

**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 FIRST REPORT OF THE MONITOR
DATED SEPTEMBER 22, 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 Thirtieth 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 First Report of the Monitor (the "Report") is to provide this Honourable Court with a report regarding:
 - An update regarding the Initial Determination Date under the Plan;

- An update on Labour Matters;
- Distribution of ACE Shares to non-union employees;
- An update on the status of the resolution of paragraph 6.8 of the Plan; and
- The over-subscription of ACE Rights Shares arising from a group of related Claims.

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.

UPDATE OF INITIAL DETERMINATION DATE

5. On September 9, 2004, the Monitor filed with the Court its certificate in connection with the Initial Determination Date (the “IDD”).
6. The certificate filed with this Honourable Court and attached as Appendix “B” to the Thirtieth Report confirmed that certain conditions precedent to the closing of the DB Restated Standby Purchase Agreement, as set out in the Plan, had been met subject to certain outstanding ACPA Matters described in paragraphs 9 to 17 of the Thirtieth Report.
7. On Friday, September 17, 2004, Air Canada and ACPA reached a mediated resolution of the ACPA Matters with the assistance of this Honourable Court and Mr. Martin Teplitsky, Q.C. As a result of the mediated resolution, Mr. Martin Teplitsky, Q.C. has issued a consent award with respect to the ACPA Matters. Accordingly, the Monitor has updated its certificate by removing the qualification relating to the ACPA Matters.

UPDATE ON LABOUR MATTERS

8. As a result of the resolution of the ACPA Matters, ACPA has delivered to the Monitor an executed Clean Slate Certificate as of September 30, 2004, which is to be held in escrow by the Monitor until closing. The Monitor requested executed Clean Slate Certificates as of September 30, 2004, in escrow, from each of the Canadian labour unions, prior to closing.

DISTRIBUTION OF ACE SHARES TO NON-UNION EMPLOYEES

9. The Applicants have advised the Monitor that as a result of the complexities of distributing ACE Shares to the non-union employees pursuant to such non-union employees' accepted Claims, the Applicants desire a minor modification to the Plan.
10. The aggregate accepted Claims and the approximate aggregate number of ACE Shares to be distributed on the Initial Distribution Date for each of the three non-union employee groups pursuant to the Claims Process are as follows:
 - a. Air Canada Mainline: \$26 million; 139,500 ACE Shares;
 - b. Jazz: \$2.7 million; 14,500 ACE Shares; and
 - c. ZIP: \$70,000; 375 ACE Shares.
11. The Applicants have advised the Monitor that ACE will enter into an agency agreement under which an escrow agent (the "Escrow Agent") will:
 - a. Temporarily hold the aggregate number of ACE Shares distributed pursuant to the non-union employees' accepted claims;
 - b. Communicate with such non-union employees;

- c. Determine from each such non-union employee whether he or she wishes to receive his or her entitlement to ACE shares, or to have such shares sold on his or her behalf;
 - d. Ensure that appropriate taxes are withheld and paid, if required; and
 - e. Ensure that non-union employees receive their maximum entitlement in accordance with their individual wishes.
12. In the Monitor's view, the Applicants' proposal will result in a streamlining of the distribution of ACE Shares to non-union employees, and will maximize the entitlement to be received by each individual non-union employee while enabling the Applicants to meet any necessary withholding tax obligations.
13. On August 23, 2004, this Honourable Court issued an order (the "August 23 Order") directing the Applicants and the Monitor to deliver the ACE Shares due in respect of union claims to the Union which filed the Claim. The Monitor is of the view that in order to meet the requirements under the Plan in connection with the distribution of ACE Shares to non-union employees, the Monitor requires a similar direction of this Honourable Court to distribute the ACE Shares to the Escrow Agent selected by the Applicants to carry out the functions described in paragraph 11 above.

UPDATE ON THE RESOLUTION OF PARAGRAPH 6.8 OF THE PLAN

14. The tax advisors and counsel to the Applicants' domestic Unions have made a proposal ("Tax Proposal") to each of the Canadian Revenue Agency ("CRA") and Revenue Quebec ("RQ") in connection with withholding taxes. The Tax Proposals, if accepted by CRA and RQ, would resolve potential withholding tax and reporting responsibilities of the Applicants and the Monitor under paragraph 6.8 of the Plan relating to ACE Shares that are to be distributed to the Unions or as the Unions direct.

15. The August 23 Order directed the Unions, the Applicants and the Monitor to seek further directions from Court no later than ten days before the Initial Distribution Date (currently forecast to be September 30, 2004) regarding compliance with the reporting obligation contained in paragraph 6.8 of the Plan. The August 23 Order directed the Monitor to advise the Unions, on the same date, of the cash amount required for any tax withholding obligations referred to in paragraph 6.8 of the Plan and the Unions shall be entitled to satisfy their obligations under paragraph 6.8 of the Plan by making escrow and /or trust arrangements satisfactory to the Monitor.
16. On September 21, 2004, this Honourable Court issued an endorsement extending the time for the parties to seek directions from the Court regarding the compliance with the reporting obligation contained in paragraph 6.8 of the Plan to September 24, 2004. The additional time provided by this Honourable Court will hopefully allow the Unions to finalize the Tax Proposals with CRA and RQ so that the obligations under 6.8 of the Plan can be met. The Monitor has written to the Unions informing them that the Monitor believed it premature to advise the Unions at this time of the amount required for any tax withholding obligations pending the outcome of the discussions between the Unions, RQ and CRA. The Monitor will update this Honourable Court on September 24, 2004.
17. The Monitor has advised the Unions that the Monitor will take delivery from the transfer agent and hold the ACE Share certificates that are to be delivered to the Unions or as the Unions direct on the Initial Distribution Date until such time as the Tax Proposals between the Unions and each of RQ and CRA have been finalized or other arrangements are made satisfactory to the Monitor. If the Tax Proposals have been finalized on or before the Initial Distribution Date, the Monitor will be able to deliver the ACE Shares to the Unions or as the Unions direct. The Applicants advise the Monitor that there continues to be a potential unresolved issue regarding the distribution of the proceeds by the Unions since not all Unions have confirmed that all net proceeds will be distributed to the employees. Such issue may need to be resolved as and when the Unions reach resolution of their outstanding issues with CRA and RQ.

OVERSUBSCRIPTION OF ACE RIGHTS SHARES

18. At paragraph 19 of the Thirtieth Report, the Monitor advised that it was reviewing and determining the validity, eligibility and acceptance of subscriptions received by creditors pursuant to creditors' exercise of Rights for ACE Rights Shares under the Plan.
19. The Monitor has determined that there a number of subscriptions which are potentially invalid as a result of an over-subscription and late settlement trades by certain creditors holding Claims relating to the US\$300 million 10.25% 2011 notes ("US Senior Notes").
20. There appear to be two matters affecting the US Senior Notes subscriptions. Firstly, a portion of the US Senior Notes appear to have been subject to lending agreements between various parties such that more than one party (the lending side and the borrowing side of the transaction) have attempted to subscribe for ACE Rights Shares in respect of the same US Senior Note. Secondly, there are some subscriptions that may have been subject to a trade or series of trades occurring just before the Record Date of July 31, 2004. The Monitor has been unable to determine if more than one party has claimed a beneficial ownership interest in the same US Senior Note that may have been settled at different times and/or whether there are trades that were not settled on the Record Date. These two matters are hereinafter referred to as "Oversubscriptions."
21. On September 8, 2004 the Monitor wrote to the subscribing creditors purporting to be the beneficial holders of US Senior Notes and several investment brokers who were custodians of certain accounts (the "Affected Parties") advising them of the Oversubscription and requesting that they verify for the Monitor their beneficial ownership of the US Senior Notes. On September 16, 2004, the Monitor further advised the Affected Parties in writing that in the event the Oversubscriptions were not identified and withdrawn, no distribution of ACE Rights Shares would be made to any

creditor holding a Claim of a US Senior Note, on the basis the Monitor could not determine the beneficial holders of a Claim of a US Senior Note from the evidence provided. These letters are attached as Exhibits “A” and “B” respectively.

22. Many of the Affected Parties are cooperating with the Monitor in an effort to identify the Oversubscriptions. As of the date of this Report, not all of the Oversubscriptions have been identified and consequently, not all of the Oversubscriptions have been withdrawn. Moreover, certain of the Affected Parties have advised the Monitor that they dispute the proposed actions of the Monitor and have suggested they may take legal action.
23. The July 9, 2004 order of this Honourable Court set out the Record Date for purposes of the ACE Rights Shares, and provided the Monitor, as disclosed in the Record Date Notice, with discretion in determining the acceptability of documentation, in form and substance satisfactory to the Monitor, evidencing the validity of subscriptions for ACE Rights Shares. Although the Monitor is not yet satisfied with the documentation purporting to support certain subscriptions, in the interest of fairness, the Monitor believes that holding certain potential Oversubscriptions in escrow while the Monitor seeks additional documentation is more appropriate at this time than an outright rejection of the potential Oversubscriptions.
24. On September 22, 2004, the Monitor will be providing the Applicants and the Applicants’ transfer agent (“Transfer Agent”) with the final list of creditors (“Initial Distribution List”) who are to receive ACE Shares and ACE Rights Shares on the Initial Distribution Date. The Monitor has been advised by the Transfer Agent that the Initial Distribution List cannot be amended after September 22, 2004 due to the length of time required by the Transfer Agent to record and prepare the distribution of the share certificates on the Initial Distribution Date.
25. Consequently, the Monitor is unable to commit to distributing ACE Rights Shares to all of the Affected Parties on the Initial Distribution Date as they were advised on September 8 and 16, 2004. It simply lacks complete and accurate data to determine which subscriptions are valid and which are not. Therefore, the Monitor recommends

that a special distribution (“Special Distribution”) be implemented on the following basis:

- a. The Monitor will not distribute on the Initial Distribution Date certain ACE Rights Shares (“Escrow Shares”) to certain subscribers who have submitted potential Oversubscriptions on the basis of the Monitor’s concerns with the evidence available to the Monitor at this time;
- b. The Monitor will hold the Escrow Shares until it is satisfied that the potential Oversubscriptions have been completely reversed and evidence satisfactory to the Monitor has been provided to prove to the Monitor’s satisfaction that certain of the Affected Parties are beneficial holders of Claims of US Senior Notes on the Record Date. Once satisfied, the Monitor will distribute the Escrow Shares to the Affected Parties who are proven beneficial holders;
- c. DB will provide the Monitor with a special escrow fund (“Escrow Fund”) in an amount to be determined amongst DB, the Monitor and the Applicants. The Escrow Fund will be used by the Monitor, if required, to fund those Escrow Shares that the Monitor finally determines should not be distributed to an Affected Party but rather should be distributed to DB pursuant to the Plan and the DB Restated Standby Purchase Agreement. Such Escrow Shares shall then be distributed to DB by the Monitor;
- d. Subscription funds received by the Monitor relating to subscriptions which are finally determined to be ineligible by the Monitor based on the evidence available to the Monitor at that time or relating to subscriptions which may be withdrawn, will be returned to the party that provided the funds; and
- e. Any remaining funds in the Escrow Fund after all of the Escrow Shares have been distributed (either to Affected Parties or to DB), shall be returned to DB.

RECOMMENDATIONS

26. The Monitor recommends that this Honourable Court:

- a. Direct the Monitor to deliver the aggregate ACE Shares due to non-union employees to the Escrow Agent to be selected by the Applicants to receive such ACE Shares and to deal with the ACE Shares in accordance with paragraph 11; and
- b. Approve the Special Distribution as described in paragraph 25.


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.

September 8, 2004

To whom it may concern

Re: Subscription Notice to Participate in the Rights Offering of ACE Aviation Holdings Inc.

Please note that this notice has been sent to all parties who have subscribed for ACE Rights Shares on the basis of a claim arising pursuant to a holding of the US\$300 million, 10.25% Senior Notes due March 15, 2011 (the "Issue").

As at August 27, 2004, we have received subscription notices from parties which in aggregate exceed the face value of the Issue. It would appear that we have received subscription notices from parties who were not the beneficial owner of the Issue as at July 31, 2004.

As a result, we are requesting that every subscribing party provide us with a new statement from The Depository Trust Company confirming their position as at July 31, 2004 and a print out indicating any borrowed or lent positions with respect to the Issue as at July 31, 2004.

We request that this additional information be provided by noon EST on Friday September 10, 2004. Your supporting documentation may be faxed to us at 204-941-2038, 2039 or 2040. If we are unable to identify the beneficial owners of the Issue prior to this deadline, we may be forced to disallow all subscriptions relating to this Issue or defer the issuance of shares until this issue is resolved to our satisfaction.

ERNST & YOUNG INC.

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

Per:

Exhibit "B"



Ernst & Young Inc.
Ernst & Young Tower
Toronto-Dominion Centre
P.O. Box 251, 222 Bay St.
Toronto, Canada M5K 1J7

Phone: (416) 864-1234
Fax: (416) 943-3300

September 16, 2004

Via Facsimile:
Attention:

Dear Sirs,

Re: - Oversubscription to Air Canada Rights Offering by Holders of US\$300,000,000 10.25% Senior Notes due 2011 (the "US Senior Notes")

Ernst & Young Inc., the Monitor in Air Canada's CCAA proceedings, is writing to notify you that we have received subscriptions under the Air Canada rights offering from Creditors claiming to beneficially hold US Senior Notes as at the record date of July 31, 2004 in an amount totalling US\$320,000,000. As at July 31, 2004, there were only US\$280,000,000 US Senior Notes outstanding; therefore, there is an apparent oversubscription of US\$40,000,000.

At this time, the Monitor does not have sufficient information to enable it to determine who the beneficial owners of the US Senior Notes are. As a result, you are hereby put on notice that the Monitor will not issue any ACE Rights Shares to any Creditor who claims to hold a US Senior Note until such time as it has received evidence from holders of US Senior Notes satisfactory to it that this oversubscription has been eliminated. Until such time, for the purposes of the rights offering only, subscription notices received pursuant to the US Senior Notes will be treated as unresolved and the ACE Rights Shares in respect of such will be held in the ACE Rights Share Reserve.

All should be on notice that if this oversubscription is not rectified by 5:00 pm on Friday, September 17, 2004, then no distribution of ACE Rights Shares will be made to holders of US Senior Notes on the Initial Distribution Date, which is expected to be September 30, 2004.

Please check your records and ensure that any subscription form which was sent to the Monitor is true and accurate and that the Creditor who signed such subscription was a holder of record as at July 31, 2004 (i.e. settlement of any trade has occurred and has been recorded as at July 31, 2004).

Yours truly,

ERNST & YOUNG INC.
In its capacity as Monitor of Air Canada
And certain of its subsidiaries

Per: