VIA TELECOPIER
ORIGINAL TO FOLLOW

October 21, 2003

Mr. Calin Rovinescu
Chief Restructuring Officer
Air Canada
Centre Air Canada 1272
C.P. 14000 Succ. Aéroport
Dorval, Québec
H4Y 1H4

Dear Mr. Rovinescu:

Re: Deficit upon Pension Plan Termination

I am in receipt of your letter dated October 16, 2003 in which you express concern over the proposed changes to the *Pension Benefits Standards Regulations, 1985* which would bring into effect immediate full funding for all federally regulated pension plans on plan termination ("full funding regulation").

The issue of full funding has been in the public domain for some time. Any decision with respect to implementation would consider the effect on all federally registered pension plans. As such, this proposed regulation change, like any other, would go through the necessary consultation procedure prior to implementation. As I have publicly stated recently, it is my opinion that a consultative process on the full funding regulation would unlikely be completed and the regulation in force by January 1, 2004.

With respect to an inclusion of a full funding provision as part of the regulation that would allow for 10 year funding of plan solvency deficiency ("funding relief regulation"), any decision on proposed amendments to the regulations lies with Cabinet on the recommendation of the Minister of Finance. However, it is expected that the Department of Finance in making a recommendation to the Minister of Finance will look to OSFI for its view on these proposed changes.

As you know, the mandate of the Office of the Superintendent of Financial Institutions ("OSFI") is to strive to protect the rights and interests of members of pension plans, former members and any other persons who are entitled to pension benefits under pension plans. It is our view that providing funding relief increases the risks to the members and other beneficiaries of the plans. Therefore, in assessing whether or not OSFI would support a funding relief regulation we have looked at various options for downside protection to members and other beneficiaries of the plans, one of which is the application of the proposed full funding regulation in respect of pension plans where the employer has elected to take funding relief.

We note your concerns with respect to including full funding as part of the funding relief regulation and its potential impact on the ability of Air Canada to exit CCAA. Accordingly, in order for OSFI to make an informed opinion on appropriate downside protection it is necessary that we have access to information that may impact on the realizability of any claims that may arise on plan termination and ultimately jeopardize the pension plans. In this regard, in a letter dated August 20, 2003 to Air Canada, a specific request was made to have access to the agreements made with GE Capital as well as the collateral analysis. We have made numerous requests in the ensuing months to both Air Canada and the Monitor but to no avail. The timely provision of this information will be of great assistance in helping us, in conjunction with the Department of Finance, reach a recommendation on this matter. It will also be of assistance to us in understanding your assertion that the proposed amendment to the Regulations would place the exit financing in jeopardy. Again, we caution you that ultimately any decisions on the regulation change and its elements rest with Cabinet.

OSFI is committed to continuing to work with all stakeholders towards a successful outcome that does not unreasonably compromise the interests of members and other plan beneficiaries.

Yours sincerely,

Nicholas Le Pan
Superintendent

cc: Murray McDonald, Ernst & Young
Richard Grudzinski, Partner KPMG for the Creditors Committee