

**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"**

**TWENTY-SECOND REPORT OF THE MONITOR
DATED MARCH 24, 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 Twenty-First Reports of the Monitor. All references to dollars are in Canadian currency unless otherwise noted.
3. The purpose of this Twenty-Second Report of the Monitor (the "Report") is to provide this Honourable Court with an update on:
 - a. The equity plan sponsor financing;
 - b. The Deutsche Bank standby agreement;
 - c. Pension matters;
 - d. Renegotiated agreements with labour unions;

- e. Negotiations with aircraft lessors;
- f. Restructuring of other contractual commitments;
- g. The GE Capital Aviation Services (“GECAS”) comprehensive aircraft and financing agreement;
- h. The regional jet aircraft orders;
- i. The regional jet allocation;
- j. The Airbus 340-500 purchase agreement;
- k. The updated business plan forecast;
- l. Operating Results;
- m. Cash flow projections to June 18, 2004;
- n. Estimated obligations of the Company arising subsequent to April 1, 2003;
- o. The claims process;
- p. Progress in the development of the restructuring plan;
- q. Ancillary proceedings under Section 304 of the US Bankruptcy Code; and,
- r. 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 PLAN SPONSOR FINANCING

5. On December 8, 2003, this Honourable Court approved an investment agreement entered into between the Company and Trinity pursuant to which Trinity is to make a \$650 million equity investment in Air Canada. This agreement was later revised and the Amended Trinity Investment Agreement was approved by the Board of Directors of Air Canada on December 21, 2003 and by this Honourable Court on January 16, 2003.
6. Also on December 8, 2003, this Honourable Court approved a standby purchase agreement (the “Standby Agreement”) entered into between the Company and Deutsche Bank Securities Inc. (“DB”) in connection with a rights offering to be made to the Applicants’ creditors which would provide the Company with an additional \$450 million of equity financing for a total equity investment of \$1.1 billion. The Standby Agreement is discussed in further detail below.
7. In addition to the customary representations and warranties, the Amended Trinity Investment Agreement contains a number of conditions precedent to closing including the following:
 - Receipt by Trinity of a satisfactory tax opinion with respect to the assumptions contained in the Company’s business plan and resulting estimated tax payable for the three years following implementation – Discussions are ongoing between the Applicants and Trinity with respect to this issue;
 - Pension and benefit plans, including the related design and funding obligations are to be satisfactory to Trinity – The status of the pension issue is discussed in further detail below;
 - The funding of any pension plan deficit shall have been resolved with the Office of the Superintendent of Financial Institutions (“OSFI”), the Company’s labour unions, retirees and other applicable employee representatives, and the Company shall have received any necessary regulatory approval, all to the satisfaction of Trinity – The status of the pension plan funding resolution is discussed in further detail below;

- The Company must meet certain financial tests consistent with its business plan as previously provided to Trinity. – These tests will be measured at closing of the transaction;
- The Company must achieve the cost savings and labour productivity targets as well as have EBITDAR for the period October 1, 2003 through to closing of not less than the target amounts all as set out in the Amended Trinity Investment Agreement – The Monitor is advised by the Applicants that all financial covenants to the end of February, 2004 have been met. The status of the labour savings is discussed in further detail below;
- The Company may not have any material liabilities or commitments which are not compromised under the plan of compromise or arrangement (the “Plan”) or contemplated under the business plan;
- The GECAS exit financing facility shall be completed upon closing – The status of the GECAS agreements are discussed in further detail below;
- No event of default may have occurred under the GECAS global restructuring agreement, the CIBC credit agreement, AMEX credit agreement or any other financing agreement – The Company is not aware of any events of default under any of these agreements;
- There shall have been no material adverse change;
- All existing aircraft leases shall have been restructured in accordance with the business plan – The status of the aircraft lease renegotiations is discussed in further detail below;
- The Company shall have entered into agreements to purchase up to 105 narrow body jet aircraft having fewer than 110 seats on terms satisfactory to Trinity – The status of the new aircraft orders is discussed below;

- The allocation of the new regional jet aircraft as well as the existing fleet as between the mainline carrier, Jazz Air Inc. (“Jazz”) and ZIP Air Inc. shall have been resolved to the satisfaction of Trinity – The current status of the regional jet allocation is discussed in further detail below;
 - The rights offering contemplated under the Standby Agreement shall have been completed – The status of the amendments to the rights offering is discussed below; and
 - Trinity shall have received government assurances with respect to the competitive and regulatory environment in which the Company will operate as well as rates and charges with respect to airports, navigation and security;
8. The Amended Trinity Investment Agreement provided that Trinity could, at Trinity’s option, terminate the agreement in the event that the following conditions were not satisfied or waived by March 31, 2004:
- Pension plan deficit funding settlements;
 - Pension plan design;
 - Tax matters;
 - Aircraft purchase agreements and resolution of existing fleet allocation matters; and
 - Certain governmental assurances.
9. The Applicants and Trinity negotiated an extension of the date by which the conditions were to be satisfied or waived to May 1, 2004.
10. The Amended Trinity Investment Agreement provides that the equity financing commitment ends on April 30, 2004 unless extended. The Applicants recognize that an extension of the April 30, 2004 expiry date would be required in order to complete the balance of the Air Canada restructuring. Discussions with respect to an extension of the equity financing commitment have been deferred pending delivery of the updated business plan (as discussed below).

THE DEUTSCHE BANK STANDBY AGREEMENT

11. As discussed above, the Standby Agreement was approved by this Honourable Court on December 8, 2003, subject to this Honourable Court noting that DB recognized the need for an adjustment to the Standby Agreement to provide a mechanism to deal with the ability of creditors with disputed claims to participate in the rights offering. In its Eighteenth Report, the Monitor advised this Honourable Court that Trinity had entered into an agreement with DB to reflect certain amendments to be allowed by DB to the Standby Agreement (the “Amended Standby Agreement”). Since then, the Company has been negotiating the form of the Amended Standby Agreement with DB. The draft changes to the Amended Standby Agreement address the following key business issues:

- Over-allotment - Creditors which elect to subscribe for additional equity pursuant to the rights offering will have the opportunity to acquire an over-allotment of equity in excess of the creditor’s basic pro-rata equity allowance. The details of each individual creditor’s over-allotment entitlement is subject to ongoing negotiations between the Applicants and DB; however, pursuant to the Amended Trinity Investment Agreement, creditors in the aggregate will have the opportunity to subscribe for up to 50% of the rights offering shares that have not been subscribed to by creditors pursuant to their basic pro-rata equity allowances; and
- Creditors with disputed claims at closing of the CCAA transactions will be entitled to participate in the rights offering, subject to ultimately proving their claims for distribution purposes. Accordingly, the Amended Standby Agreement will provide a mechanism for the re-allocation of rights offering shares amongst creditors to allow for subscription by creditors with disputed claims.

12. The Applicants have provided a recent draft of the Amended Standby Agreement to the professional advisors to the Unsecured Creditors’ Committee (the “UCC”). The Applicants have received input from the UCC advisors concerning the proposed amendments, some of which the Applicants are considering in their ongoing

negotiations with DB. However, the UCC continues to have unresolved issues with respect to the Amended Standby Agreement.

13. Once the Amended Standby Agreement is finalized and executed, the Company will seek approval of the applicable amendments from this Honourable Court.

PENSION MATTERS

14. In the Seventeenth Report, the Monitor updated this Honourable Court on the status of the Company's discussions with representatives of 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.
15. As discussed in the Seventeenth Report, on October 27, 2003, the Company presented its final proposal to representatives of its Canadian labour unions, non-unionized employees and retirees (the "Pension Beneficiaries Group"). The Pension Beneficiaries Group provided a counter-proposal to Air Canada on October 31, 2003. 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 previous guidelines provided by OSFI concerning the pension deficit funding matter.
16. Shortly after the October meetings held with the Pension Beneficiaries Group, 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 Beneficiaries Group would have to be satisfactory to the equity plan sponsor. As a result, it was determined by the Applicants 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 noted above, this Honourable Court approved the Amended Trinity Investment Agreement on January 16, 2004.

17. On February 5, 2004, Trinity held separate meetings with Air Canada, the Monitor and representatives of the Pension Beneficiaries Group. At this meeting, Trinity presented to the Pension Beneficiaries Group a proposal to adjust certain early retirement benefits, reduce funding of certain employee benefits over a five year period and transition the pension plans from defined benefit plans to defined contribution plans. The Trinity proposal to migrate to defined contribution plans was to affect all employees, other than retirees or active employees with 60 or more years in combined age and service. At this meeting, the Pension Beneficiaries Group rejected the Trinity proposal, taking the position that the Applicants had agreed during renegotiation of the collective agreements in May, 2003 that the pension and benefit plans would remain unchanged in exchange for certain wage and benefits reductions and productivity enhancements. The representatives of the Pension Beneficiaries Group subsequently advised Trinity that they would not engage in any further discussions with Trinity on the Trinity pension proposal.
18. On February 12, 2004, representatives of the Applicants, Trinity, the Pension Beneficiaries Group and the Monitor attended before this Honourable Court which resulted in an order directing the parties to meet to discuss the issues. As a result of this order, several days of negotiations occurred, resulting in an agreement being reached on February 18, 2004 between the Applicants and the Pension Beneficiaries Group with respect to a schedule for funding the pension deficit over a ten year period. This agreement was documented in a term sheet (the "Pension Funding Term Sheet"). The Pension Funding Term Sheet was subsequently approved by Trinity with respect to the funding commitment only.
19. Subsequent to this date, the Company, the Pension Beneficiaries Group and the Monitor met with representatives of OSFI to present the Pension Funding Term Sheet, with a view to obtaining the necessary regulatory approval. OSFI has not accepted the Pension Funding Term Sheet that had been agreed to between the Company and the Pension Beneficiaries Group. Discussions between representatives of the Applicants,

the Monitor and representatives of OSFI concerning the adequacy of the funding and the treatment of a deemed trust asserted by OSFI have occurred but, to date, these issues remain unresolved.

20. With respect to Trinity's proposal to restructure Air Canada's pension plans, no further discussions have taken place between Trinity and the Pension Beneficiaries Group. Accordingly, the issue remains at an impasse. In a press release dated March 17, 2004, Trinity indicated that as a result of unwillingness of the unions to discuss the restructuring of the pension plans, Trinity will be conducting a full review of its investment including examining the actual level of concessions achieved from the renegotiation of the collective agreements in May, 2003 (in relation to the estimated savings of \$850 million from the wage and benefit reductions and productivity enhancements agreed to by the labour unions) as well as the financial impact of the unions' refusal to allow for a transition of the current defined benefit plans to defined contribution plans.
21. In the Seventeenth Report, the Monitor also reported that the Company had announced its intention to resume remittance of 2003 current service contributions to all of its pension plans and that payment of these amounts had been approved by its Board of Directors and Trinity. This Honourable Court subsequently authorized the necessary amendments to the Amended and Restated Initial Order to permit such contributions to be made. As of the current date, the Applicants have advised the Monitor that to the present date, current service contributions in the aggregate amount of approximately \$118 million have been made to the Company's various pension plans.

THE RENEGOTIATED AGREEMENTS WITH LABOUR UNIONS

22. As previously reported to this Honourable Court, all of the Company's Canadian, U.S. and United Kingdom unions ratified the agreements reached between the Company and the union representatives either directly or during the May 2003 negotiation process directed by The Honourable Mr. Justice Winkler ("Mr. Justice Winkler"). These agreements provided for a combination of wage and benefit reductions and productivity

enhancements which, combined with the concessions provided by the Company's non-management employees, the Company estimated would result in annual labour cost savings of approximately \$1.1 billion by the end of 2006. To date, the Applicants have reduced employment levels during the stay period by approximately 5,670 employees as a result of these agreements and certain other cost reduction measures initiated prior to the Applicants' filing for court protection. This represents a net additional reduction of 70 employees from the figure reported in the Monitor's Seventeenth Report as further staff reductions implemented since that date have been partially offset by the increases in customer service staff required as a result of capacity growth in excess of anticipated levels.

23. As part of the process to update its business plan financial forecasts, the Company has updated its analysis of the cost savings the Company expects to achieve as a result of the collective agreements negotiated during the May, 2003 process directed by Mr. Justice Winkler (the "Winkler Process"). Based on this analysis, the Company has advised the Monitor that notwithstanding that the Company has increased its available seat miles in the international market, actual savings from the wage and benefit reductions and productivity enhancements provided by the Company's labour unions will be lower than committed to by each of the respective labour groups. Trinity is examining the actual savings to be achieved as noted in its press release of March 17, 2004.

NEGOTIATIONS WITH AIRCRAFT LESSORS

24. As previously reported, in connection with its CCAA filing and in accordance with paragraph 25 of the Amended and Restated Initial Order, the Applicants declared a payment moratorium effective April 1, 2003 on all aircraft lease payments in order to preserve cash resources, complete a review of their existing fleet and assess future fleet requirements in light of the restructuring. The moratorium period was also intended to provide the Applicants with the necessary time to negotiate revised financial arrangements for the use of the aircraft with the various lessors or, alternatively, to make arrangements for the return of the aircraft to the lessors, all in accordance with the

Applicants' new business plan, including the aircraft fleet reconfiguration that the Company believes must be completed to be competitive in the current environment.

25. Aircraft lessors were advised that the lease concessions required would include amendments to bring lease rates to market, make lease termination dates consistent with the Company's business plan, implement satisfactory aircraft return conditions and provide for the funding of substantial maintenance checks. In doing so, the Applicants also sought to maintain various complex leasing structures in place to preserve potential financial benefits due at lease term, where applicable.
26. As described in the Monitor's Twenty First Report, as many aircraft operating leases had not yet been successfully renegotiated in January 2004, and given the Applicants' need to accelerate the claims administration process, the Applicants either i) repudiated remaining leases not yet renegotiated, or ii) required lessors to file proofs of claim as if the said aircraft leases had been repudiated ("Deemed Repudiations") as of January 30, 2004. It was expected that these arrangements would allow these lessors the opportunity to file proofs of claim prior to the Second Claims Bar Date of February 23, 2004, subject to the filed proofs of claim being amended if renegotiated arrangements were subsequently arrived at.
27. The table below summarizes the status of the Company's fleet reduction / re-negotiation efforts as of March 18, 2004:

	<i>Air Canada</i>	<i>Jazz</i>
Total Number of Aircraft as at April 1, 2003	259	130
Less: owned 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>)	64	10
Re-negotiated under the ECA agreement	35	n/a
Re-negotiated pursuant to other signed MOUs	96	41
Re-negotiated with MOUs settled	6	n/a
Other aircraft arrangements (<i>note 2</i>)	n/a	20
Not yet settled (<i>note 3</i>)	5	1
	240	79

Note 1 – The agreement entered into between Air Canada and GECAS covers an additional 3 Air Canada aircraft for which leases have expired and 20 Jazz aircraft that have been returned on consent (*Note 2*) as well as an additional 10 aircraft that are also covered by the ECA agreement for a total of 107 aircraft.

Note 2 - This includes 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-28 aircraft.

Note 3 - This category includes 3 aircraft (A330s) whose leases have been repudiated, effective April 15, but discussions continue to conclude a basis to retain them in Air Canada's fleet and two A 320 aircraft subject to "Deemed Repudiations"

Status of Lease Re-Negotiations

28. As of the date of this report, the status of those aircraft leases that have yet to be successfully renegotiated or repudiated is as follows:

Air Canada

29. Eleven aircraft MOUs are not yet resolved, as follows:

- Six aircraft MOUs which have been concluded are expected to become effective over the next few days, including 5 which had been agreed to conditional upon the lessor being provided with new residual value guarantees from the manufacturer of the aircraft, Airbus Industries Inc. ("AVSA"). This condition has now been fulfilled as part of the overall agreement entered into with AVSA as discussed below; and,
- Three aircraft are currently the subject of actual repudiations and two subject to Deemed Repudiations. It appears likely that the latter two aircraft will be returned in the near future unless satisfactory agreements can be arrived at with respect to the leasing of such aircraft, and that the three subject to actual repudiations will be retained on a short term or long term lease with new or restructured lease arrangements to be reached.

Jazz

30. Jazz has one aircraft which has not been successfully renegotiated as of the current date. The Applicants expect to have the status of this aircraft settled within the next few weeks.

RESTRUCTURING OF OTHER CONTRACTUAL COMMITMENTS

31. 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.
32. To date, the Company has achieved recurring annual savings of approximately \$350 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 continues to identify further business processes and contract obligations, which are subject to restructuring with a view to further increasing total annual cash savings.

THE GECAS COMPREHENSIVE AIRCRAFT AND FINANCING AGREEMENT

33. In its Nineteenth Report, the Monitor provided an overview of a global restructuring agreement (the “GRA”) executed by the Company and GECAS (and their relevant affiliates) which provides several benefits for Air Canada including: i) the restructuring of owned and managed aircraft leases, ii) new exit financing of approximately US\$585 million to be available for use upon emergence from CCAA (the “Exit Facility”), and iii) aircraft financing to a maximum of US\$950 million to be used for the future acquisition of approximately 43 new regional aircraft (the “RJ Financing”). In return, the GRA provides, amongst other things, for: i) the delivery of notes refinancing existing obligations to GECC in connection with two B747-400 cross-collateralized leases; ii) the delivery of stock purchase warrants (the “Warrants”) for the purchase of an additional 4% of the common stock of the Company at a strike price equal to the price paid by any equity plan sponsor; and iii) the cross-collateralization of all GECC

and affiliate obligations (the “Interfacility Collateralization Agreement”) on Air Canada’s emergence from CCAA proceedings for a certain period of time.

34. The Exit Facility and Interfacility Collateralization Agreement were in the form of term sheets attached to the GRA. Since the execution of the GRA, the Company and GECAS have been working to settle on the form of the definitive agreements. The negotiation of definitive agreements with GECAS continues.
35. The RJ Financing was in the form of a commitment to provide financing on terms and conditions to be subsequently agreed to amongst the parties. Since the date of the Nineteenth Report, the Company and GECAS continue to negotiate a mutually acceptable term sheet
36. The GRA provides that the Company must emerge from CCAA protection on or before April 30, 2004. The Applicants recognize that an extension of the April 30, 2004 expiry date is required in order to complete the balance of the Air Canada restructuring. Negotiations on an extension of the GECAS Exit Facility and RJ Financing commitments have been deferred pending the outcome of discussions with Trinity. The Monitor notes that GECAS has expressed its frustration with respect to the pension impasse remaining unresolved to each of the Applicants, the Monitor and this Honourable Court.

THE REGIONAL JET AIRCRAFT ORDERS

37. The Monitor reported in the Twentieth Report that Air Canada had entered into agreements with Bombardier and Embraer to purchase a total of 90 regional aircraft, subject to certain conditions being fulfilled, including, amongst others, that satisfactory financing be obtained by the manufacturer for these orders.
38. On March 12, 2004, Air Canada announced that Embraer had satisfied the financing conditions. Accordingly, the refundable deposit paid to Embraer should become non-refundable once the final contract documentation has been completed.

39. On March 24, 2004, the Company announced that it had received confirmation that Bombardier had secured financing on satisfactory commercial terms to Air Canada for the entire Bombardier order.
40. The Applicants continue to assess their options with respect to the purchase of an additional 15 aircraft as contemplated under the business plan.

THE REGIONAL JET ALLOCATION

41. In its Twentieth Report, the Monitor provided this Court with a summary of the issue arising from the allocation of the new regional jet aircraft contemplated in the Company's business plan as between the Air Canada and Air Canada Jazz ("Jazz") pilot groups. The issue arose out of certain overlapping scope provisions in the agreements reached between Jazz and the Airline Pilots Association ("ALPA") in May, 2003 under the direction of Mr. Justice Winkler and the agreement in place between Air Canada and the Air Canada Pilots Association ("ACPA") with respect to the allocation of aircraft with a maximum seating capacity of between 76 and 110 seats. Mr. Justice Winkler directed that should Air Canada, ACPA and ALPA be unable to resolve the issue of aircraft allocation, upon notice of the Company having ordered such aircraft, that the matter should be resolved by an arbitration process and that Mr. Martin Teplitsky, Q.C. be engaged as arbitrator. Accordingly, on June 17, 2003, Air Canada, Jazz, ACPA and ALPA entered into an arbitration agreement (the "Aircraft Arbitration Agreement") setting out the general process for such arbitration with respect to the allocation of any new regional jet aircraft.
42. 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 from Bombardier and Embraer. In accordance with the provisions of the Arbitration Agreement, on December 19, 2003, Air Canada and Jazz advised ACPA and ALPA respectively of the planned aircraft acquisitions. The arbitration to be heard by Mr. Teplitsky commenced on January 17, 2004 and culminated in a tentative settlement agreement reached amongst the parties on March 5, 2004 (the "Teplitsky RJ

Settlement”). The Company has since been advised by both ACPA and ALPA that the Teplitsky RJ Settlement has been ratified by their respective members. This ratification fulfills a condition precedent to closing of the Amended Trinity Investment Agreement.

THE AIRBUS 340-500 PURCHASE AGREEMENT

43. At the time of filing for CCAA protection on April 1, 2003, Air Canada had outstanding obligations to AVSA to acquire a series of aircraft pursuant to a number of aircraft acquisition agreements.
44. As is customary in the airline industry, Air Canada had made numerous pre-delivery payments (“PDP”) to AVSA to secure the future delivery of such aircraft.
45. Upon filing for CCAA protection, the Applicants suspended taking delivery of any scheduled new aircraft pending a review of its aircraft fleet. This moratorium resulted in Air Canada’s failure to take delivery of two ready-for-use Airbus A340-500 series aircraft and two A321 series aircraft scheduled for delivery in the summer of 2003, thereby defaulting under certain purchase commitments with AVSA and potentially compromising certain non-refundable PDPs.
46. In January 2004, in light of the February 23, 2004 final claims bar date and since no agreement had been reached with AVSA, Air Canada repudiated all of its outstanding aircraft purchase commitments with AVSA. Subsequent discussions ultimately led to the agreements with AVSA discussed below.
47. As the terms of the agreements between AVSA and Air Canada described in this Report are subject to strict confidentiality provisions, the financial terms contained in these agreements are not being disclosed herein.

The outstanding aircraft purchase agreements

48. As of April 1, 2003, Air Canada had outstanding commitments to take certain aircraft deliveries under two separate aircraft purchase agreements, as follows:

- Under the A340-500/600 purchase agreement (the “A340-500/600 PA”), Air Canada was to take delivery of two new A340-500 long range wide-body aircraft in June and July 2003. Under its aircraft fleet moratorium, Air Canada failed to take these aircraft deliveries. As of the date of this Report, these aircraft are fully completed and essentially ready and available for usage at AVSA’s facilities, subject to certain modifications to finalize their preparation to Air Canada standards. In addition, Air Canada was also scheduled to take delivery of three additional A340-600 long range wide-body aircraft in the months of July, September and October 2004. These deliveries were partially secured by PDPs.
 - Under an amendment to the A319 purchase agreement (the “A319 PA”), Air Canada was to take delivery of the two remaining A321 narrow body aircraft in August 2003, which Air Canada failed to honour under its fleet moratorium. PDPs had also been paid to AVSA under this agreement.
 - Under the A340 purchase agreement (the “A340 PA”), Air Canada had certain purchase options with AVSA for the purchase of A340 wide-body aircraft. These options were partially secured by certain sums of money held by AVSA in a PDP arrangement defined as a prepayment fund (the “Prepayment Fund”). The Prepayment Fund was established to secure multiple Air Canada obligations to AVSA, and not for the A340 purchase options under the A340PA.
49. AVSA advised Air Canada in early March 2004 that it had identified a buyer for the two ready-for-use A340-500s and requested that Air Canada take a position by March 19, 2004 as to whether it would accept delivery of these A340-500 aircraft under a proposed global agreement, failing which AVSA reserved the right to set-off all the pre-filing Air Canada PDPs as damages on these repudiated purchase agreements. This notice prompted an accelerated review of the proposed agreement by the Monitor and the UCC professional advisors and a Court attendance on March 19, 2004.

The settlement agreement

50. Ultimately, the issue was resolved consensually and a settlement agreement was signed. Under the terms of the settlement agreement, Air Canada and AVSA negotiated two separate agreements, the AVSA memorandum of understanding (the “AVSA MOU”) and the AVSA financing term sheet (the “AVSA Term Sheet”), which provide that:

- Air Canada would take delivery of the two ready for use A340-500 aircraft at a reduced purchase price, after the application of certain PDP payments and credits. In addition, AVSA committed to provide financing of such aircraft purchase price, based on a 15-year fully amortizing payment schedule, either directly or via a third party financier, in exchange for a 1% financing fee, to be paid out of the PDP’s held;
- Air Canada’s obligation to take delivery of the 3 A340-600 series aircraft due in July, August, September 2004 would be extended to August, September and October 2010, with a credit extended and allocated pro-rata to these three deferred aircraft orders (the “340-600 PDP Credits”). Air Canada may instead elect to order five smaller A330 or A340 wide-body aircraft, in which case, AVSA would allocate the credit on a pro-rata basis to these five smaller wide-body aircraft orders (the “Reduced 340-600 PDP Credits”).
- The remaining two 321 aircraft deliveries due under the A319 PA would be cancelled, with AVSA retaining the PDPs paid thereunder;

The RVG restructuring fee

51. In order to limit the risk to aircraft lenders and financiers, aircraft manufacturers and other manufacturers of engines frequently provide residual value guarantees (“RVGs”) to lessors. These RVGs are third party guarantees that an aircraft will have a certain pre-determined fair market value at a specific date in the future, failing which, the RVG provider will support any deficiency.

52. These RVGs are typically used in the aircraft industry to reduce the financial risk that a lessor and its lenders would have to support at the end of an aircraft lease by aligning the financial terms and conditions of an aircraft lease with the RVG amount at the end of the aircraft lease, so that it equals any unamortized loan balance secured by the

- aircraft at that date. This mechanism ensures the aircraft lender/financier that the aircraft's value at the end of the aircraft lease will be equal to the amount at that date.
53. By reducing the financial risk to aircraft lessors and financiers, such RVGs should typically allow aircraft lessors to benefit from lower aircraft financing interest rates, which in turn should result in lower lease rates to aircraft lessees/operators.
 54. During the fall of 2003, Air Canada and a group of lenders to Air Canada's aircraft lessors covering 35 aircraft leases (the "ECA aircraft"), including substantially all of Air Canada's wide-body A330 and A340 Airbus fleet of 16 aircraft, entered into an arrangement for the restructuring of the aircraft leases at lower restructured lease rates. Under the terms of these restructured leases, the aircraft leases are extended by an average of six years and require that previously provided RVGs be extended for a corresponding period.
 55. AVSA had previously provided RVGs on a large proportion of these 35 aircraft and committed to provide the aircraft financiers with new RVGs at the new lease termination dates for 29 aircraft subject to receiving financial compensation to be determined at a later date.
 56. In addition, Air Canada recently renegotiated similar extended leasing terms on five A321 aircraft, which also require AVSA to provide the lessors with new RVGs at the new lease expiry dates, which AVSA has agreed to provide, subject to the terms of the AVSA MOU and the AVSA Term Sheet.
 57. As compensation to AVSA for the additional risk it has agreed to bear with respect to the future market value of the 29 ECA aircraft and the five A321s, the Applicants have agreed to pay AVSA an RVG restructuring fee to be paid from the Prepayment Fund.

Withdrawal of the AVSA proof of claim

58. In exchange for Air Canada agreeing to the above, AVSA has agreed that upon the fulfillment of the conditions precedent discussed below and the agreements being made effective, it will withdraw its proof of claim submitted in the claims process in the amount of approximately \$1.2 billion and will not file a further proof of claim with respect to damages under the previously mentioned repudiated aircraft purchase

agreements. In addition, the notes payable provided to AVSA with respect to projected aircraft deliveries, would be remitted to Air Canada, thereby further reducing the pool of creditor claims by a corresponding amount, to the benefit of the Applicants' creditors.

Conditions precedent

59. The AVSA MOU and AVSA Term Sheet is conditional on the approval of Trinity and the CCAA Lender. The Monitor is advised that each of Trinity and the CCAA Lender has provided their consent for the Applicants to enter into the AVSA MOU and AVSA Term Sheet.

The Monitor's analysis

60. The Monitor reviewed the AVSA Term Sheet and the AVSA MOU, and has analyzed the financial benefits to Air Canada to be derived therefrom.
61. The Monitor has obtained a copy of Air Canada's financial analysis supporting these two A340-500 aircraft purchases and has reviewed the supporting financial information including the upfront required investments, the incremental revenue and operating costs, and the ensuing net financial impact of these acquisitions to Air Canada. In assessing the incremental passenger revenues, the Monitor relied largely on the Company's flight planning and profitability software and resulting projections.
62. Notwithstanding that the projections prepared by the Applicants are based on future events as well as market demand and dynamics that are difficult to assess, the Monitor is of the view that the Company's financial analysis of the financial benefits to the stakeholders is reasonable under the circumstances.
63. In light of the RVG guarantees that AVSA has agreed to provide, the preservation of cash deposits for future use and the Company's financial analysis of the benefits from the aircraft acquisitions, the Monitor supported the Applicants' motion seeking court approval of these transactions. The Company's Board of Directors, Trinity and the UCC also supported these transactions. This Honourable Court approved the AVSA MOU and the AVSA Term Sheet on March 19, 2004.

THE UPDATED BUSINESS PLAN FORECAST

64. In early August, 2003, the Company, with the assistance of its financial advisor, Seabury Securities LLC (“Seabury”) completed its seven year business plan forecast which was presented to certain stakeholders who had signed confidentiality agreements including representatives of the UCC, OSFI, its Canadian labour unions, non-unionized employees and retirees, the CCAA Lender, aircraft lessors, potential equity investors and DB.
65. The Company and Seabury have recently been working to update the business plan forecast to adjust for several significant developments including:
- Changes to the domestic competitive environment as a result of announcements by certain low cost competitors of an increase in their domestic capacity;
 - The ninety new regional jet aircraft ordered from Bombardier and Embraer;
 - The impact of the Teplitsky RJ Settlement as discussed above;
 - The acquisition of the two A340-500 aircraft as discussed above;
 - The Company’s recent increases in available seat miles to international destinations;
 - Recent significant increases in fuel costs; and
 - The Company’s updated estimate of labour savings achieved from the wage and benefit reductions and productivity enhancements as discussed above.
66. Management of the Company is scheduled to present the revised business plan to Trinity and to its Board of Directors by March 30, 2004. The Company has advised the Monitor that it will then provide its revised business plan to the financial and legal advisors to the UCC and OSFI under strict confidentiality arrangements, after the receipt of input from each of Trinity and the Board of Directors. As of the current date, the Monitor has not been provided with a copy of the revised business plan.

OPERATING RESULTS

Monthly Operating Statistics

67. Since the Monitor last reported traffic results in the Seventeenth Report, Air Canada Mainline and Jazz have reported traffic statistics for the months of December 2003 as well as January and February 2004, respectively. These statistics are summarized in the table below:

	Air Canada			Jazz		
	December 2003			December 2003		
	<u>2003</u>	<u>2002</u>	<u>change (%)</u>	<u>2003</u>	<u>2002</u>	<u>change (%)</u>
Traffic (RPMs millions)	3,132	3,127	0.2%	129	126	2.4%
Capacity (ASMs millions)	4,353	4,468	-2.6%	217	226	-4.0%
Load Factor	72.0%	70.0%	2.0 pts	59.4%	55.8%	3.6 pts
	2003 totals			2003 totals		
	<u>2003</u>	<u>2002</u>	<u>change (%)</u>	<u>2003</u>	<u>2002</u>	<u>change (%)</u>
Traffic (RPMs millions)	37,888	43,135	-12.2%	1,604	1,572	2.0%
Capacity (ASMs millions)	51,340	57,325	-10.4%	2,691	2,845	-5.4%
Load Factor	73.8%	75.2%	-1.4 pts	59.6%	55.3%	4.3 pts
	January 2004			January 2004		
	<u>2004</u>	<u>2003</u>	<u>change (%)</u>	<u>2004</u>	<u>2003</u>	<u>change (%)</u>
Traffic (RPMs millions)	3,208	3,174	1.1%	119	122	-2.5%
Capacity (ASMs millions)	4,453	4,506	-1.2%	221	227	-2.6%
Load Factor	72.0%	70.4%	1.6 pts	53.8%	53.7%	0.1 pts
	February 2004			February 2004		
	<u>2004</u>	<u>2003</u>	<u>change (%)</u>	<u>2004</u>	<u>2003</u>	<u>change (%)</u>
Traffic (RPMs millions)	3,041	2,822	7.8%	126	127	-0.8%
Capacity (ASMs millions)	4,188	3,827	9.4%	212	201	5.5%
Load Factor	72.6%	73.7%	-1.1 pts	59.4%	63.2%	-3.8 pts

December 2003 traffic results

68. As reported by management, Air Canada December traffic volumes were in excess of comparable 2002 volumes, notwithstanding lower capacity, resulting in a 2% improvement in load factors over 2002. December gains over 2002 levels were principally attributable to Pacific as well as the “Charter and other” segment while US Transborder traffic continues to lag behind 2002 levels. Jazz volumes were slightly over 2002 levels despite a small capacity reduction leading to a 3.6% improvement in load factors.

2003 overall traffic volumes

69. Overall 2003 traffic figures were much below 2002 levels as has been anticipated given SARS and the Iraq war. Despite the sharp traffic decline that occurred as a result of these two factors in the early spring of 2003, traffic figures have gradually rebounded since then with marked improvements since the summer of 2003. Essentially all market segments suffered substantial overall traffic declines with the Pacific traffic leading the way with 36% traffic decline followed by US Transborder with a 15% decline. Pacific traffic is gradually rebounding while the US Transborder segment has steadily been below 2002 levels by approximately 5%. Jazz traffic continues to be in excess of 2002 levels despite lower capacity leading to a 4.3% increase in load factors over 2002.

January 2004 traffic volumes

70. Air Canada January 2004 traffic was slightly in excess of 2003 levels despite a small capacity reduction leading to a 1.6% load factor improvement. US Transborder and Atlantic capacity were substantially below 2003 levels while the Pacific and “Charter and other” category were substantially higher than 2003 levels, with the Pacific improvement coming principally from new routes and additional frequencies on existing routes. Jazz traffic and capacity trailed slightly over 2003 levels essentially leading to similar load factors over 2003.

February 2004 traffic volumes

71. February 2004 traffic was 7.8% in excess of 2003 levels as the market substantially absorbed the 9.4% capacity increase, resulting in a lower load factor by 1.1% over 2003. Similar results were reflected in the Domestic market while the US Transborder market shortfall over the prior year's level was substantially lower than prior months', at approximately 7.5% compared. Pacific and "Charter and other" continue to surpass 2003 levels due to added routes and frequencies. Jazz traffic was slightly lower than 2003 levels despite a 5.5% increase in capacity.
72. Comparative results for the next few months should be substantially better than comparable 2003 levels as the March 2003 results onward will incorporate the devastating effect that the Iraq war and SARS had on traffic figures.

Year-End Financial Statements

73. The Applicants have advised the Monitor that the financial statements for the year ended December 31, 2003 are expected to be issued within the next week.

CASH FLOW PROJECTIONS TO JUNE 18, 2004

74. Attached as Exhibit A to this Report is a summary of the Applicants' unaudited receipts and disbursements from April 1 to March 19, 2004, and a forecast cash flow projection prepared by the Applicants with the assistance of the Monitor for the period of March 20 to June 18, 2004 (the "Cash Flow Projection"). The Applicants recorded net cash inflow of approximately \$478.1 million for the period of April 1, 2003 to March 19, 2004. As a result, the Applicants' combined cash balance in its Canadian and United States bank accounts as at March 19, 2004 was \$902.0 million.
75. The cash flow projection included in the Monitor's Seventeenth Report covered the period December 6, 2003 to March 5, 2004. The Applicants combined cash balance in its Canadian and United States bank accounts as at March 5, 2004 was \$898.5 million or approximately \$414 million higher than forecast in the cash flow projection included in the Monitor's Seventeenth Report. This is due to the following significant factors:

- The previous cash flow projection did not reflect any advance on the non-revolving financing facility provided by Amex Bank of Canada to Air Canada and Aeroplan as it was not known when the funds would be available to be drawn. The definitive agreement and other documentation required was subsequently completed and the funds were advanced on January 19, 2004 resulting in an \$80 million positive variance;
 - As discussed in the Monitor's Nineteenth Report, the Company drew \$300 million of the amount available under the CCAA Credit Facility on January 12, 2004, resulting in a \$300 million positive variance;
 - Passenger receipts for the period were \$103 million higher than forecast due to stronger than expected traffic results, particularly in the international markets;
 - Aircraft lease payments were \$200 million greater than forecast as the previous projection provided for payments only to those lessors who had executed restructured leases as at the date of the Seventeenth Report. Since then, numerous additional leases, including the ECA supported leases, have been restructured and accordingly, lease payments to these parties have resumed;
76. The Cash Flow Projection indicates that for the period from March 20, 2004 to June 18, 2004, the Applicants expect to have net cash inflow of approximately \$125.7 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. This would result in an ending cash balance at June 18, 2004 of \$1,027.6 million.

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

77. Attached as Exhibit B to this Report is a summary of the estimated obligations of the Company that arose between April 1, 2003 and February 29, 2004 (the "Post-Filing Obligations"). This analysis has been prepared on a similar basis to that which was

included in the Monitor's Seventeenth Report and has been updated for changes between November 1, 2003 and February 29, 2004.

78. Based on information provided by the Company, the Monitor estimates that the Post-Filing Obligations as at February 29, 2004 total \$1.519 billion, consisting of \$323.0 million of trade credit, \$177.2 million in accrued and unpaid aircraft lease charges, \$145.8 million of trust amounts which are not yet due and accordingly, have not been remitted, \$388.1 million owing to the Canadian Imperial Bank of Commerce, Amex Bank of Canada and GE Capital Corporation with respect to post-filing credit facilities and \$485.3 million in accrued and unpaid payroll and other employee related charges.
79. The Company's cash on hand as of February 29, 2004 was approximately \$827.3 million. Accordingly, as of that date the Monitor estimates that the Company's Post-Filing Obligations exceeded cash on hand by approximately \$692.1 million (the "Post-Filing Deficiency").
80. Deferred ticket revenues, representing advance ticket sales collected, were approximately \$503.6 million on February 29, 2004 or approximately \$61 million less than at April 1, 2003. After performing a detailed analysis of the February 29, 2004 deferred ticket revenues, the Company estimates that approximately \$499.1 million of this balance relates to tickets sold subsequent to April 1, 2003 and this amount is not included in the Post-Filing Deficiency amount of \$692.1 million referred to above.
81. The Post-Filing Deficiency amount of \$692.1 million has increased from October 31, 2003 at which time it was approximately \$417.7 million. When combined with the amount of post-filing advance tickets sales of \$503.6 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 post-filing obligations.

CLAIMS PROCESS

82. 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;
 - November 17, 2003 with respect to claims arising after April 1, 2003 as a result of the restructuring, repudiation or termination of any contract, lease, employment or other agreement (“Restructuring Claims”) on or before September 17, 2003;
 - December 15, 2003 for bondholders who wished to file a claim for voting purposes only. (The Claims Procedure Order provided that any trustee or agent in respect of any issue of bonds could 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);
83. On January 29, 2004, this Honourable Court issued a further Order establishing a bar date of February 23, 2004 with respect to Restructuring Claims arising after September 17, 2003.
84. As of the current date, the amount of claims received by the Monitor, as filed and prior to any disallowances or revisions, is as follows:

<i>(in Cdn\$ millions)</i>	<i>Filed Claims</i>	<i>Accepted Claims</i>	<i>Disallowed or Revised Claims Currently Unresolved</i>		<i>Claims Under Review</i>
			<i>Filed Amount</i>	<i>Revised Amt</i>	
Aircraft Creditors	\$ 7,727.9	\$ 0.0	\$ 0.0	\$ 0.0	\$ 7,727.9
Bondholders	\$ 3,221.0	\$ 0.0	\$ 1,479.6	\$ 1,389.6	\$ 1,741.4
Employee Related Claims	\$ 6,546.0	\$ 0.0	\$ 34.4	\$ 0.1	\$ 6,511.5
Litigation Related Claims	\$ 83,459.4	\$ 0.4	\$ 73,089.9	\$ 8.8	\$ 0.2
Long Term Debt	\$ 1,707.4	\$ 33.4	\$ 1,448.5	\$ 526.5	\$ 210.6
Supplier Repudiations	\$ 3,065.9	\$ 10.0	\$ 131.5	\$ 16.4	\$ 2,889.7
Trade Creditors	\$ 315.8	\$ 169.2	\$ 61.4	\$ 30.8	\$ 55.1
Other	\$ 275.7	\$ 0.2	\$ 13.6	\$ 0.0	\$ 11.7
	<u>\$ 106,319.1</u>	<u>\$ 213.2</u>	<u>\$ 76,258.9</u>	<u>\$ 1,972.2</u>	<u>\$ 19,148.1</u>

85. The Monitor, with the assistance of the Applicants, is currently in the process of reviewing claims filed to date. The Monitor has provided detailed ongoing updates with respect to the status of the claims to the advisors to the UCC and sought their input as appropriate. At this time, 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 (the “Plan”) to be filed with the Court. However, the Monitor is able to provide this Honourable Court with the following preliminary report on claims reviewed to date.

Aircraft Creditors

86. Claims filed by aircraft creditors are Restructuring Claims arising from the repudiation or renegotiation of aircraft leases. As the majority of these claims were filed on February 23, 2004, and are extremely complex, the process of reviewing these claims is still ongoing. We note that given the complexity of the lease structures and the numerous parties involved therein, it appears that one or more parties may have filed claims in respect of the same aircraft which are essentially duplicative. As these claims are reviewed, we expect that such duplicate claims will be identified and disallowed.

Bondholder Claims Filed by Trustees or Agents

87. 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 attempting to resolve with the trustees the issue of certain fees and post-filing interest claimed. 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. A motion was brought before this Honourable Court on March 17, 2004 dealing with a proposed settlement reached between representatives of certain of the perpetual bonds and certain other financial creditors to deal with this subordination issue. Objections to the proposed settlement were voiced by certain trade creditors as well as certain other bondholders. As any resolution of this issue may impact the quantum of these claims to be accepted for distribution purposes, the Monitor is awaiting a decision of this Honourable Court on this issue prior to admitting, revising or disallowing these claims.

Employee Related Claims

88. 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 as part of the Winkler process.
89. With respect to the portions of the union claims relating to grievances, the Monitor notes that an Order was issued by this Honourable Court approving a protocol for expediting the resolution of many of these grievance claims through a mediation process directed by Mr. Teplitsky. The Monitor has met with representatives of several of the Company's labour unions to discuss how the resolution of the remaining grievance claims may also be expedited.
90. With respect to the portions of the union claims relating to the amendments to the union contracts agreed to in the Winkler process, the Monitor is currently in the process of reviewing these claims with the assistance of the Applicants and their legal counsel.

91. 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 and accept, revise or disallow such claims as appropriate.

Litigation Related Claims

92. Litigation related claims filed to date total approximately \$83.46 billion. Included in this total are approximately 9 large claims totalling \$82.9 billion with the largest being \$70.7 billion. Almost all of these claims have been reviewed by the Monitor and claims totalling approximately \$83.45 billion have been disallowed. Of these, the value of claims for which the claimants have not disputed the disallowance, making the disallowance binding on the claimants, is approximately \$10.4 billion. The remaining Notices of Disallowances in the amount of \$73.1 billion have been disputed by the claimants and accordingly, these claims have been referred to Claims Officers for determination.

Long Term Debt

93. The Monitor has completed its review of approximately \$1.5 billion of the \$1.7 billion in claims for long term debt filed to date. Included in this total are several “duplicate” claims whereby both an original creditor and its assignee have filed claims for the same debt. As a result, the Monitor has disallowed or revised the \$1.5 billion of claims reviewed to date to the extent of approximately \$560 million. Also reflected in these revisions were adjustments to exclude certain post-filing interest and break fees included in the calculation of the claim amounts. Several of the claimants to which the Monitor issued Notices of Revision or Disallowance have disputed the revisions / disallowances. Accordingly, these claims will be referred to Claims Officers.
94. The remaining \$200 million of long term debt claims are in respect of various swaps, letters of credit or other financial instruments and are still under review by the Monitor.

Supplier Repudiations

95. Supplier repudiation claims are Restructuring Claims arising from the repudiation or renegotiation of various supplier contracts. Of the \$3.1 billion in claims received to date, many of these claims were received on February 23, 2004 and accordingly, the Monitor is still in the process of reviewing them.
96. The Monitor notes that included in this total is a claim from AVSA for approximately \$1.2 billion. As discussed above, AVSA has agreed that upon the AVSA MOU becoming effective, it will withdraw this claim. Accordingly, the Monitor expects this claim to be withdrawn shortly.

Trade Creditors

97. 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, has reconciled the majority of these amounts to the Company's accounts payable records. Accordingly, as at the current date, approximately \$169 million of the \$315 million in total claims filed, has been accepted. In addition, the Monitor has issued Notices of Revision or Disallowance with respect to a further \$50 million of claims, revising this total to approximately \$26 million. Several of these revisions have been disputed and the Monitor is currently in discussions with the claimants to resolve the disputes. This balance of claims totalling \$66 million remains under review.

Other Claims

98. 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 most significant claim in this category is a claim in the amount of approximately \$250 million with respect to certain preference shares issued by the Company. The Monitor disallowed this claim. The Notice of Disallowance was not disputed and accordingly, it is now binding on the creditor. The balance of claims in this category are fairly small in value. The Monitor has either revised or disallowed a number of these and continues to review the balance.

99. The Monitor will continue to provide this Honourable Court with further updates on the claims process as additional claims are resolved.

PROGRESS IN THE DEVELOPMENT OF THE RESTRUCTURING PLAN

100. As reported to this Honourable Court in this or previous Reports, the Company has made significant progress in developing the critical components of its restructuring plan although the Monitor notes that the magnitude of issues requiring attention is enormous as this restructuring includes an operational, commercial and financial restructuring in order to develop a restructuring plan that repositions Air Canada as a viable competitor in the airline industry. In particular, the Company has:

- Arranged approximately \$600 million in exit financing and subject to documentation being completed, \$950 million in aircraft financing as part of the GECAS aircraft lease renegotiations;
- Entered into the Trinity Investment Agreement and the Standby Agreement which, collectively, will allow it to raise an additional \$1.1 billion in equity financing upon its emergence from CCAA protection;
- Executed agreements to reduce operating costs with its labour unions;
- Executed or reached agreements in principle with its aircraft lessors in respect of the majority of its fleet;
- Achieved annual savings of approximately \$350 million through the restructuring or repudiation of various operating contracts and process changes;
- Reached an agreement with the Pension Beneficiaries Group with respect to the funding of the pension plan deficit;
- Placed conditional orders with respect to the purchase of 90 of the new regional jet aircraft contemplated under its business plan and secured financing arrangement from the manufacturers with respect to these aircraft;

- Reached agreement with its pilot unions with respect to the pilot group which will operate the new regional jet aircraft;

101. The Applicants have been working diligently on the preparation of a Plan to be presented to its creditors. However, further time is required prior to filing the Plan with this Honourable Court, to allow the Applicants to complete or resolve the remaining critical elements of its restructuring plan including:

- Receiving confirmation from Trinity that the conditions in the Amended Trinity Investment Agreement have been satisfied or waived;
- Finalizing negotiations with respect to the Amended Standby Agreement;
- Obtaining approval from OSFI for the funding of the pension plans deficits;
- Resolving the impasse between Trinity and the labour unions concerning Trinity's design proposal with respect to the Company's pension plans;
- Reaching definitive agreements with GECAS with respect to the Exit Facility and the RJ Financing;
- Reaching agreements with its aircraft lessors with respect to the few leases remaining to be restructured;
- Finalizing various securities matters arising from the issuance of \$450 million of rights offering shares in compliance with both Canadian and US securities laws;
- Finalizing the mechanics to allow public bondholders to participate in the rights offering;
- Implementing a process to select Board members for the restructured Air Canada pursuant to the mechanisms set out in the Amended Trinity Investment Agreement;
- Advancing the resolution of the claims in the claims process and the grievance claims process including establishing appropriate amounts for voting purposes such that the Applicants can convene a meeting of their creditors; and

- Finalize the development of the Plan and Information Circular and provide copies thereof to the UCC professional advisors and other stakeholders for their input.

ANCILLARY PROCEEDINGS UNDER SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE

102. On January 8, 2004, 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 April 14, 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 April 30, 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 APRIL 30, 2004

103. The Applicants are seeking an extension of the stay period to and including April 30, 2004. An extension of the stay period is necessary for the Applicants to resolve several outstanding business issues including obtaining confirmation from Trinity that the conditions in the Amended Trinity Investment Agreement have been satisfied or waived, executing the Amended Standby Agreement, obtaining approval from OSFI for the funding of the pension plans deficits, resolving the impasse between Trinity and the labour unions concerning Trinity's proposal to restructure the defined benefit pension plans, reaching a definitive agreement with Bombardier with respect to the order of regional jet aircraft, reaching definitive agreements with GECAS with respect to the Exit Facility and the RJ Financing, reaching agreements with its aircraft lessors with

respect to the few leases remaining to be restructured and advancing the resolution of the claims in the claims process. All of this activity must occur before the Applicants will be in a position to finalize a Plan of Arrangement to be filed with this Honourable Court.

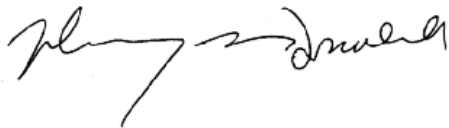
104. In the Monitor's view, the Applicants are acting in good faith and proceeding to negotiate a very complicated and comprehensive restructuring with its constituents. The Monitor believes the Applicants have made substantial progress in the first twelve months of the formal restructuring period although several critical issues must be resolved if the Applicants are to successfully emerge from CCAA protection. The Monitor believes these outstanding issues must be resolved on an urgent basis and, accordingly, a short extension of the stay is appropriate to see if the Applicants and the other parties can resolve these matters and establish a reliable timeline to complete the restructuring and emerge from bankruptcy protection. The Monitor recommends that the Applicants' request for an extension of the stay period to April 30, 2004 be granted.

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.