953.8	883.4	889.6	889.6	904.7	775.2	741.8	635.5	657.3	597.7	628.2	490.3	510.3	501.9	514.1	461.9	484.2	484.2
Outstanding Cheques		28.2	27.6	53.2	23.1	23.1	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
BALANCE PER BANK		975.1	981.4	936.6	912.7	912.7	939.7	810.2	776.8	670.5	692.3	632.7	663.2	525.3	545.3	536.9	549.1	496.9	519.2	519.2
Potential Deferred / Unpaid Aircraft Lease Payments	26	425.2	429.5	395.8	406.4	406.4	401.0	429.4	446.4	559.2	559.7	589.5	589.9	597.1	597.1	602.6	608.8	612.9	615.2	615.2

Air Canada
Notes to Consolidated Cash Flow Forecast
For the Period April 1, 2003 - March 5, 2004
(in Cdn \$ millions)
(Unaudited)

1. Credit Card and Direct Passenger Receipts and Airline and Travel Agent Settlements - Represents receipts from ticket sales and other passenger incidentals received through credit card companies, BSP or IATA. Forecast receipts are estimated based on recent experience.
2. Cargo / Freight - Represents cash receipts from cargo division billings, excluding the portion collected through IATA settlements above.
3. Accounts Receivable - Represents collection of miscellaneous billings (i.e. to other airlines for services provided etc.)
4. CIBC Facility - Represents proceeds from \$350 million prepayment facility, less the amount paid by CIBC to Aeroplan on June 2, 2003.
5. Funding from Pension Plan re: Retiree Payments - On a monthly basis, funds are transferred in from the pension plan to fund the monthly payments related to retired employees (the corresponding payments are included in the Retiree Payments line item below). These transfers are included in the weeks ended November 14, December 12, January 9, and February 13, 2004.
6. Payroll & Benefits - Represents forecast payroll, benefits and employee pension contributions assuming no change in headcount. Current payroll estimates reflect negotiated salary reductions.
7. Retiree Payments - Represents payments to retired employees out of funds transferred in from pension plan (see above).
8. Pension Contributions - Represents employer contributions to certain of its pension plans subject to endorsement by this Court.
9. Fuel - Represents forecast fuel purchases based on discussions with fuel managers.
10. Airport Related Charges - Represents airport related charges such as NAV Canada fees and landing fees paid to airport authorities.
11. Aircraft Maintenance - Estimated amounts to be incurred based on current fleet complement.
12. Food Beverage & Supplies - Estimated amounts to be incurred based on current planned routes and passenger seat miles.
13. IBM Advantis (Computer Support) - Represents payments to IBM for providing IT services.
14. Marketing - Represents cost of normal advertising / promotion.
15. Travel Agent Incentive Commission - The majority of commissions earned by travel agents are deducted from the cash receipts submitted to Air Canada. This balance represents the portion that is not deducted (i.e. because the travel agent only accepts credit card sales and therefore, has no cash from which to deduct commissions) and therefore is paid at the end of each month.
16. Insurance - Represents cost of premiums paid on various insurance policies.
17. Funding of Foreign Operations - Air Canada has various foreign offices throughout the world. These offices pay certain local expenses directly such as local payroll, smaller local costs etc. To the extent possible, these payments are funded out of cash receipts from tickets sold by these foreign offices. However, these ticket sales are generally insufficient to fund all costs (as most receipts from ticket sales are received directly in Canada) and therefore, funds are transferred from the Canadian bank accounts to these foreign offices on a regular basis to cover these costs.
18. Other Operating Costs - Represents various other costs such as crew expenses, terminal handling costs, telecommunications etc.
19. US Immigration Tax Remittances, Airport Improvement Fees, GST Remittances, Transportation Tax and Security Tax Remittances - Represents monthly or quarterly remittances of various tax-related amounts collected on ticket sales.
20. Professional Fees - Payments to various restructuring advisors and other professionals.
21. Capital Expenditures - Amounts may be significantly less as a result of fleet reductions or new capital spending guidelines imposed by management as a result of the Company's current financial circumstances.
22. Repayment of CIBC Facility and Interest Payments and Fees re: CIBC Facility - Represents paydown of CIBC prepayment facility to Air Canada through holdback of monthly payments under Aerogold contract. Fees include a \$4.0M set-up fee for the prepayment facility, and interest is calculated at prime.
23. Net Aeroplan Cashflows and Air Canada Vacations Cashflows - Represents cash flows attributable to these subsidiaries, which are Non-CCAA applicants.
24. Aircraft Lease Payments - Represents payments on account for post filing obligations to those lessors with whom restructured lease agreements have been executed.
25. Ending Cash Balance - Represents cash in the Company's Canadian and US bank accounts. Excludes cash held in overseas bank accounts for foreign operations (currently approximately \$10.8 million) and funds held in Air Canada Vacations' trust account (in accordance with provincial legislation) with respect to vacations sold but not taken.
26. Potential Deferred / Unpaid Aircraft Lease Payments - Represents total amount of aircraft lease payments due to lessors with whom restructured lease agreements have not been executed. This amount is based on the current contractual lease terms which came due during the CCAA period and were not paid, therefore remaining past due as at the week end date. It is anticipated that that once restructured agreements have been reached, payments pursuant to restructured lease agreements will resume.

Appendix B**ESTIMATED POST-FILING LIABILITIES AS AT OCTOBER 31, 2003****(Excluding Ticket Related Obligations)***(in Cdn \$ millions)*

	<u>Notes</u>	<u>Estimated Liability</u>
Trade Credit		
Fuel	1,2	(5.3)
Aircraft Maintenance	2	8.9
Airport Related Charges, Including Rent	2	52.8
Estimated Travel Agent Commissions	2	30.2
Jazz & Zip	2	30.4
Other Estimated Trade Liabilities	2	134.5
Total Estimated Trade Credit		<u>251.5</u>
Aircraft Leases	3	<u>415.8</u>
Unremitted Collections		
Jazz	4	0.0
GST	5	0.0
Estimated Foreign Taxes, Fuel Taxes and AIF not yet due	6	77.7
Airport Improvement Fees	7	14.6
Transportation Tax	8	13.4
Security Tax	9	14.0
US Immigration Tax	10	1.0
Total Unremitted Collections		<u>120.7</u>
Credit Facilities	11	<u>140.4</u>
Employee-Related Obligations	12	<u>339.5</u>
Total Estimated Post-Filing Liabilities as at October 31, 2003	13,14	<u><u>1,267.9</u></u>

Notes

1. Air Canada has continued its pre-filing practice of making pre-payments to certain of its fuel vendors.
2. Based on preliminary balance sheets as at October 31, 2003.
3. Based on amounts due and not paid for aircraft leases for the period April 1 – October 31
4. Liability shown as \$nil as Jazz forecasts being in a GST refund position.
5. Liability shown as \$nil as Air Canada forecasts being in a GST refund position.
6. Represents the estimated liability as at October 31, 2003 in respect of foreign tax and air travel obligations, AIF obligations associated with unused tickets and estimated fuel taxes payable.
7. Represents unremitted Airport Improvement Fees for October 2003.
8. Liability includes amounts owing for August US Transportation tax and PFCs.
9. Liability includes amounts owing for Security Tax in Canada and the US.
10. Liability represents accrual for the month of October.
11. Represents amounts drawn on credit facilities post-filing, net of repayments accrued up to October 31, 2003.
12. Includes salaries & wages, severance obligations, vacation and holiday pay, payroll tax remittances and accrued pension expense liability (estimated at approximately \$142.5 million).
13. Excludes obligations to customers for advance ticket sales. This amount is estimated to be about \$509.7 million and it is estimated that approximately \$504.8 million relates to post-filing sales.
14. Does not account for post-filing receivables comprised of credit card receipts, BSP receipts, and BSP holdbacks/deposits and trade receivables.