

**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"**

**TWENTIETH REPORT OF THE MONITOR
DATED JANUARY 23, 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, 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 are as defined in the Amended and Restated Initial Order or the First through Nineteenth Reports of the Monitor. All references to dollars are in Canadian currency unless otherwise noted.
3. The purpose of this Twentieth Report of the Monitor (the "Report") is:
 - To provide this Honourable Court with an update on the arbitration process recently initiated to resolve the allocation of the new regional jet aircraft

contemplated under the Company's business plan as between the Air Canada and Air Canada Jazz ("Jazz") pilot groups;

- To provide this Honourable Court with some background in respect of a motion the Applicants expect to bring shortly for the approval of certain deposit payments to be made in connection with the Company's recently announced agreements to purchase 90 new regional jet aircraft; and
- To address a motion by the Applicants seeking certain amendments to the claims procedure order issued by this Honourable Court on September 18, 2003 (the "Claims Procedure Order") and establishing a Restructuring Claims Bar Date, as defined in the Claims Procedure Order.

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 ARBITRATION PROCESS RE: THE REGIONAL JET ALLOCATION

5. As reported in the Monitor's Sixth Report, on May 9, 2003 the Honourable Mr. Justice Farley of the Ontario Superior Court of Justice ("Justice Farley") appointed the Honourable Mr. Justice Winkler ("Justice Winkler") to facilitate Air Canada's negotiations respecting its labour cost re-alignment during the restructuring. Justice

Winkler convened an initial meeting between the parties on May 12, 2003 and between May 12, 2003 and May 31, 2003 facilitated the negotiation of agreements between the Applicants and all unions at Air Canada and Jazz.

6. The Monitor's Sixth Report confirmed that Jazz had reached an agreement with the Airline Pilots Association ("ALPA") on May 24, 2003. The agreement included the following:
 - Staff reductions, wage reductions, productivity improvements, benefit sharing changes and other cost concessions;
 - A stipulation that, effective April 2, 2004 (being the date after expiry of the then current Air Canada Pilots Association ("ACPA") Collective Agreement with Air Canada), all flights using turbojet and turboprop aircraft operated, either directly or indirectly, by Air Canada Enterprises, its subsidiaries or related companies with a certified maximum seating capacity of up to 75 seats, would utilize pilots employed by Jazz, represented by ALPA;
 - A stipulation that in the event ALPA would deliver a proposal to operate aircraft with a certified maximum seating capacity between 76 and 110 seats, the Monitor would administer a competitive bidding process to determine the allocation of such aircraft between pilots at Air Canada and pilots at Jazz; and
 - Notwithstanding the foregoing, the 25 50-seat CRJ aircraft currently operated by Air Canada would be transferred in an orderly manner from Air Canada to Jazz, and in any event, by no later than December 31, 2006. It was stipulated that in the event that ACPA is successful in the bidding process referred to above, the aircraft would be transferred to Jazz as new aircraft are introduced into the Air Canada fleet on a one-to-one basis.

A Letter of Intent was entered into between ALPA and Jazz on May 26, 2003.

Subsequently, ALPA confirmed that it had ratified the agreement.

7. Subsequent negotiations between ACPA and the Company resulted in a tentative agreement on the issues of staff reductions, wage reductions and productivity improvements; however, there remained unresolved matters relating to scope conflicts between the two pilot collective agreements which needed to be addressed.
8. Negotiations between Air Canada, ACPA and ALPA relating to the overlapping scope matters were unsuccessful and a resolution between the parties was not reached. Justice Winkler directed that the overlapping scope issues and issues related to aircraft allocation should be resolved by an arbitration process, and that Mr. Martin Teplitsky, Q.C., (“Mr. Teplitsky”) be engaged as arbitrator in the event ACPA and ALPA were unable to resolve these matters after learning of the Applicants’ aircraft orders. The Arbitration Process was agreed to by Air Canada, ACPA and ALPA.
9. On June 1, 2003 Air Canada and ACPA entered into a tentative agreement in principle, which was made conditional upon the approval, by both parties, of the language of a Memorandum of Agreement (“MOA”) to be finalized the week of June 9, 2003.
10. The final MOA was executed by Air Canada and ACPA on June 17, 2003.
11. On June 17, 2003 Robert A. Milton, President and Chief Executive Officer of Air Canada, wrote to ACPA to confirm that all aircraft with a maximum certified seating capacity between 76 and 110 seats to be acquired or leased by Air Canada or any of its affiliates will be flown exclusively by pilots on the ACPA Seniority List.
12. On June 17, 2003, the arbitration agreement referred to above between Air Canada, Air Canada Jazz, ACPA and ALPA (the “Arbitration Agreement”) was executed by Air Canada and ACPA. The agreement was subsequently executed by ALPA and Jazz. This agreement provides as follows:
 - If Air Canada desires to purchase aircraft, it shall advise ACPA and ALPA prior to introducing the aircraft to either the Air Canada or the Jazz fleets and provide each union with the full particulars of the intended acquisition;

- A meeting shall be held within 15 days, attended by both ACPA and ALPA for the purpose of resolving the question as to whether the aircraft should be added to the Air Canada or the Jazz fleet;
- If no agreement is reached at this meeting, the dispute shall be submitted to binding arbitration, which shall be heard and determined on an expedited basis; and
- The arbitration shall be heard by Mr. Teplitsky and the decision shall be rendered within 60 days.

13. On December 19, 2003, Air Canada announced its intention to acquire new aircraft subject to numerous conditions, including the securing of financing, and other approvals. The aircraft to be acquired were as follows:

- Bombardier Aircraft – Air Canada had submitted an order for 15 50-seat CRJ-200 aircraft and 30 74-seat CRJ-705 aircraft. Aircraft deliveries were scheduled to begin in September, 2004 and that Air Canada also acquired options for 45 additional aircraft;
- Embraer Aircraft - Air Canada had submitted an order for forty-five 93-seat Embraer 190 aircraft. The announcement indicated that aircraft deliveries were scheduled to begin in November, 2005 and that Air Canada also acquired options for forty-five additional aircraft;

14. In accordance with the provisions of the Arbitration Agreement, on December 19, 2003, Air Canada and Jazz wrote to ACPA and ALPA to advise them of the planned aircraft acquisitions.

15. The arbitration to be heard by Mr. Teplitsky (the “Teplitsky Arbitration Process”) commenced on January 17, 2004. The purpose of the initial hearing was to deal with a preliminary issue of whether the proceedings should be an “interest” or “rights” based arbitration. As confirmed in his award dated January 22, 2004, Mr. Teplitsky has reserved his ruling on this preliminary issue until the hearing on the merits is concluded.

The schedule for the Teplitsky Arbitration Process set out at the January 17, 2004 hearing is as follows:

- February 6 - Air Canada and Jazz to provide a submission(s) detailing their position on the allocation of aircraft;
- February 20 - ACPA and ALPA to provide submission in response to the Air Canada/Jazz submission(s);
- February 28, 29 - Arbitration Hearing to be held.

16. In an effort to ensure the maximum economic benefit is achieved for the Applicants and their stakeholders from the allocation of the regional turbojet aircraft, Air Canada has prepared a model which projects economic performance under two scenarios as follows:

- All 50-seat CRJ aircraft are operated by ACPA within Air Canada and only Dash-8 turboprop aircraft are operated by ALPA within Jazz; and
- All of the 50-seat CRJ aircraft and all Dash-8 turboprop aircraft are operated by ALPA within Jazz.

17. Air Canada has requested that the Monitor independently review its model, make suggestions regarding the underlying assumptions that the Monitor deems appropriate, and to report on this issue. The Monitor has engaged ECLAT Consulting, an industry consultant, to assist it in its review. The Monitor has initiated this review and expects to complete its report by February 4, 2004.

18. Satisfactory conclusion of the arbitration process and the allocation of the new regional jet aircraft is a condition precedent to the Amended Investment Agreement with Trinity Time Investments Limited (“Trinity”).

NEW AIRCRAFT ORDERS AND PRE-DELIVERY DEPOSITS

19. As reported in the Monitor's previous Reports to this Honourable Court, the Applicants undertook to reduce 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. Concurrently, the Applicants have also negotiated modified expiry dates for certain of their aircraft leases to properly reflect anticipated passenger capacity and planned aircraft acquisitions, in line with its new business plan.
20. In light of the proposed new aircraft lease expiry dates, it is currently estimated that the Applicants' global aircraft fleet will be reduced by approximately 89 aircraft between April 1, 2003 and December 2007 through repudiations and expiries of leases, with the related capacity to be serviced by a proposed new fleet of 50 to 110 seat aircraft as required by the Applicants' business plan.
21. On December 19, 2003, Air Canada announced that it had reached agreements in principle to purchase 45 Bombardier and 45 Embraer aircraft. These agreements were the result of a detailed analysis of the alternative products available in the 50, 70 and 100 seat aircraft categories from various aircraft manufacturers.
22. The firm Bombardier order consists of fifteen 50-seat CRJ-200 and thirty 74-seat CRJ-705 aircraft with deliveries scheduled to begin in September 2004. The firm Embraer order consists of forty-five 93-seat Embraer 190 aircraft, with deliveries scheduled to begin in November 2005. It is anticipated that all Bombardier and Embraer firm orders will be delivered by January 2008, subject to the usual acceleration and deferral clauses permitting the Company to adjust new aircraft receipts to reflect capacity demands.
23. These aircraft orders are subject to certain pre-requisite conditions being fulfilled including i) obtaining satisfactory financing; ii) approval by this Honourable Court, the Monitor, GE Canada Finance Inc., and Trinity; as well as iii) final documentation of the definitive purchase agreements (the "Definitive Aircraft Purchase Agreements"). The Applicants currently expect to fulfill these conditions by February 2004.
24. As is usual in such transactions, the Company will be required to make certain non-refundable pre-delivery payments upon signing of the Definitive Aircraft Purchase

Agreements. The initial payments are estimated to be approximately US\$50 million with an additional US\$1 million to come due each month from May to August 2004.

25. Accordingly, the Applicants will be bringing a motion in the near future for approval of these pre-delivery payments. At that time, it is expected that additional information with respect to the agreements to purchase these aircraft will be made available.

THE CLAIMS PROCEDURE ORDER

26. On September 18, 2003, the Applicants brought a motion before this Honourable Court for approval of a Claims Procedure Order. Although the Applicants had not filed a plan of arrangement (a “Plan”) yet and efforts were continuing with respect to its various restructuring efforts, the Applicants were of the view that commencing the claims process would expedite the Company’s ability to exit from CCAA protection once the other components of the restructuring were completed as the process of reviewing claims process was expected to take a significant period of time. The Monitor concurred with this view. Accordingly, the Claims Procedure Order was issued by this Honourable Court on September 18, 2003, providing for the establishment of bar dates with respect to the filing of claims against the Applicants as at April 1, 2003 (“Pre-Filing Claims”) and claims arising out of the restructuring, repudiation or termination of any contract, lease, employment agreement, collective agreement or other agreement, written or oral, after April 1, 2003 (“Restructuring Claims”) as follows:

- Creditors asserting Pre-Filing Claims or Restructuring Claims arising on or before September 17, 2003 were required to file a proof of claim with the Monitor prior to 5:00 p.m. on November 17, 2003 (the “Initial Claims Bar Date”).
- Trustees or agents in respect of any issue of bonds were authorized to file a proof of claim, for distribution purposes only, on behalf of bondholders in respect of the bonds for which such trustee or agent acts, on or before the Initial Claims Bar Date.

- Individual bondholders were required to file a proof of claim, for voting purposes only, on or before December 15, 2003.
27. The Claims Procedure Order provided that a subsequent bar date would be established by further order of this Court for the filing of Restructuring Claims arising after September 17, 2003 (the “Restructuring Claims Bar Date”). In addition, potential claims that might be filed in respect of retirement, pension, supplementary pension rights or any claims arising out of Part III of the Canada Labour Code or claims in respect of tax obligations owing to Her Majesty the Queen in right of Canada and Her Majesty the Queen in right of the Province of Ontario were to be dealt with by further order of this Honourable Court.
28. The Claims Procedure Order also provided for the appointment of the Honourable Allan M. Austin, the Honourable Claude Bisson, Mr. Martin Teplitsky, Q.C. and any other persons as designated by the Applicants and approved by the Monitor as claims officers (the “Claims Officers”).
29. As discussed above, creditors were required to submit their proofs of claim to the Monitor. The Monitor was directed to supervise the receipt, collection and examination of claims with the assistance of the Applicants.
30. The Claims Procedure Order provided that in consultation with the Applicants and its counsel, the Monitor may: (i) admit any claim in its entirety; (ii) revise the claim for voting and/or distribution purposes; or, (iii) disallow the claim for voting and/or distribution purposes. Creditors whose claims have been revised or disallowed are to receive a “Notice of Revision or Disallowance” advising them of this fact and the reasons upon which the Monitor relies. Notices of Revision or Disallowance are to be distributed by the Monitor no later than thirty-five days prior to the date set for the meetings of creditors.
31. Creditors who intend to dispute a Notice of Revision or Disallowance must deliver a “Dispute Notice” to the Monitor within ten days of the Notice of Revision or Disallowance. Upon receipt of a Dispute Notice, the Monitor, in consultation with the

Applicants may attempt to consensually resolve the issue with the creditor or deliver a copy of the creditor's Dispute Notice to the supervising Claims Officer.

32. Pursuant to the Claims Procedure Order, the Claims Officers will review and determine, for voting and/or distribution purposes, all claims filed prior to the claims bar dates, which are in dispute for any reason and have not been consensually resolved between the creditor and the Monitor. The Honourable Allan M. Austin will act as the supervising claims officer and co-ordinate the hearing of all disputed claims.
33. The Claims Procedure Order provides that the Applicants or the affected creditor may appeal a Claims Officer's determination of voting or distribution rights by appealing such determination to this Honourable Court within five business days of receipt of such determination, with notice to the Monitor, the Applicant and the Creditor.

SUMMARY OF CLAIMS FILED TO DATE

34. To date, the value of claims received by the Monitor, as filed and prior to any disallowances or revisions, is as follows:

	<i>Claim Value</i> <i>(in Cdn\$ millions)</i>
Aircraft Creditors	\$ 5,552.4
Bondholders	\$ 3,220.7
Employee Related Claims	\$ 6,541.9
Litigation Related Claims (note 1)	\$ 83,459.8
Long Term Debt	\$ 2,472.3
Supplier Repudiations	\$ 1,592.5
Trade Creditors	\$ 319.9
Other	\$ 263.8
	<hr/>
	\$ 103,423.3

Note 1 – Litigation related claims as filed include approximately \$83.2 billion of claims which the Monitor and the Applicants have determined should be disallowed in full as discussed in paragraph [•]

35. The Monitor notes that approximately 291 claims were received after the claims bar date provided for in the Claims Procedure Order. However, as the process of reviewing claims filed prior to the Initial Claims Bar Date is still ongoing, the Monitor is of the view that these claims should be permitted to be filed, subject to the review by the Monitor and the Applicants in accordance with the process described above.

36. The Monitor, with the assistance of the Applicants, is currently in the process of reviewing claims filed to date. Accordingly, the Monitor is not in a position to report on the value of claims to be admitted for purposes of voting or receiving a distribution under the plan of arrangement to be filed with the Court. However, the Monitor is able to provide this Honourable Court with the following preliminary report on claims reviewed thus far.

Aircraft Creditors

37. Claims filed by aircraft creditors are Restructuring Claims arising from the repudiation or renegotiation of aircraft leases. As discussed above, the Initial Claims Bar Date applied only to those aircraft creditors who had received repudiation notices or had entered into memoranda of understanding to revise the terms of pre-filing lease

agreements with the Applicants on or before September 17, 2003. However, as of this date, the Company was still in the process of negotiating amendments to its leases with respect to a substantial portion of the fleet. While some of the lessors still negotiating with the Company did not file claims on the Initial Bar Date (relying on the ability to file claims prior to the Restructuring Claims Bar Date), others filed claims on the basis of a full repudiation of their leases. The Monitor expects that these claims will be amended prior to the Restructuring Claims Bar Date to reflect the terms of any MOUs executed subsequent to September 17, 2003. The Monitor further expects to receive numerous additional aircraft creditor claims prior to the Restructuring Claims Bar Date. In the interim, the Monitor is reviewing the claims filed in respect of aircraft leases repudiated or restructured prior to September 17, 2003. Given the complexity of these claims, this process is ongoing.

Bondholder Claims Filed by Trustees or Agents

38. The trustees or agents who act in connection with the outstanding issues of bonds filed proofs of claim, totalling approximately \$3.2 billion, for all issues of bonds outstanding as at April 1, 2003. The Monitor is in the process of completing its review with respect to the calculation of some of the amounts as filed. In addition, the Monitor notes that certain issues of bonds may be subordinated to some or all of the other unsecured claims of the Applicants and accordingly, the Monitor is considering, with the assistance of legal counsel, the impact of such subordination on these claims given that the Plan has not been filed at this time.

Bondholder Claims Filed by Individual Bondholders

39. Individual bondholders filed claims which, in the aggregate, represent approximately \$2.3 billion or 71% of the total bond debt outstanding. The Monitor has reviewed approximately 55% of the claims filed in number. The Monitor continues to review the remaining claims and to issue Notices of Revision or Disallowance with respect to claims which appear to be incorrectly calculated or do not include adequate support to prove that the individual filing the claim held the bond as at August 31, 2003 (the record date for purposes of filing a proof of claim pursuant to the Claims Procedure Order).

40. The Monitor notes that there appears to have been continued trading of the bonds subsequent to August 31, 2003. As this trading usually occurs on the public market, it is often not possible for a purchaser of bonds to ascertain from whom the bonds were purchased so that the Monitor can ensure that claims are not filed twice in respect of the same bonds. Accordingly, the Monitor is in the process of assessing the various alternatives to remedy this issue and expects that the Applicants will bring a motion for further amendments to be made to the Claims Procedure Order to deal with this.

Employee Related Claims

41. Employee related claims as filed are approximately \$6.5 billion of which claims filed by the Company's labour unions total \$6.3 billion. The labour union claims are comprised of amounts in respect of outstanding grievances as well as amendments to the union contracts agreed to in May, 2003 as part of the labour restructuring process. The Monitor is currently in the process of reviewing these claims with the assistance of the Applicants and their legal counsel. The Monitor notes that the Applicants and the unions have negotiated towards the form of a protocol (the "Grievance Claims Procedure") establishing the procedure pursuant to which April 1, 2003 grievances will be identified and quantified for purposes of voting and receiving a distribution under the plan of arrangement to be filed with the Applicants, subject to the unions' right to subsequently challenge the Applicants' ability to compromise such claims. Accordingly, the Monitor anticipates that any review of the grievance portion of the union claims will be deferred until the completion of the Grievance Claims Procedure.

42. The balance of the employee claims are comprised of numerous smaller value claims as well as several claims that were submitted without quantification. The Monitor continues to review these claims.

Litigation Related Claims

43. Litigation related claims filed to date total approximately \$83.5 billion. Included in this amount are 5 large claims totalling \$83.2 billion which the Monitor and the Applicants have determined should be disallowed in full. The Monitor is currently in the process of

preparing Notices of Disallowance with respect to these claims. With the assistance of the Applicants, the Monitor is continuing to review the remaining claims. A preliminary review indicates that there are several other claims that will likely be disallowed in full or revised to substantially lower amounts.

Long Term Debt

44. Included in the \$2.5 billion of claims filed to date are several claims totalling \$651 million that relate to a loan advanced by Kreditanstalt Für Wiederaufbau (“KfW”) in December, 2000 and guaranteed by United Airlines, Inc. (“UAL”) and Deutsche Lufthansa AG (“Lufthansa”) as described in the Monitor’s Sixteenth Report. As indicated in the Sixteenth Report, KfW has provided written confirmation to the Monitor that upon approval by this Honourable Court of the Canada-Germany Cooperation Agreement (the “CGCA”), an agreement entered into between Air Canada and Lufthansa, Lufthansa would be subrogated to its portion of the claim in the CCAA proceedings guaranteed by Lufthansa. Lufthansa has provided written confirmation to the Monitor that upon approval of the CGCA, it will waive its right to vote or receive any distribution in respect of this claim. Accordingly, the Monitor will be issuing a Notice of Disallowance in respect of all but the UAL guaranteed portion of the loan amount.
45. The remaining long term debt claims include claims in respect of various other loans and credit facilities outstanding as at April 1, 2003. The Monitor is in the process of reviewing these claims.

Supplier Repudiations

46. Supplier repudiation claims are Restructuring Claims arising from the repudiation or renegotiation of various supplier contracts. As discussed above, the Initial Claims Bar Date applied only to those suppliers who had received repudiation notices or had entered into agreements to revise the terms of their pre-filing contracts with the Applicants on or before September 17, 2003. The Monitor understands that the Company has repudiated or renegotiated numerous additional contracts subsequent to September 17, 2003.

Accordingly, the Monitor expects to receive a substantial number of additional claims prior to the Restructuring Claims Bar Date. In the interim, the Monitor is in the process of reviewing the claims filed to date. Many of these claims are extremely complex and involve detailed calculations and analysis to be reviewed or performed by the Monitor and the Applicants. Accordingly, the review of these claims is ongoing.

Trade Creditors

47. These claims relate to amounts owing by the Applicants with respect to goods and services supplied to the Company pre-filing. The Monitor with the assistance of the Applicants, is in the process of reconciling these amounts to the Company's accounts payable records.

Other Claims

48. This category is comprised of either claims that do not fit into the categories above or claims for which the basis is not readily apparent from the claims documentation. The Monitor is currently working with the Company to review these claims.

CLAIMS OFFICERS

49. As discussed in paragraph 28 above, the Claims Procedure Order provided for the appointment of the Honourable Allan M. Austin, the Honourable Claude Bisson, Mr. Martin Teplitsky, Q.C. and any other persons as designated by the Applicants and approved by the Monitor as claims officers. On December 17, 2003, counsel to the Monitor received a letter from the Honourable Claude Bisson advising that he was resigning his position as a claims officer. Accordingly, the Applicants, with the Monitor's approval, have appointed the Honourable Pierre A. Michaud, Q.C. as a claims officer. The Honourable Pierre A. Michaud is a retired Chief Justice of the Quebec Court of Appeal and a former Associate Chief Justice of the Quebec Superior Court.

ESTABLISHMENT OF THE RESTRUCTURING CLAIMS BAR DATE

50. As discussed above, the Claims Procedure Order provided that a Restructuring Claims Bar Date would be set by further order of this Honourable Court. It was expected that it would be set upon the completion of the aircraft lease restructuring process and the supplier repudiation / restructuring process. The Applicants expect to complete these processes by January 31, 2004. At that time, it is expected that all creditors with potential claims against the Applicants will be in a position to quantify their claims. Accordingly, the Applicants propose that the Restructuring Claims Bar Date be set for February 23, 2004 and that the Applicants be required to distribute proofs of claim and related instructions and filing information by regular mail to all known parties with potential Restructuring Claims arising on or after September 18, 2003 by no later than February 6, 2004. The Applicants propose that all other aspects of the process for filing and dealing with these Restructuring Claims, including the issuance of Notices of Revision or Disallowance and filing of Dispute Notices remain the same as reflected in the Claims Procedure Order.

51. The Monitor is of the view that a Restructuring Claims Bar Date of February 23, 2004 would allow potential claimants sufficient time to prepare and submit their proof of claim. The Monitor is also of the view that setting the Restructuring Claims Bar Date for February 23, 2004 will allow the Company to proceed with its restructuring in a manner which expedites its emergence from CCAA protection in accordance with Justice Farley's direction to proceed towards an expedited emergence and the expiry date contemplated in the Trinity amended investment agreement.

AMENDMENTS TO THE CLAIMS PROCEDURE ORDER

52. The Applicants are seeking certain other amendments to the Claims Procedure Order as discussed below.

53. Certain of the Applicants' stakeholders have requested amendments to the Claims Procedure Order to clarify the rights of certain parties, including insurers, after the acceptance, rejection or revision by the Monitor of claims arising from actual or threatened actions in which one or more of the Applicants is a party. These amendments are intended to ensure that the acceptance, rejection or revision by the Monitor of the uninsured or deductible portion of any litigation related claim does not prejudice the rights of a party to such action or of any insurers to accept, defend or otherwise deal with the action after the stay of proceedings is lifted as well as to ensure that if the Monitor accepts, rejects or revises a litigation related claim, any portion of the claim for which the Applicants are fully insured remains an Excluded Claim, as defined in the Claims Procedure Order. The Monitor is of the view that the proposed amendments are reasonable.

54. As discussed in paragraph 27 above, the Claims Procedure Order provided that the Initial Bar Date did not apply to claims arising under Part III of the Canada Labour Code (the "Part III Complaints"), that a subsequent bar date would be established in respect of these claims and that these claims would be dealt with by further order of this Court. On November 3, 2003, this Honourable Court approved a procedure to identify and quantify all Part III Complaints filed prior to April 1, 2003 (the "Part III Complaints Order"). Part III Complaints filed after April 1, 2003 will proceed in the ordinary course. The Applicants and the Attorney General, on behalf of Human Resources Development Canada, exchanged lists of all known Part III Complaints filed prior to April 1, 2003. The process of quantifying these complaints will be carried out on an expedited basis. In addition, the Applicants wish to ensure that any parties with Part III Complaints that may have inadvertently been omitted from the lists exchanged by the Applicants and the Attorney General are given the opportunity to file a claim in respect of the complaint. Accordingly, the Applicants propose that any parties with Part III Complaints not identified by the parties be required to file these complaints prior to the Restructuring Claims Bar Date.

55. As discussed in paragraph 41 above, the Applicants and the unions have negotiated towards the form of the Grievance Claims Procedure to identify and quantify pre-April

1, 2003 grievance claims for purposes of voting and receiving a distribution under the Plan. The Grievance Claims Procedure provides that all post April 1, 2003 grievances, with the exception of Restructuring Claims, will be dealt with in the ordinary course. The Applicants and certain of the unions have already commenced proceedings on the basis of the procedure set forth in the Grievance Claims Procedure. However, the Applicants wish to have the Grievance Claims Procedure approved by this Honourable Court.

56. Also as discussed in paragraph 27 above, the Claims Procedure Order provided that tax obligations to Her Majesty in right of Canada and Her Majesty in right of the Province of Ontario would be dealt with by further order of this Court. The Applicants have drafted a form of protocol dealing with tax obligations to these entities which they intend to bring before this Honourable Court for approval. In the interim, the Province of Quebec has requested and the Applicants propose that the Claims Procedure Order be amended to provide for the same treatment with respect to its tax claims.

57. The Monitor notes that the Applicants have not proposed that any newspaper advertisements be published advising creditors of the Restructuring Claims Bar Date. The Company is of the view that advertising of the Initial Claims Bar Date was beneficial as many of its' creditors were not known to the Applicants. However, the creditors expected to file claims on or before the Restructuring Claims Bar Date are those whose claims arise from the restructuring or repudiation of contracts by Air Canada and accordingly, the identity of these potential claimants is known to the Applicants, making it possible for the Applicants to ensure they are included in the mailing of proof of claim packages to occur on or before February 6, 2004. The Monitor concurs that newspaper advertisements do not appear to be necessary.

CONCLUSION

58. For a variety of compelling commercial reasons, the Company is of the view that it is important to conclude these CCAA proceedings as soon as possible. Accordingly, the

Applicants and their advisors are working diligently to complete their restructuring efforts and to fully develop and negotiate a Plan. With the recent completion of the equity plan sponsor selection process and the approval of the agreements with General Electric Capital Corporation, the Applicants have made substantial progress in their efforts. The Applicants are now focussing on resolution of the pension plan deficit issue, completion of the aircraft lease restructuring process, completion of the supplier repudiation / restructuring process and the claims process. The time between the filing of a Plan and the holding of a vote on the Plan is expected to be quite short and accordingly, the Applicants are of the view, and the Monitor agrees that the current establishment of the Restructuring Claims Bar Date is necessary to ensure that the Applicants are in a position to convene a meeting of creditors as soon as the Plan and Information Circular are available for distribution.

RECOMMENDATION

59. The Monitor recommends that this Honourable Court approve the Grievance Claims Procedure Order and the Applicant's proposed amendments to the Claims Procedure Order, and establish a Restructuring Claims Bar Date of February 23, 2004.

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.