

May 3, 2004

Mr. Murray McDonald  
Ernst & Young  
P.O. Box 251  
Toronto-Dominion Centre  
222 Bay Street  
Toronto, Ontario  
M5K 1J7

Dear Sir:

**Re: Air Canada CCAA Proceedings**

I am writing on behalf of my client, the Office of the Superintendent of Financial Institutions (“OSFI”). Further to the 25<sup>th</sup> Monitor’s report and material distributed in support of the Motion that is returnable tomorrow, it is our understanding that the position of OSFI concerning pension plan issues included in the February 18<sup>th</sup> proposal is well understood by all the parties.

In this connection, I would also refer you to the letter of the Superintendent, dated March 26, 2004, in which OSFI’s concerns with the February 18<sup>th</sup> proposal are well documented. As late as Friday of last week, OSFI met with you as part of a broader discussion on Air Canada’s business plan and was left with the clear impression that fulsome discussions on the outstanding matters related to the pension plans would recommence shortly. Consequently, we trust the wording that the funding obligations “shall have been resolved with OSFI on terms not less favourable to Air Canada than the terms contained in the February 2004 agreement between Air Canada and the Pension Beneficiary Group” does not and is not intended to preclude consideration of OSFI’s concerns with the funding and the other pension issues and their satisfactory resolution. As we have stated in the past, further revisions to the February funding schedule and proposal will be required to meet the concerns of OSFI in order for us to be able to make a recommendation for funding regulations.

Finally, we would like to reiterate that a final decision concerning amendments to the *Pension Benefits Standards Regulations, 1985* does not lie with OSFI. We believe this information has already been communicated to all parties; however, we request that you make it clear to them that a final decision on proposed regulations lies with Cabinet on the recommendation of the Minister of Finance.

Yours truly,

Carol Taraschuk  
Legal Counsel

Cc. Sean Dunphy  
Service List