

MEMORANDUM OF AGREEMENT

BETWEEN:

**Canadian Union of Public Employees, Airline Division,
Air Canada Component**
(“CUPE” or the “Union”)

-and-

Air Canada
(the “Company”)

WHEREAS the Collective Agreement between the Company and CUPE (the “Parties”) expires on June 30, 2009 (the “Collective Agreement”);

WHEREAS the Parties acknowledge the need for the Company to access additional funds to improve its liquidity situation at the present time;

WHEREAS the Parties understand the importance of the Company securing the investment of capital and the importance of labour stability to obtaining that investment;

WHEREAS the Parties recognize that obtaining additional funds and investment is important to avoid filing under the *Companies’ Creditors Arrangement Act* or the *Bankruptcy and Insolvency Act* or similar proceedings and the desirability of doing so;

NOW THEREFORE the parties have agreed as follows:

1. Subject only to the modifications set out in Appendix A attached hereto, the Collective Agreement is renewed effective July 1, 2009, until March 31, 2011 (the “Renewal Period”).
2. For greater certainty, during the Renewal Period, neither party shall have the right to strike or lockout, as per the *Canada Labour Code*.
3. For further certainty, during the Renewal Period there shall be no changes to the terms and conditions of the Collective Agreement including, without limitation, (i) no wage rate increases, (ii) no changes to pension benefit levels, nor (iii) any changes to group insurance coverage or benefits.
4. Upon this Memorandum of Agreement coming into force, the provisions set out in Appendix B attached hereto, the “Pension Memorandum of Understanding” shall also come into force.
5. In the event that the Company becomes subject to the *Companies’ Creditors Arrangement Act* or the *Bankruptcy and Insolvency Act* or similar proceedings, while the Pension Memorandum of Understanding signed by CUPE is in effect, section 19 of the Pension Memorandum of Understanding shall apply, and whether the Pension Memorandum of Understanding is in effect or not, there shall be no amendments to the Collective Agreement except on consent of the parties.
6. Nothing in paragraph 1 shall preclude either party from attempting to secure, through negotiations for the renewal of the Collective Agreement at the end of the Renewal Period, changes to the Collective Agreement with retroactive effect from the commencement of the Renewal Period.
7. If, in negotiating a renewal or extension to a collective agreement expiring in 2009 or during the Renewal Period, any other Air Canada group negotiates an across the board improvement to wage rates, work rules, benefits (including medical, dental and life insurance and sickness and disability benefits) or other compensation to take effect during the Renewal Period, the same improvement will be incorporated in the Collective Agreement, unless it is inapplicable, in which case other improvements of equal proportional value will be granted. This does not apply to any improvement whose cost is intended to be offset by cost reductions or productivity gains negotiated at the same time.
8. CUPE will be permitted to review Air Canada’s “Five Year Plan” of April 21, 2009, and shall be granted reasonable access to that document, subject to those conducting the review agreeing to the terms of a Non-disclosure

Undertaking substantially in the form used for the Union-Management quarterly financial update meetings. Air Canada shall continue to provide quarterly financial updates in accordance with its practice.

9. Air Canada agrees that during the Renewal Period it shall not sell its interest in Air Canada Cargo or Air Canada Ground Handling Services, provided this undertaking shall not apply to any sale or other disposition of those businesses pursuant to a lender requirement.
10. CUPE will be granted access to a copy of the agreement reached in May 2009 concerning credit card processing financial arrangements, subject to Air Canada obtaining any consent for such disclosure from the relevant credit card processors, which Air Canada shall use reasonable efforts to obtain and each of CUPE's representatives who access such agreements having executed a Non-disclosure Undertaking acceptable to Air Canada and based on the terms of a Non-disclosure Undertaking substantially in the form used for the Union-Management quarterly financial update meetings.
11. This Memorandum of Agreement remains in full force and effect even if the Pension Memorandum of Understanding ceases to have effect.
12. This Memorandum of Agreement as a whole will be subject to ratification by CUPE in accordance with its Constitution and By-laws. Both parties commit to recommend and fully endorse the ratification of this Memorandum.
13. This Memorandum of Agreement shall not limit the Parties ability to agree to changes to the Collective Agreement and/or the working conditions of the employees represented by CUPE on matters and of the kind they usually consider during the life of a collective agreement and which usually take the form of documents ancillary to the Collective Agreement (such as Memorandums of Understanding, Memorandums of Agreement, Minutes of Settlement and Letters of Understanding) once agreed upon.

Signed this 22nd day of June, 2009 at Toronto.

Air Canada

Canadian Union of Public Employees, Airline Division, Air Canada Component

Per: _____

Per: _____

Appendix "A"

Air Canada and CUPE agree to amend the provisions of the Collective Agreement as follows:

1. The following Note shall be added following Article 7.02:

Air Canada shall implement an electronic means to allow Cabin Personnel to view onboard crew meals and layover meal expenses, however, such means may not provide real time information but shall be kept reasonably up to date.

2. Article 18.07.06 shall be replaced with the following:

An employee transferring under the provisions of Article 18.04 will be given a minimum of thirty (30) days notice before effecting the transfer unless otherwise mutually agreed to between the employee and the Company.

3. Article 4.02.02 shall be replaced with the following:

Aircraft Assignment – A Service Director position will be included in the aircraft complement on all the following aircraft types: E175, E190, A319, A320, A321, A330, B767, B777 and B787.

4. Article 6.03.03.02 and the Note following shall be amended to include the E175 and E190 aircrafts.

5. The following sentence shall be added to the end of Article 7.01.04 to read as follows:

Ground transportation provided between an airport and a downtown layover accommodation will proceed directly to and from the layover location(s), unless for reasons beyond the Company's control.

6. Article 14.02 shall be replaced to read as follows:

During an interview between the Company and the employee, and where disciplinary action is contemplated, or where a performance meeting is held, the employee may request the presence of a Union representative. If practicable, the Company shall provide the employee with reasonable prior notice of the interview in writing, informing the employee of the alleged misdemeanor(s) and of his/her right to have a Union representative present. The Company will also, if practicable, notify the Union's Local Base President of the interview via e-mail.

7. Insert a new Article 14.02.01 to read as follows:

Before the interview begins, Air Canada will ensure that the employee is aware of the nature of the alleged misdemeanour(s). Air Canada will permit the employee, should he or she so choose, a reasonable period of time to speak to a Union representative before the interview begins. Once the interview begins, Air Canada will provide a copy of any documentation, which may be redacted to exclude personal information, for the employee and Union's immediate review.

NOTE: The foregoing is conditional upon the Union's withdrawal and permanent discontinuance of the unfair labour practice complaint filed with the Canada Industrial Relations Board (26845-C).

8. Article 8.09.03.01 shall be replaced with the following:

Where a Service Director's vacation consists of part of a block month, the Service Director shall be paid at the aircraft rate operated in that block month, or the aircraft rate awarded using the Preferential Bidding System for that block month, whichever is greater. Where more than one type of Aircraft is operated in the block month, or awarded using the Preferential Bidding System for that block month, his/her vacation pay will be calculated using the formula outlined in Article 5.11.01.

9. A new Note shall be added following Article 8.09.03.01 to read as follows:

Note: Until such time as the relevant payroll systems are updated, the Service Director will be required to submit a pay claim when the aircraft rate awarded using the Preferential Bidding System is higher than operated.

10. Insert a new Article 5.11.03.04 to read as follows:

Service Director / Flight Attendant – All flights assigned to Reserve Blockholders under voluntary extension on a non-inviolable day off will be paid over and above the Minimum Monthly Guarantee

11. A new Note shall be added following Article 5.11.03.04 to read as follows:

Note: Until such time as the relevant payroll systems are updated, the Reserve Blockholder will be required to submit a pay claim.

12. Article 6.04.04 shall be replaced with the following:

Recurrent Safety Training – For the purpose of calculating total credits for recurrent safety training, the lunch period normally provided will not be included in the total hours. Payment of credits will be in accordance with Article 5.10 (Ground Duties – Days Off Only).

13. Article B5.05.03 shall be replaced with the following:

General: Where the scheduled layover is sixteen (16) hours or less, the location of the hotel accommodation will be at the Company's discretion.

Where the scheduled rest period is greater than sixteen (16) hours, accommodation will normally be provided at a downtown hotel.

14. Insert a new Article 7.06 to read as follows:

Cabin Personnel who renew their passports to ensure that it remains valid at all times to meet the entry requirements of any Air Canada destination shall, upon submitting a receipt, be reimbursed to a maximum of eighty-seven dollars (\$87) for a renewal which takes place during the term of the Collective Agreement.

15. Delete Article 5.07.01 and the Note following.

16. Add a new Note following the first paragraph of the Jetz Memorandum of Agreement dated December 16, 2005 to read as follows:

The present Memorandum shall apply only to Jetz flying in excess of 35,000 hours per year.

17. Add a new paragraph to the Jetz Memorandum of Agreement dated December 16, 2005 under the heading "Miscellaneous" to read as follows:

Air Canada will provide a monthly report of actual block hours flown in the previous month by Jetz crews with their names.

18. Article B5.02.03.03.01 shall be replaced with the following:

As soon as a duty period is projected to exceed thirteen (13) hours for domestic flights or fourteen (14) hours for overseas flights at a Crew Base, or fifteen (15) hours for domestic flights or sixteen (16) hours for overseas flights away from a Crew Base, based on the official forecast, the employee must advise the Service Director of his/her individual decision to exceed the limitation or to take crew rest.

19. Insert a new Article B5.02.03.03.04 to read as follows:

Duty Period Extension Premium

A Premium will be paid to employees who volunteer to exceed their absolute maximum duty period limitation, pursuant to Article B5.02.03.03. This premium will be fifty percent (50%) of his/her regular rate of pay on all flight time credits involved in that duty period.

NOTE 1: The premium will apply to DPG

NOTE 2: The premium will be for pay purposes only

NOTE 3: The premium will apply to reserve employees

NOTE 4: Employees operating flights pursuant to Article B14, as well as pursuant to Letters of Understanding 18 and 22, may also volunteer for an extension premium.

20. The Note following L28.01 shall be replaced with the following:

This clause shall apply to any flight leg scheduled or re-forecast, on the day of departure, to exceed eight (8) hours from gate to gate. Crew will be permitted to sleep during their crew break in accordance with Company policy, as published in ePub. Where crew rest units are available on the aircraft type, crew sleep shall only be permitted in the crew rest unit, however, the crew rest unit provisions of Article B14 and Letters of Understanding 18, 22 and 31 shall not apply. Where crew rest units are not available, crew sleep shall be permitted in a Last Sold Seat in the upright or reclined positions only. For greater clarity, no sleeping in the prone position shall be permitted in the Last Sold Seats and no sleeping whatsoever shall be permitted in any other empty row or in Executive First seats/suites.

The Hotel provision of L28.02 below does not apply.

Air Canada and CUPE agree to enter into Letters of Understanding as follows:

1. Transfers

Air Canada will explore the feasibility of implementing an electronic means of allowing Cabin Personnel to apply for, withdraw from, respond to and receive confirmation of Base transfer transactions. If implemented, Articles 18.07.01, 18.07.01.01, 18.07.01.02, 18.07.02, 18.07.03, 18.07.04 and 18.07.05 shall be amended, as required.

2. Commuter Policy

Air Canada agrees to incorporate a commuter policy, in the form provided at Appendix "C", to all Cabin Personnel commuting by air to their Base, from their area of residence, for work-related reasons. This policy does not derogate from the rights of those subject to the 2008 Division IX Keller award, for the period of time they enjoy those rights as set out in that award dated September 14, 2008.

3. Aircraft types

The parties agree to amend the Collective Agreement to remove any reference to aircraft types no longer in the mainline fleet.

4. PBS

The parties agree that upon agreement between the parties pertaining to PBS-related language, such language shall be incorporated into the Collective Agreement and have full force and effect.

5. The following Letters of Understanding, Memoranda of Understanding and memorandum of Agreement shall be renewed as follows:

LOU 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 16, 17, 19, 21, 23, 25, 26, 27, 30, 31, 33, 35, subject to the provisions of para. 3 of the Memorandum of Agreement, 38, 39, 41, 43, 45, 46, 47 however, any provision of these LOUs with a specified date upon which it ceases to have effect, including provisions which are to expire with the June 2003 Collective Agreement on June 30, 2009, shall cease to have effect on that date.

Restructuring MOU May 29, 2003; Restructuring MOU May 18, 2004; Restructuring MOS June 18, 2004 and MOA June 18, 2004, however, any provision of these Memoranda with a specified date upon which it ceases to have effect, including provisions which are to expire with the June 2003 Collective Agreement on June 30, 2009, shall cease to have effect on that date.

6. LOU 20

The Company agrees to continue the following provisions of the former LOU 20 for the term of the Collective Agreement:

L20.01.05 Any former CAIL cabin personnel who returns to Air Canada and has not yet received their initial cabin personnel uniform will receive 100 per cent of the cost of the initial Air Canada cabin personnel uniform.

L20.01.11 Air Canada will maintain the CAIL pension Committee in accordance with the CAIL pension plan rules until such time as the two pension plans are merged. Flight releases for Committee members will continue according to current practice.

7. Production of the Collective Agreement

In the interest of effecting a 'user friendly' signed collective agreement ready for production and distribution to the members as per Article 19.11 of the collective agreement, the parties agree to form a committee comprised of an equal number of representatives of each party and shall meet within ninety (90) days of ratification with a view to having a revised collective agreement by the end of 2010. The parties shall integrate the 2003, 2004 and 2009 MOA's into the Collective Agreement. Neither party shall have the authority to reinterpret or rewrite language which has been signed and /or ratified. In the event that there is an unresolved dispute as to the correct wording of an Article, the dispute shall be referred to mediation with the assistance of the Federal Mediation and Conciliation Service, and if not resolved, in mediation shall be addressed in the next round of bargaining in 2011.

LOU 44 shall be replaced with the following:

**LETTER OF UNDERSTANDING NO. 44:
GRIEVANCE PROCEDURE**

BETWEEN :

**The Canadian Union of Public Employees
Air Canada Component (The Union)**

And

Air Canada (The Company)

WHEREAS the parties recognize the necessity to resolve grievances in an accelerated and timely manner in order to improve labour relations;

AND WHEREAS the parties agree to adapt their modified grievance/arbitration procedure for the duration of the current Collective Agreement;

AND WHEREAS this modified grievance/arbitration procedure will take precedence over the Collective Agreement articles that it affects directly;

NOW THEREFORE, the Company and Union agree to the following:

1. Where no satisfactory settlement is obtained through the discussion with a supervisor, an individual or policy grievance may be initiated by the Union in writing. Upon the filing of a grievance a copy will be sent to the office of the chief Arbitrator. The parties will process the grievance through the following grievance procedure within a 30 day period:

Level 1 Grievances: Individual grievances involving crew resource utilization shall be sent to the Manager, Crew Resource Utilization, or his/her designated representative. All other individual grievances shall be sent to the In-Flight Service Base Director/Manager, or his/her designated representative.

Level 2 Grievances: Policy Grievances shall be sent to the Senior Director, Labour Relations, or his/her designated representative.

2. The parties will process Level 1 and 2 grievances within 30 days of the grievance being filed. Unless the parties are otherwise agreed, all grievances will be heard at only one level in the grievance procedure above.
3. Grievances will be placed on the first monthly review list, maintained by the Chief Arbitrator, following the expiration of 30 days from the date the grievance was filed. Each party can propose which grievances be reviewed in each monthly review. The parties can agree, and/or either party can propose, to consolidate or hear together grievances of similar subject matter if doing so will lead to the efficient resolution of the grievances. In the event of a difference between the parties with respect to whether grievances should be consolidated or heard together, the Chief Arbitrator shall determine whether the grievances shall be consolidated or heard together. In the event that the parties cannot agree on which grievances are to be reviewed, and/or in what order the grievances are to be reviewed, in each monthly review, the Chief Arbitrator shall determine the matter, having regard to the following order of priority:
 - i. Discharge grievances
 - ii. Grievances in which there is possible irreparable harm
 - iii. Return to work grievances
 - iv. Discipline grievances
 - v. All other grievances

4. Each month, the Chief Arbitrator will review the monthly review list, and to the extent possible, will seek to resolve through mediation the matters on the monthly review list. If the matters cannot be resolved through mediation, the Chief Arbitrator shall decide the matter(s) through expedited arbitration, unless either party requests, or the Chief Arbitrator orders, that the matter be referred for a full hearing before the Chief Arbitrator or another Arbitrator.

Arbitration:

5. The Chief Arbitrator shall be William Kaplan.
6. Subject to paragraph 7 below, any references to a Chief Arbitrator or Martin Teplitsky in the Collective Agreement shall now refer to William Kaplan.
7. The parties agree as follows:
 - i. All grievances filed on or after June 24, 2009 will be dealt with by the Chief Arbitrator as named herein.
 - ii. Grievances filed before June 24, 2009 will be heard by Martin Teplitsky on an expedited mediation-arbitration basis, in accordance with the parties' mutual direction to Mr. Teplitsky to (a) resolve and/or decide as many of these grievances as possible or (b) determine that the grievance(s) should be referred to a full hearing before the Chief Arbitrator or another Arbitrator. Any of the grievances filed before June 24, 2009 which have not been either so resolved or decided by Mr. Teplitsky or referred to a full hearing before the Chief Arbitrator or another Arbitrator on or before September 30, 2009 will be dealt with by the Chief Arbitrator.
 - iii. Mr. Teplitsky will remain seized of all matters involving grievances filed before June 24, 2009 where he has issued a decision which indicates that he is to remain seized and will retain the jurisdiction conferred upon him pursuant to Schedule 4 (PBS) of the Memorandum of Understanding dated May 18, 2004 and paragraph 6 of the Memorandum of Agreement dated June 18, 2004 (subject to the parties having the option of referring the matter to George Adams as contemplated therein), including CHQ-08-10 and the PBS Audit Arbitration.
 - iv. Mr. Teplitsky will remain seized with respect to such other matters as the parties agree.
8. Arbitrations will be conducted in accordance with Article 15, however examinations-in-chief will be replaced by a written statement from each witness, unless otherwise agreed or the Arbitrator permits. The written statements are to be exchanged in advance.
9. Cross examination and reply will proceed as usual.
10. The parties will supply the Arbitrator with a brief which will concisely set out the basis of the grievance and the basis of the denial, the facts, the documents that a party intends to rely upon, submissions and witness statements. Authorities may also be included.
11. If either the Company or Union elect not to have a grievance heard by the Chief Arbitrator, an Arbitrator shall be selected from the following list, unless the parties agree otherwise. If the parties cannot agree on which Arbitrator shall hear the matter, the Arbitrator shall be the one whose name follows the last Arbitrator selected to hear a grievance. Grievances where the parties agree the language of the hearing shall be in French, shall be heard by one of the bilingual or Francophone arbitrators on the list below, as identified by an asterisk:
 - 1 Pamela Picher
 - 2 Donald Carter
 - 3 Laura Trachuk
 - 4
 - 5
 - 6

The parties shall meet to select the names of 3 arbitrators to be inserted by parties by September 30, 2009. In the event of a disagreement, or if the parties are unable to name 3 additional arbitrators to this list, the issue will be resolved with the assistance with mediators Jacques Lessard and James Farley, Q.C.

12. The Arbitrator shall provide brief written reasons with every award within 30 days of the hearing.
13. The Chief Arbitrator shall have all the powers of an arbitrator under section 60 of the *Canada Labour Code*. The Chief Arbitrator will have exclusive jurisdiction respecting requests for interim orders of any kind permitted by the collective agreement and the *Canada Labour Code*, including but not limited to the power to prohibit actions pending the resolution of the grievance on the merits. The Chief Arbitrator shall hear requests regarding urgent matters within 48 hours of being request to do so and shall render a binding decision at the conclusion of the hearing or, if not possible, within 24 hours of the hearing.
14. The parties will share equally in the cost of pre-hearings, mediations and arbitration. However, if a hearing is cancelled by one party, that party shall absorb cancellation fees, if any. Should an Arbitrator hear more than one case in a day involving different Unions, costs will be apportioned between the Unions.

Scott Morey

Katherine Thompson

For: Air Canada
Date:

For: CUPE
Date:

Appendix "B"

THIS PENSION MEMORANDUM OF UNDERSTANDING MADE AS OF THE 22 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, AIR CANADA COMPONENT ("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;

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

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 shall use reasonable efforts to achieve cost savings appropriate in the circumstances;
 - (h) 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
 - (i) 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:

Title:

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:

Title:

AIR CANADA PIONAIRES

By: _____

Name:

Title:

Appendix "C"

The following new Letter of Understanding shall be added to the Collective Agreement:

The present Letter of Understanding applies to Cabin Personnel who choose to commute to work by air from their area of residence ("Commuter").

Commuters are expected to report for duty as scheduled. All flight and other costs incurred as a result of commuting will be the sole responsibility of the Commuter.

Upon having complied with the following conditions, Commuters who are unable to report for duty as scheduled due to commuting problems (for example: unforeseeable irregular operations, aircraft maintenance problems, day-of-flight aircraft downgrade and short-crewing or weight restrictions) will not be subject to discipline or have their unavailability count as an event or occurrence under the Corporate Attendance Management System ("CAMS"):

1. Commuters must enroll, in person, for participation in the present Commuter program with their Base Manager.
2. A Commuter must have at least one original and back-up flight option. The original flight option must be scheduled to arrive at least two (2) hours prior to scheduled check-in time. The back-up flight option must be scheduled to arrive at least thirty (30) minutes prior to scheduled check-in time. The foregoing shall not relieve a Commuter from exercising good judgment when choosing flights on which to commute. Examples of a failure to exercise good judgment include choosing to travel when adverse weather conditions are forecast or where oversold flights are foreseeable.
3. Commuters who are unable to report for duty as scheduled are required to immediately notify Crew Scheduling and report to a Base Manager upon arrival at their Base.
4. In the event that a Commuter is unable to report for duty as scheduled, he/she shall be required to provide a Base Manager with a copy of his/her boarding pass for both the original and back-up flights immediately upon arrival at his/her Base.
5. Upon being notified that a Commuter is unable to report for duty as scheduled, the Company may, at its discretion, reassign the Commuter as contemplated by the Collective Agreement or remove him/her from the scheduled flying.
6. Commuters will not be paid or credited for any portions of the duty periods for which they are unavailable, as contemplated by Article 5.11.04.
7. Commuters who are unable to report for duty as scheduled and who fail to comply with this Letter of Understanding shall be subject to disciplinary action or CAMS.

June 22, 2009

Ms. Katherine Thompson
Component President
CUPE – Air Canada Component

Re: Executive Compensation

Dear Ms. Thompson,

As agreed, this letter is to confirm that between July 1, 2009, and March 31, 2011, no improvements to the contracts, plans and programs which establish the compensation of the Chief Executive Officer and the Executive Vice-Presidents of Air Canada will be implemented.

Similarly, no improvements to pension benefits will be made to the pension plans of the Chief Executive Officer and the Executive Vice-Presidents of Air Canada before December 31, 2013.

Sincerely,

Calin Rovinescu
President and Chief Executive Officer

June 22, 2009

Ms. Katherine Thompson
Component President
CUPE – Air Canada Component

RE: Costs of 2009 Pension Funding Relief and Labour Stability Negotiations

Dear Ms. Thompson:

Air Canada will reimburse CUPE for reasonable professional and related fees and expenses associated with the negotiation of the Pension Funding Relief and Labour Stability Memoranda of Agreement up to \$640,000.00. All amounts submitted for reimbursement must be accompanied by appropriate invoices, receipts or other similar documents. All submissions for amounts to be reimbursed must be received by Air Canada no later than October 1, 2009.

We will discuss any other arrangements regarding these amounts will be processed as may be required.

Sincerely,

Kevin Howlett
Sr. Vice-President – Employee Relations

June 22, 2009

Ms. Katherine Thompson
President, Air Canada Component
Canadian Union of Public Employees (Airline Division)
25 Belfield Rd.
Etobicoke, Ontario
M9W 1E8

Re: Personal Family Care Leave Policy

Dear Ms. Thompson,

Air Canada agrees to implement the following policy to be posted on ePub:

An employee who, as the result of an unforeseen event or emergency relating to the care or health of an immediate family member, may request an unpaid leave of absence. The employee shall initiate the request with his or her Base Manager or designate as soon as possible and specify the expected duration of the leave. A request for a leave of absence will not be unreasonably denied.

In the case of a foreseeable event, the employee will be required to demonstrate that reasonable steps were taken prior to requesting the personal leave. A request for a personal family care leave of absence will not be unreasonably denied.

NOTE: For the purposes of this policy, immediate family is defined as: spouse (including common-law spouse), children of employee and spouse, parents of employee and spouse, grandparents of employee and spouse, grandchildren of employee and spouse, brothers and sisters of employee and spouse, and including other relatives residing with the employee.

Sincerely,

Scott Morey
Vice President, Labour Relations

Cc: Kevin Howlett, Air Canada

June 22, 2009

Ms. Katherine Thompson
President, Air Canada Component
Canadian Union of Public Employees (Airline Division)
25 Belfield Rd.
Etobicoke, Ontario
M9W 1E8

Re: Service Charges – Travel Passes

Dear Ms. Thompson,

This is to confirm that the service charges levied by Air Canada on travel privileges for active for active Air Canada personnel will be waived until the expiration of the Air Canada and CUPE Collective Agreement on March 31, 2011. All other applicable taxes and third party fees will continue to apply.

It is however understood that the continuation of this privilege is conditional on labour stability, that is, the successful ratification of the Collective Agreements for all of Air Canada's affected union groups across the country as well as an agreement by these same groups on a pension moratorium.

Sincerely,

Scott Morey
Vice President, Labour Relations

Cc: Kevin Howlett, Air Canada