

**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"**

**THIRTIETH REPORT OF THE MONITOR
DATED SEPTEMBER 10, 2004**

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 Twenty-Ninth 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 Thirtieth Report of the Monitor (the "Report") is to provide this Honourable Court with a report regarding:
 - The Initial Determination Date under the Plan;

- ❑ Outstanding matters relating to one labour union;
- ❑ An update of the Rights Offering; and
- ❑ An update on the Canadian Transportation Agency (“CTA”) approval.

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.

INITIAL DETERMINATION DATE

5. Pursuant to the Plan, the Monitor must certify to this Honourable Court, prior to any distribution of shares, that:
 - i) The aggregate amount of Disputed Unsecured Claims as determined by the Monitor is no greater than the lesser of \$3 billion and an amount equal to 25% of the amount of Proven Claims; and
 - ii) The Disputed Unsecured Claims in respect of which ACE Rights have been exercised has been reduced to \$1 billion or less (including those disallowed or rejected Affected Unsecured Claims that are subject to a pending appeal or a court-ordered process).
6. The date on which the Monitor certifies the above is the Initial Determination Date (the “IDD”), the date as of which i) all calculations with respect to the allocation of shares under the Plan, and ii) issuance of shares pursuant to the rights offering to be made on the Initial Distribution Date, will be based. On the IDD, the values of individual claims are frozen for purposes of the calculations necessary to complete the

Initial Distribution of ACE Shares. As Disputed Claims are resolved after the Initial Distribution, the Monitor will update the calculations necessary to effect additional Interim Distributions of ACE Shares as appropriate. For additional details, affected Unsecured Creditors should refer to Articles 4 and 6 of the Plan as well as the accompanying Information Circular for information with respect to the distribution of shares pursuant to the Plan.

7. In the Twenty-Ninth Report to this Honourable Court, the Monitor provided an update with respect to the status of the claims process. Since then, the Monitor has continued to provide updates on the status of claims by posting them on Air Canada's website at www.aircanada.ca/notice and on the website of Air Canada's counsel at www.stikeman.com/ac. Attached at Appendix A is the most recent update dated September 9, 2004 posted on the websites.
8. Appendix A indicates that Proven Claims as of September 9, 2004 are \$8,095,300,000 and that Disputed Unsecured Claims are \$569,800,000 or 7% of Proven Claims. Appendix A also indicates that based on the accepted portion of the Disputed Unsecured Claims totalling \$110,500,000, the Monitor estimates the Minimum and Maximum Potential Claims as of September 9, 2004 to be \$8,205,800,000 and \$8,665,100,000 respectively. Disputed Unsecured Claims as of the same date, in respect of which the claimants have elected to participate in the rights offering are \$246,798,746.12. As a result, the Monitor has issued the certificate dated September 9, 2004 attached as Appendix B subject to the ACPA Matters below.

ACPA Matters

9. As reported in the 26th Report of the Monitor, on or about May 15, 2004 each of the Canadian labour unions executed Clean Slate Certificates. Clean Slate Certificates are to be again executed and delivered prior to the Implementation Date. The delivery of executed Clean Slate Certificates is a condition of the Deutsche Bank Securities Inc. ("DB") Restated Standby Purchase Agreement. Furthermore, the funding of the equity investment of \$250 million from Cerberus and the funding of the exit financing pursuant to the GRA with GECAS, are conditional on the successful closing of the

Restated Standby Purchase Agreement. With the exception of the effect of issues raised by Air Canada Pilots Association (“ACPA”), the Monitor anticipates that the Clean Slate Certificates will be delivered prior to the Implementation Date.

10. The Monitor has inquired of the labour unions as to whether there is any anticipated difficulty with respect to delivering the Clean Slate Certificates prior to the Implementation Date. The only indication of any issues relating to the delivery of such certificates has been received from ACPA.
11. ACPA has indicated that there are three issues which it is not reasonably assured will be resolved by September 30, 2004 (“ACPA Matters”). ACPA has described the ACPA Matters as follows:

1. Two Grievances re: Aeroplan

ACPA has two Aeroplan grievances that remain unresolved. Both are crucial to the employment security of ACPA’s members. Both seek determinations under collective agreement provisions confirmed in ACPA’s restructured collective agreement.

2. Creation of Additional Specialty Companies

Under a provision in ACPA’s collective agreement, Air Canada needs ACPA’s consent to create “speciality companies”. When the new corporate structure is established pursuant to the Plan, new “speciality companies” in addition to Aeroplan will be created. To date, Air Canada has not sought ACPA’s consent to their creation.

3. Respect for Restructured Collective Agreement

Air Canada recently suggested that the Plan and Sanction Order might have extinguished certain of ACPA’s rights under its restructured collective agreement, and even under the *Canada Labour Code*. ACPA does not agree.

12. ACPA has also noted its position that reservations of rights with respect to Aeroplan grievances and the corporate reorganization exist in the Clean Slate Agreement.

13. The Applicants advise the Monitor that the first Aeroplan grievance is dated July 10, 2001 bearing the title “*Policy Grievance Regarding Flying Associated with Redemption of Aeroplan Points*” which states that:

The redemption of Aeroplan points results in flying performed by or on behalf of the Company. The Association files this policy grievance as a violation of Article 1 of the Collective Agreement for all such flying that is not performed by Air Canada pilots.

The remedies requested include “an order that the Company has violated the Collective Agreement”, “an order that the Company cease and desist from such violation” as well as an undefined claim for compensation.

14. The Applicants further advise the Monitor that the Aeroplan program has been in existence for over twenty years, and in that time, has had a constant practice of allowing the earnings and redemptions of points on a variety of non-Air Canada airlines.

15. The Applicants advise the Monitor that the second Aeroplan grievance is dated April 25, 2002 which states:

The Company has violated the Collective Agreement – in particular, but not limited to Article 1 – by creating a specialty company known as Aeroplan without the express consent of the Association.

The remedies sought include a declaration “that Air Canada integrate Aeroplan back into Air Canada” and damages of one million dollars.

16. The Monitor notes that the Aeroplan grievances were both filed prior to April 1, 2003. The Monitor is not aware of any grievance having been filed by ACPA or any of its members with respect to Air Canada’s corporate structure.

17. No resolution of the ACPA Matters has been achieved to date. The Monitor expects that a motion for directions to this Honourable Court with respect to the ACPA Matters and their effect on implementation of the Plan will be necessary absent a prompt resolution.

UPDATE ON RIGHTS OFFERING

18. In accordance with the Plan, the Monitor received Subscription Notices and subscription funds from Affected Unsecured Creditors that have chosen to exercise Rights for ACE Rights Shares. 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.
19. The Subscription Notices and related subscription funds are being held by the Monitor and are subject to the Monitor's review and determination of the validity, eligibility and acceptance of such subscriptions. A small number of subscriptions are being reviewed in connection with the trading restrictions imposed by the Plan in respect of Rights to purchase ACE Rights Shares. If the Monitor determines that any of the subscriptions are invalid or ineligible, or if any subscriptions are successfully challenged, the aggregate amount of the subscription funds to be accepted under the Plan could be reduced.
20. As standby purchaser under the Restated Standby Purchase Agreement, DB will purchase, subject to the conditions contained in the Restated Standby Purchase Agreement, all the ACE Rights Shares not subscribed and accepted or not fully funded by Affected Unsecured Creditors.
21. On or before the Implementation Date, the Monitor will update this Honourable Court in connection with the accepted aggregate subscription funds.

UPDATE ON CANADIAN TRANSPORTATION AGENCY APPROVAL

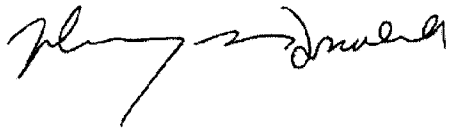
22. On September 3, 2004, the CTA issued a news release advising that it rendered a decision in which it concluded that Air Canada's proposed new corporate structure will meet the Canadian ownership and control requirements as defined in the Canadian Transportation Act.
23. Given the urgency to proceed on the matter and in order that Air Canada may exit CCAA proceedings on September 30, 2004 as planned, the CTA chose to issue its decision on September 3, 2004, and will provide its reasons for decision in the near future.

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.

Air Canada
Summary of Claims for DISTRIBUTION Purposes - Note 1
As at September 9, 2004
(In Can \$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	\$ 2,142.6	\$ 220.9	\$ 100.2	\$ -	-	\$ -
Bondholder	3,402.8	3,002.4	-	-	-	-	-
Employee Related Claims	8,487.7	967.0	27.4	0.0	-	-	-
Litigation	83,459.3	37.4	204.8	0.3	3.1	-	-
Long Term Debt	1,668.0	748.5	-	-	-	-	-
Supplier Repudiation /Termination	1,925.9	930.0	38.8	5.0	-	-	-
Trade Creditor	396.4	257.0	74.7	5.0	0.8	0.7	-
Other	275.2	9.5	0.0	0.0	-	-	-
Total	\$104,442.6	\$ 8,094.6	\$ 566.6	\$ 110.5	\$ 3.9	\$ 0.7	\$ -

SUMMARY OF ALL CLAIMS TO DATE	
Total Proven Claims	\$ 8,095.3
Portion of Disputed Claims Allowed in Part	\$ 110.5
Total Disputed Claims (assuming no appeals from Court decisions allowed)	\$ 566.6
Total Disputed Claims (assuming all Court decisions subject to appeal are appealed and won)	\$ 569.8
Minimum Potential Claims	\$ 8,205.8
Maximum Potential Claims (excluding Claims Determined by the Court)	\$ 8,661.9
Maximum Potential Claims (including Claims Determined by the Court)	\$ 8,665.1

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

Note 1: The above information represents a preliminary report on the status of claims and is subject to change. Updates will be provided on this website as they are available. Creditors should continue to refer to this website for the most up to date information.

Note 2: "Claims in Dispute" do not include several claims which were appealed to the Court and for which a decision was issued by the Court either within the last 21 days or which such decision is currently subject to an outstanding leave to appeal motion. Details with respect to these claims are included in "Claims Determined by the Court and Subject to Appeal Periods / Appeals". For greater certainty, the Monitor notes that with respect to the Amount per Claimant in "Claims Determined by the Court and Subject to Appeal Periods / Appeals", \$3.9 million is subject to a leave to appeal motion.

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**CERTIFICATE OF THE MONITOR
DATED SEPTEMBER 9, 2004**

Pursuant to the Applicants' Consolidated Plan of Reorganization, Compromise and Arrangement (the "Plan"), the Monitor hereby certifies to this Honourable Court subject to the terms of this Certificate and the ACPA Matters as defined below that:

- i) The aggregate amount of Disputed Unsecured Claims (as defined in the Plan) is no greater than the lesser of \$3 billion and an amount equal to 25% of the amount of Proven Claims (as defined in the Plan); and
- ii) The Disputed Unsecured Claims in respect of which ACE Rights have been exercised is less than \$1 billion (including those disallowed or rejected Affected Unsecured Claims that are subject to a pending appeal or a court-ordered process).

ACPA Matters

The Air Canada Pilots Association ("ACPA") has filed two grievances relating to Aeroplan related matters arising before April 1, 2003 which it maintains are unresolved. ACPA has indicated that it may not deliver a Clean Slate Certificate as required by the DB Standby Purchase Agreement on or before September 30, 2004 unless these matters are resolved to its satisfaction.

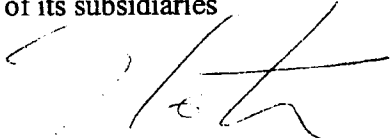
Details of these two grievances, any additional ACPA issues, and implications for the Implementation Date (as defined in the Plan) will be set out in the Monitor's Thirtieth Report.

The foregoing are hereby defined as ACPA Matters.

ERNST & YOUNG INC.

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

Per:



Murray A. McDonald
President

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