

March 26, 2004

Calin Rovinescu  
Chief Restructuring Officer  
Air Canada  
Air Canada Centre  
P.O. Box 14000, Station Airport  
Dorval, Quebec  
H4Y 1H4

Dear Mr. Rovinescu;

Re: Air Canada Pension Plans

On March 10<sup>th</sup> I spoke with you concerning certain outstanding issues with respect to Air Canada's funding proposals, and in particular the need for a revised payment schedule that provides for the adequate reduction of the deficit. At the conclusion of that conversation, OSFI was informed that it would receive a revised payment schedule by the end of that week or the beginning of the following week. To date, OSFI has not received any further information from Air Canada.

On February 20, 2004 OSFI met with representatives of Air Canada, the unions, beneficiary representatives, Trinity Time Investments Limited ("Trinity") and the Monitor to discuss Air Canada's February 18<sup>th</sup> proposal that was submitted to OSFI. Although we had previously set out the Principles that a proposal should include to allow OSFI to recommend funding relief, the February 18<sup>th</sup> proposal was not consistent with these Principles. In addition to the inadequate funding, two other major issues remain outstanding: the satisfaction of the deemed trust and the development of a satisfactory buy in process to ensure that the beneficiaries of the pension plans are adequately informed and represented. Work has been ongoing with respect to the buy in process and we believe that progress has been made on this matter.

Other meetings followed shortly after the February 20<sup>th</sup> meeting, including those with representatives of GE Capital and Trinity in which these issues were discussed. Following these meetings, OSFI, through its financial advisors, Stonecrest Capital, attempted to enter into further discussions on the matters and in fact has proposed a possible means of addressing the issue of the deemed trust which speaks to the concerns raised by Trinity and GE in these recent meetings while preserving some level of downside protection for plan beneficiaries in the event of adverse events.

These are important matters that should not be deferred as the last issues to be resolved as part of the CCAA process. As always, OSFI is open to discuss the outstanding pension issues with Air Canada, Trinity and other parties to the pension plans.

Yours sincerely,

Nicholas Le Pan  
Superintendent

c.c. Murray McDonald  
Trinity Time Investments Limited  
Service List