

VIA FACSIMILE: (514) 422-5609

Our File: P5100-A001-1

July 9, 2003

Ms. Susan Welscheid
Vice President – People
Centre Air Canada 1260
C.P. 14000
Succursale Aéroport
Dorval (Québec)
H4Y 1H4

Dear Ms. Welscheid:

Subject: Air Canada Pension Plans (the Plans)
Pension Benefits Standards Act, 1985 (PBSA)

As discussed, there are a number of issues that OSFI will wish to have addressed during our discussions scheduled to begin July 22nd. These issues relate to compliance with the Temporary Directions issued by OSFI and the funding and oversight of the pension plans going forward.

The following are some of the topics that we will wish to cover:

1. Funding

- We understand that Air Canada and the unions are planning to make representation to the Government to seek changes to the current rules related to funding requirements for solvency deficits. Any such amendments would need to be recommended by the Minister of Finance and approved by the Governor-in Council. In this context, it is important that these proposals clearly identify the underlying risks related to extending funding for these deficits and how these risks will be addressed. Any proposal should address, for example, how the deficiencies would be dealt with on plan termination, how agreement of retirees would be obtained and how benefits to retirees would be protected.
- Process to present amendments to funding regulations to the Government
- How the Temporary Directions and deemed trust amounts will be satisfied for all of the Air Canada pension plans,
- Making of payments to plans and possible downside protection for all beneficiaries should Air Canada or the plans experience further difficulties,
- Preparation and filing dates of Valuation Reports

2. Member Representation

Further to our letter to the unions dated July 8, 2003 with respect to the issue of representation, we will also want to discuss in some detail the information and the process that will be followed to provide, distribute, and represent information to and from plan beneficiaries of the Air Canada pension plans. In particular, we will ask that the parties be prepared to speak to the following:

- A description of the information that will be provided to all plan beneficiaries by their representatives, including active, retired, and deferred vested plan beneficiaries
- The proposed methods of communication to their constituents, for example, information sessions, mass mailings, etc.
- How the information is to be presented. For example, with regard to any proposals to members regarding changes to the funding rules, it is our expectation that such information would include a detailed discussions of the possible risks to members' benefits related to a change in these rules.
- OSFI's role in the process. For example, pre-approval of information prior to distribution
- Method of obtaining comments on proposals from plan beneficiaries.
- A proposed timetable covering the communication of information to the beneficiaries, collection of the beneficiaries' comments, and the forwarding of the comments to OSFI

3. Enhancement to Plan Governance

- Enhanced disclosure to all beneficiaries
- Role of Board of Directors
- Governance self-assessment

In advance of the meeting, we would also ask that you provide us with:

- Financial updates since January 1st including any revised estimates of the solvency position of the Air Canada plans. Such information would include but not be limited to updated estimated solvency ratios as at June 30, 2003.
- Copies of information that has been provided to the Board of Directors on the pension plans since January 1, 2003
- Projected Cash flow forecasts for Air Canada for the remainder of 2003/04 and going forward, highlighting expected cash commitments with respect to the pension plans
- Copies of documentation that support the pension plans, such as agreements with the unions, or any other agreements entered into that affect the benefits or funding of the pension plans. We understand that there may be written agreements with the unions that agree to a minimum funding proposal.
- Projection of funding requirements within the current 5 year rules
- Any other information that could reasonably be expected to impact or affect the pension plans or that is relevant to a decision to extend the 5-year funding requirements.

As this matter is reviewed by OSFI, other information requirements may arise. Nothing herein precludes OSFI from requesting further information it may require in order to arrive at decisions on the issues affecting the Air Canada pension plans.

Please advise us of any issues you would like to discuss at the July 22nd meeting. If you have any questions regarding any of the items listed in this letter, please do not hesitate to contact me. We would appreciate receiving before July 22nd, a copy of the attendance list for the meeting.

Yours truly,

Karen Badgerow-Croteau
Managing Director

Cc: Ms. Caroline Drouin, Air Canada