

**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-SEVENTH REPORT OF THE MONITOR
DATED JUNE 15, 2004**

1. On April 1, 2003, Air Canada and certain of its subsidiaries (collectively the "Applicants" and the "Company") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, *as amended* (the "CCAA"). The terms of this proceeding are governed by an order of this Court dated April 1, 2003 (the "Initial Order"). Pursuant to the Initial Order, Ernst & Young Inc. ("EYI") was appointed as monitor (the "Monitor") of the Applicants during these CCAA proceedings.
2. Capitalized terms not defined in this Report are as defined in the Initial Order or the First through Twenty-Sixth Reports of the Monitor. All references to dollars are in Canadian currency unless otherwise noted.
3. The purpose of this Twenty-Seventh Report of the Monitor (the "Report") is to provide this Honourable Court with:
 - A brief analysis and recommendation with respect to the Applicants' motion seeking this Honourable Court's approval of the Amended and Restated

Commercial Participation and Services Agreement dated June 9, 2004 (the “Agreement”); and

- A brief update on the labour unions’ ratification of the renegotiated agreements described in the Twenty Sixth Report.

TERMS OF REFERENCE

4. In developing this Report, the Monitor has relied upon unaudited company prepared financial information, company records, discussions with management of the Applicants and management of Aeroplan Limited Partnership (“Aeroplan”), a wholly owned subsidiary of Air Canada. 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.

AMENDED AND RESTATED COMMERCIAL PARTICIPATION AND SERVICES AGREEMENT

5. On June 9, 2004, the Applicants served a motion seeking the approval of this Honourable Court for Air Canada’s execution of the Agreement with Aeroplan through 3913368 Canada Inc., its general partner.
6. The Agreement, attached as Exhibit “A” to the affidavit of Pat Iaconi sworn June 9, 2004 included in the Applicants’ motion materials served June 9, 2004 (the “Iaconi Affidavit”), updates and expands the term, nature, extent and pricing of the business relationship between Air Canada and Aeroplan in connection with:
 - Services provided by Aeroplan to Air Canada, including marketing and call centre services, and the management and operation of the frequent flyer Tier Program;

- ❑ Air Canada's purchase of Aeroplan Miles from Aeroplan that are allocated to the accounts of Aeroplan members who purchase tickets to fly on Air Canada;
 - ❑ Redemptions by Aeroplan of reward seats on Air Canada's flights on behalf of Aeroplan customers;
 - ❑ Fees, surcharges and taxes;
 - ❑ Mutual exclusivity; and
 - ❑ Dispute resolution, events of default and termination.
7. From prior motions brought by the Applicants and certain stakeholders in connection with Aeroplan matters and the affinity card programs with AMEX and CIBC, this Honourable Court has been made aware of the high commercial sensitivity of the pricing information as it relates to the purchase and redemption of Aeroplan Miles. For this reason, the Applicants have placed the commercially sensitive pricing information of the Agreement in appendices attached to the Agreement and are seeking an order of this Honourable Court to have the appendices sealed.
8. In the Monitor's view, the pricing information contained in the appendices to the Agreement is extremely sensitive and should not be disclosed publicly due to the likely harm such disclosure would cause the Applicants and the Applicants' stakeholders from the use of such confidential information by competitors.
9. The Applicants have designed a mechanism (similar to the mechanism approved by this Honourable Court in connection with the approval motions for both the New Aerogold and AMEX affinity card programs) to allow parties with a bona fide interest access to the confidential appendices for purposes of reviewing the Agreement for the Applicants' motion to be heard on June 17, 2004. The mechanism (the "Confidentiality Protocol") is described in detail in Exhibit "B" to the Iaconi Affidavit.

10. Pursuant to the Confidentiality Protocol, the Monitor is to be contacted by parties that are interested in reviewing the confidential appendices, and that are listed on Air Canada's Service List.
11. The Monitor has reviewed the Agreement and the confidential appendices with management of Aeroplan, Air Canada and Air Canada's counsel. In the Monitor's view, the Agreement updates and expands the relationship between Air Canada and Aeroplan that was previously subject to a similar agreement between the parties dated January 1, 2002 and codifies other long-standing operational practices that have evolved between Air Canada and Aeroplan.
12. Air Canada and Aeroplan have incorporated the updates and expansions into the Agreement to reflect existing commercial arrangements. In the Monitor's view, it is appropriate that Air Canada and Aeroplan continue to develop independent commercially reasonable terms to govern their relationship.
13. The Monitor has identified a number of major updates and expansions which have been incorporated into the Agreement:
 - The Term of the Agreement is modified to expire, subject to renewals, on the earlier of:
 - 20 years from January 1, 2002; or
 - 15 years after any initial public offering which may occur; and
 - Aeroplan (and Aeroplan customers) are eligible to receive an increase in the number of available reward seats under the Avenue Reward program recently launched.
14. Furthermore, in keeping with this strategy, Air Canada has transferred certain assets relating to its customer loyalty business to Aeroplan. Air Canada has advised the Monitor and CIBC that by the end of this month, it intends to assign the New Aerogold Agreement (that governs the affinity card program and relationship between Air Canada and CIBC) to Aeroplan in accordance with the requirements set out in the

New Aerogold Agreement. One of the requirements of the New Aerogold Agreement is that Court approval of the Agreement be obtained by Air Canada prior to the assignment of the New Aerogold Agreement to Aeroplan.

UPDATE ON LABOUR UNION RATIFICATION

15. As discussed in the Monitor's Twenty-Sixth Report, the Applicants reached tentative agreements, subject to ratification, with all of its domestic labour unions which management estimates will collectively result in approximately \$200 million of annual labour cost savings. Combined with the "clean slate" agreements, the estimated savings to be achieved from agreements to be negotiated with the Company's international labour unions and savings to be achieved from its non-unionized labour force, would allow the Company to meet the labour condition required by the Amended and Restated DB Standby Purchase Agreement.
16. The agreements reached required Air Canada to provide each labour union prior to ratification with copies of the agreements reached with the other labour unions as well as certain other information. All of this information was provided to the labour unions on or before June 9, 2004. In addition, Air Canada has worked with them to answer questions in connection with this information.
17. One of Air Canada's five unions has since ratified the agreement reached in May. Three other unions are in the process of ratification and expect to complete ratification by the end of June 2004. Air Canada continues to work with the remaining labour union to address certain outstanding issues prior to the union beginning the ratification process.
18. One of Jazz's unions has ratified its agreement. The ratification process for the remaining three unions is underway.
19. As a result of the above, management believes that ratification of all of its agreements with the Canadian labour unions will be completed as soon as practical.

MONITOR'S RECOMMENDATIONS

20. The Monitor recommends this Honourable Court approve the Applicants' motion seeking approval of the Agreement for the following reasons. The Agreement:

- Updates the prior agreement between Air Canada and Aeroplan to reflect evolving operational practices;
- Expands the commercial terms of the relationship to reflect the development and expansion of the Aeroplan program; and
- Requires court approval prior to the assignment of the New Aerogold Agreement to Aeroplan – which is a further important step in the Applicants' implementation of the business plan.

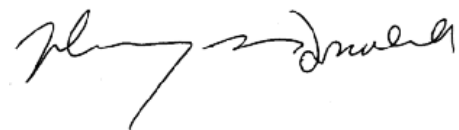
21. Given the sensitivity of certain competitive information, the Monitor recommends this Honourable Court approve the Applicants' request that the appendices remain confidential, subject to the Confidentiality Protocol.

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