



October 19, 2005

By Facsimile: (416) 964-5895

Mr. Hugh O'Reilly
Cavalluzzo Hayes Shilton
McIntyre & Cornish, LLP
474 Bathurst Street, Suite 300
Toronto, Ontario
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Dear Mr. O'Reilly:

Subject: Air Canada

Thank you for your letter dated October 5, 2005, wherein you expressed the concerns of your clients, the International Association of Machinists and Aerospace Workers (IAMAW), regarding the proposed distribution of a special dividend to shareholders by Air Canada.

As you know, the Office of the Superintendent of Financial Institutions (OSFI) worked with the stakeholders in the various pension plans of Air Canada, including the unions, to arrive at an acceptable solution to the pension plan funding issues. Part of this work was building on the Air Canada 10-Year Solvency Pension Funding Relief Proposal, dated February 18, 2004, that was agreed to by Air Canada and the representatives of the plans' beneficiaries. This work culminated in a recommendation to the Minister of Finance that the federal government amend pension rules to accommodate Air Canada's request to amortize existing deficiencies in its employee pension plans over a period of ten years instead of the five years required by federal pension regulations. An agreement was developed with the knowledge and expectation that Air Canada would, at some point, be profitable. It was also recognized that there is some risk in allowing for a longer amortization period, and therefore the agreement included a number of safeguards aimed at reducing the risks and reflected the principles set out by OSFI. That said, OSFI has no authority to either unilaterally change the Act or the funding regulations that were developed following the agreement reached among the various parties.

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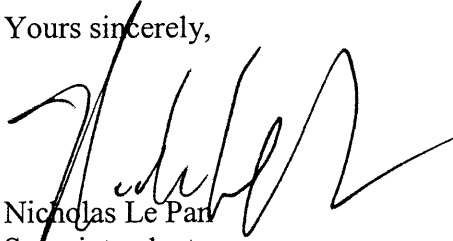
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Canada

I understand your client's concerns with regard to this matter; however, please be assured that OSFI is monitoring the Air Canada pension plans very closely to ensure that Air Canada is in compliance with the *Pension Benefit Standards Act, 1985*, including the *Air Canada Pension Plan Solvency Deficiency Funding Regulations*.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nicholas Le Par', written over the printed name.

Nicholas Le Par
Superintendent