

THIS PENSION MEMORANDUM OF UNDERSTANDING MADE AS OF  
THE 16 DAY OF JUNE, 2009 (the "PENSION MOU")

AMONG: AIR CANADA (the "Company")  
AND: AIR CANADA PILOTS ASSOCIATION ("ACPA")  
AND: CANADIAN AIRLINE DISPATCHERS  
ASSOCIATION ("CALDA")  
AND: NATIONAL AUTOMOBILE, AEROSPACE,  
TRANSPORTATION AND GENERAL WORKERS  
UNION OF CANADA (CAW-CANADA), LOCAL 2002  
(the "CAW")  
AND: CANADIAN UNION OF PUBLIC EMPLOYEES,  
AIRLINE DIVISION ("CUPE")  
AND: INTERNATIONAL ASSOCIATION OF MACHINISTS AND  
AEROSPACE WORKERS (the "IAMAW") (ACPA, the CAW,  
CALDA, CUPE and the IAMAW collectively the "Unions")  
AND: AIR CANADA PIONAIRS (the "PIONAIRS")

WHEREAS the Company sponsors ten defined benefit registered pension plans (the "Plans");

WHEREAS the parties recognize that an alteration in the level of the Company's pension funding obligations is critical; and

WHEREAS the parties recognize that a reduction in the Company's pension funding obligations is therefore required;

WHEREAS the parties share the objective of preserving accrued pension benefits;

NOW THEREFORE, the Company, the Pionairs and the Unions agree as follows:

1. A regulation shall be adopted under the *Pension Benefits Standards Act, 1985* (the "Special Regulation") stipulating the funding provisions of parts (a) and (b) below.
  - (a) **2009-2010**
2. The Company shall have no obligation for, and shall not remit, any past service contributions to any Plan for a 21-month period. Specifically:
  - (a) subject to paragraph 2(b) below, such non-contribution period shall commence with the special payment that would otherwise be due July 30, 2009 in respect of the second quarter of 2009;
  - (b) on or before August 14, 2009, a retroactive adjustment in respect of the special payment in respect of the first quarter of 2009 will be made, with such adjustment equal to the greater of zero and:

- (i) the required contribution for the first quarter of 2009, assuming that the Company opts out of the current *Air Canada Pension Plan Solvency Deficiency Funding Regulations* in 2009 in respect of all remaining Plans and amortizes the solvency deficiency for each Plan emerging in 2008 over 10 years, with such deficiency determined by January 1, 2009 actuarial valuations; less
  - (ii) the past service contribution made on April 30, 2009 in respect of the first quarter of 2009 in accordance with the January 1, 2008 actuarial valuations.
- (b) 2011-2013
3. The aggregate annual past service contribution in respect of the period from January 1, 2011 to December 31, 2013, with respect to both solvency deficits and going concern unfunded liabilities, for all the Plans combined shall equal the lesser of:
- (a) \$150 million, \$175 million, and \$225 million in respect of 2011, 2012, and 2013, respectively; and
  - (b) the maximum past service contribution permitted under the *Income Tax Act*.

The first past service contribution after the 21-month non-contribution period will be due April 30, 2011, in respect of the first quarter of 2011.

4. The past service contribution described in section 3 will be determined on a Plan-by-Plan basis, with the contribution to a particular Plan being the pro rata share of that Plan's solvency deficit to the aggregate solvency deficit for all the Plans in solvency deficit, all as determined as at January 1 of each year, where such solvency deficit:
- (a) is determined as the solvency liabilities less the market value or market-related value of the Plan, as determined by the Company's actuary; and
  - (b) shall not be less than zero for any Plan.

For further clarity, should a Plan have a solvency surplus, such Plan shall be excluded from the pro rata allocation of the past service contribution.

5. The past service contribution to be made to each Plan during a Plan year shall be paid in equal quarterly instalments, except that the past service contribution determined in a valuation will remain in effect until the next valuation is filed.

When the next valuation is filed, there will be a retroactive adjustment made at the next scheduled remittance date.

6. The past service contribution to be made during a Plan year shall be remitted on a quarterly basis, and shall be due 30 days after the end of the period in respect of which the contribution is paid.
  7. During the term of this Pension MOU, the Company shall continue to make required current service contributions to the Plans.
  8. The Company shall not offset or reduce any contributions described in section 3 through the use of any actuarial or experience gains, except to the extent they are limited through the application of paragraph 3(b).
- (c) 2014
9. Any solvency deficiency and/or going concern unfunded liability that exists as of January 1, 2014 shall be deemed to have emerged as of January 1, 2014 and shall be funded thereafter in accordance with the *Pension Benefits Standards Act, 1985*, and any applicable regulations thereunder.
- (d) Implementation of Funding Relief
10. The parties shall cooperate, act diligently, and take all actions required for the implementation of this Pension MOU and to further its objectives.
  11. The parties recognize that the suspension of past service contributions for the initial 21-month period and the alternative determination of past service contributions for the subsequent 36-month period require the adoption of the Special Regulation. Without limiting the generality of section 10, the Company, the Pionairs and the Unions shall cooperate in making the necessary representations to OSFI and the Department of Finance to effect such adoption promptly and with effect no later than July 1, 2009 in accordance with the following principles:
    - (a) the parties recognize that consultation with active non-union Plan members and with former Plan members will be required;
    - (b) the funding relief described herein will be granted if less than one-third of all Plan beneficiaries (other than those active Plan members represented by the Unions) object;
    - (c) upon successful ratification, the Unions' respective executions of this Pension MOU shall be deemed to constitute consent on behalf of their respective members;

- (d) the Company shall provide all active non-union Plan members and all former Plan members with a short document satisfactory to the relevant parties to this agreement (such acceptance not to be unreasonably withheld) informing such beneficiaries of the highlights of the funding relief proposal, including the potential financial impact and consent process; and
  - (e) the Company requires that the funding relief described herein apply to all the Plans.
12. It is a condition of this Pension MOU, and the Special Regulation shall so provide, that there will be no outstanding deemed trust relating to the Plans, except:
- (a) if and when any contribution required by the application of this Pension MOU (other than pursuant to section 19) is not remitted to the Plan by the due date described herein;
  - (b) in respect of amounts deducted by the Company from members' remuneration that are not remitted to the Plan when due; or
  - (c) for greater certainty, in respect of normal cost contributions that are not remitted to the Plan when due.
13. This Pension MOU is also subject to the following conditions:
- (a) neither the Unions nor OSFI or any other authority having any jurisdiction over these matters shall assert or support the assertion of any deemed trust that might otherwise arise under current law prior to adoption retroactive to July 1, 2009 of the Special Regulation and any amendments to any other PBSA Regulations that may be necessary to give effect hereto. Without limiting the generality of section 10, the Unions shall cooperate with the Company in requesting and obtaining adoption of the Regulation, as well as "comfort" letters, all satisfactory to the Company, to such effect from OSFI and the Department of Finance;
  - (b) the Company and each of the Unions shall enter into a Labour MOU having a duration of 21 months from the expiry of the last collective agreement;
  - (c) as soon as practicable, and in any event prior to execution of the letter of intent referenced in paragraph 13(d), the Company, the Pionairs, and any other interested parties to this agreement shall jointly approach the Government of Canada and the governments of such province(s) as the

Company shall determine to seek guarantees of the financing described in paragraph 13(d);

- (d) the Company shall have entered into a letter of intent no later than July 15, 2009 for at least \$600 million in new financing (the "Club Loan"), in form and content reasonably satisfactory to the Company;
  - (e) ACE Aviation Holdings Inc. shall have committed to subscribe for at least \$100 million of the Club Loan, subject to the Company waiving such requirement in the best interests of the Company;
  - (f) Groupe Aeroplan Inc. shall have committed to subscribe for at least \$100 million of the Club Loan, subject to the Company waiving such requirement in the best interests of the Company;
  - (g) The Company recognizes the on-going value of its slots and will use its best efforts to ensure that in any financing as described in this paragraph 13 that any collateral not include these slots to any proposed financing entity which is not a Canadian government-related entity (such as the Export Development Corporation) or as the Minister of Finance may permit after receiving representation from any party hereto, such representations to be received by the Minister within two business days of notice of intention to do so (the Parties and the Hon. James Farley to provide address for such notice which may be given by delivery, fax, email, or other appropriate electronic method), with the Minister to consult with the Hon. James Farley to receive his recommendation before determining if such permission is appropriate in the then prevailing circumstances; and
  - (h) The authorization of the Company's Board of Directors.
14. While a Plan is subject to the funding relief described herein, the Company shall file actuarial reports in respect of such Plan on a basis not less frequently than annually. Actuarial methods and assumptions to be employed shall be at the discretion of each Plan's actuary, within the standards of the Canadian Institute of Actuaries. Subject to execution of a non-disclosure agreement, the Company shall provide prior to the public disclosure thereof, to: (a) each Plan's pension committee; (b) each bargaining unit with members in the Plan; and (c) the Pionairs and any other incorporated retiree or non-union employee association with members or former members in the Plan, a copy of that Plan's actuarial report.
15. The Company shall offer a one-time profit share incentive program pursuant to which each active employee of the Company as of the date of ratification of this

Pension MOU shall receive a payment of \$500 providing the Company shall have achieved in respect of its 2010 fiscal year after-tax cash net income of at least \$210 million, such sum to be payable (subject to applicable withholding amounts) within 30 days of release of the Company's 2010 audited financial statements.

16. In the event any Plan is terminated in whole at any time while it is subject to the funding relief described herein, the Company shall be required to fully fund any solvency deficit existing at the termination date. Such deficit shall be paid down over a maximum of five years following submission to and acceptance by OSFI of the termination report. The Company's obligations to the Plan described in this section 16 shall rank *pari passu* with all unsecured claims and, for greater certainty, shall not be subject to a deemed trust or any other priority ranking.
17. On or before November 1, 2009, the Company shall issue the number of Class B shares equal to 15% of the common shares of Air Canada (the "Shares") to a trust to be established for the benefit of the members of the Plans represented by each bargaining unit. The bargaining units' interests in the trust shall be allocated as follows:

	Per Cent of Allocated Equity
CAW	12.58
IAMAW	35.96
ACPA	31.65
CUPE	19.38
CALDA	0.43

The trustee shall be a person agreed by all of the bargaining units or failing agreement, as designated by Hon. James Farley. For so long as the trustee holds any of the Shares allocated to a bargaining unit:

- i. that bargaining unit shall be entitled to receive a proxy from the trustee in respect of the remaining number of Shares allocated to such bargaining unit; and
- ii. that bargaining unit shall be entitled to direct the trustee to cause such Shares as are allocated to it to be sold in whole or in part.

All net proceeds of the Shares, including dividends or net proceeds of disposition (after trustee expenses), shall be transferred to the trustee of the Plans (allocated to each Plan in the manner specified by section 4 hereof) to be received as an employer contribution in respect of outstanding solvency deficits providing that any such amount shall not reduce the minimum contributions prescribed by section 3 hereof. The Company shall not bear any costs or expenses related to the administration or operation of the trust, including without limitation in respect of the divestiture of the Shares or any other transactions which the trust may enter into, above and beyond \$25,000 per year for each of the first three years beginning from the date of creation of the trust, which shall be reimbursed by the Company on the presentation of invoices therefor.

18. For as long as the trustee of the trust continues to hold at least 2% of the common shares of the Company, such trustee shall have the right to designate one member (who shall not be a member or officer of any of the Unions) of the Company's board of directors, subject to completion of the Company's usual governance process for selection and confirmation of directors. The trustee shall designate such member based upon the wishes of the bargaining units allocated a majority of the Shares held by the trust from time to time (with any deadlock to be settled by Hon. James Farley).
  19. The Company shall make no distributions of any kind to its shareholders before December 31, 2010, and shall not make any distributions in excess of Canadian corporate standards prior to December 31, 2013.
- (e) Other
20. In the event the Company becomes subject to the *Companies' Creditors Arrangement Act* or the *Bankruptcy and Insolvency Act*, or other similar proceedings, the lesser of: (i) the difference between the amounts contributed to the Plans under section 3 and the amounts that would have been remitted to the Plans in the absence of this Pension MOU and of the Special Regulation; and (ii) the solvency deficit of the Plans as at the most recent valuation shall be treated as due and payable to the respective Plans; provided, however, that the foregoing is all subject to any non-remittance order of the court or other stay provisions. In such event, each Union and the Pionairs shall be entitled to elect to treat all provisions of this Pension MOU as terminated and no longer binding, except sections 7, 16 and 19. For greater certainty, there shall be no deemed trust associated with any obligations under this section 20; nor shall anything herein be construed as exempting the obligations to make such payment from any stay of proceedings provided by a court.
  21. This Pension MOU shall form part of the Company's collective agreements with the respective Unions.

22. This Pension MOU shall cease to be of any force or effect if OSFI or any other authority requires any reductions in accrued benefits or current service accruals under any of the Plans prior to adoption of the Special Regulation.
23. The obligation of the Company to deliver the Shares is subject to shareholder, stock exchange, or regulatory approval, if required by law. Where the Company is unable to secure such approval, the Company shall make a contribution to the Plans equal to the value of 15% of the Shares calculated as of the date of this Pension MOU with each Plan's share of such contribution being calculated in accordance with section 4.
24. This Pension MOU shall expire on December 31, 2013, except that sections 9 and 26 hereof shall expire on December 31, 2014.
25. In the event that not all of the Unions are signatory to this Pension MOU, it shall nonetheless be binding on the Company and those parties who are signatory hereto, providing that other Unions shall be entitled to adhere to this agreement subsequently.
26. If any of the Unions negotiates a pension memorandum of understanding that is more favourable than this Pension MOU, then a proportional equivalent value, or more beneficial terms shall apply to the parties who have agreed to this Pension MOU.
27. Providing the Plans have an aggregate solvency deficit of at least \$15 million as of January 1, 2014, the Company agrees to make an additional aggregate payment to the Plans of \$15 million, such payment amount being over and above the amount otherwise required in respect of 2014. Each Plan's share of such contribution shall be calculated in accordance with section 4 hereof and shall be remitted on or prior to December 31, 2014.
28. All dollar amounts expressed herein are expressed in Canadian dollars (CAD).
29. Any dispute as to the interpretation of this Memorandum of Understanding shall be decided by the Hon. James Farley after receiving representations forthwith or as he may direct from the Parties hereto.

IN WITNESS WHEREOF the parties have signed.

AIR CANADA

By: 

Name: Kevin Howlett

Title: SVP - Emp Rel

AIR CANADA PILOTS ASSOCIATION

By: \_\_\_\_\_

Name:

Title:

CANADIAN AIRLINES DISPATCHERS  
ASSOCIATION

By: \_\_\_\_\_

Name:

Title:

NATIONAL AUTOMOBILE, AEROSPACE,  
TRANSPORTATION AND GENERAL  
WORKERS UNION OF CANADA (CAW-  
CANADA), LOCAL 2002

By: \_\_\_\_\_

Name:

Title:

CANADIAN UNION OF PUBLIC  
EMPLOYEES, AIRLINE DIVISION, AIR  
CANADA COMPONENT

By: \_\_\_\_\_

Name:

Title:

INTERNATIONAL ASSOCIATION OF  
MACHINISTS AND AEROSPACE  
WORKERS

By: 

Name: *Chuck Atkinson*

Title: *President District 140*

AIR CANADA PIONAIRS

By: \_\_\_\_\_

Name:

Title: