

MEMORANDUM OF AGREEMENT

BETWEEN:

COPY

AIR CANADA

“Air Canada”

- and -

AVEOS FLEET PERFORMANCE INC.

“Aveos”

- and -

INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS

“IAMAW” or “Union”

WHEREAS on December 14, 2006 the IAMAW filed a complaint to the Canada Industrial Relations Board (“CIRB”) under subsections 97(1) and 94(1)(a) of the *Canada Labour Code*, in Board File Number 26054-C, concerning disclosure to the IAMAW of plans to sell all or part of ACTS LP, being a limited partnership created by the conversion of Air Canada’s internal technical operations department into a distinct entity;

WHEREAS this proceeding was placed in abeyance, based on agreed upon disclosures and an agreement between the parties to engage in meaningful discussions concerning the labour matters and consequences arising from any sale of ACTS LP;

WHEREAS on October 16, 2007, ACE Aviation Holdings Inc. (“ACE”) announced the completion of the sale by ACTS LP of its business to a consortium consisting of Sageview Capital LLC and KKR Private Equity Investors, L.P., with ACE retaining a twenty-three (23%) ownership interest in the business to be carried on by the purchaser and new employer then known as ACTS Aero Technical Support and Services Inc.;

WHEREAS on September 23, 2008, ACTS Technical Support and Services Inc. has changed its name to Aveos Fleet Performance Inc. and, consequently, any references in prior documents to ACTS Aero Technical Support and Services Inc. is to be taken and read as a reference to Aveos Fleet Performance Inc. (“**Aveos**”);

WHEREAS in the course of and in accordance with the discussions between the parties, Union counsel has been provided with access to the Asset Purchase Agreement, as well as access to, *inter alia*, all current agreements between Aveos or affiliated companies and ACE, Air Canada, ACGHS, Air Canada Cargo or affiliated companies;

WHEREAS the parties have reported their progress in these discussions to the CIRB and have received the mediation assistance and advice of the CIRB;

AND WHEREAS the parties enter into this Memorandum of Agreement in order to resolve any remaining issues in Board File No. 26054-C, and in order to achieve the following objectives in the event that the CIRB issues an order severing the current TMOS and Clerical Units as a result of the sale of ACTS LP:

- i. to facilitate the orderly transition of certain Air Canada Employees to Aveos in accordance with the expressed preference of those employees;
- ii. to establish terms and conditions of employment that will apply to those Air Canada Employees who elect to become employees of Aveos;

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

I. DEFINITIONS

In this Agreement:

“**Air Canada Employee**” means an employee of Air Canada represented by the IAMAW in the TMOS or Clerical bargaining units.

“**CIRB Date**” means the effective date of the order(s) of the CIRB severing the current TMOS and Clerical bargaining units each into two separate bargaining units in respect of which Air Canada (including Air Canada Cargo and ACGHS) and Aveos, respectively, are named as the sole and separate employer in the separate bargaining unit certificates issued to replace each of the current bargaining unit certificates for the TMOS and Clerical bargaining units.

“**Collective Agreement**” means the current collective agreement applicable to the TMOS bargaining unit or the Clerical bargaining unit, as the case may be.

“Eligible Employees” means all Air Canada Employees represented by the Union whose names appear on the Seniority Lists, except those on permanent lay-off on the CIRB Date, but including employees assigned to work for the benefit of Aveos under the General Services Agreement who were placed on temporary lay-off on or after June 1, 2008, and including employees on a personal leave of absence as defined in the applicable Collective Agreement, on short or long-term disability, or absent because of a work-related injury for which workers’ compensation benefits are being paid, who, on the CIRB Date, hold positions or recall rights in categories and classifications used at Aveos at points at which both Aveos and Air Canada have operations involving such categories and classifications and, for greater certainty, includes all Air Canada Employees represented by the Union who are assigned to work for the benefit of Aveos on the CIRB Date under the General Services Agreement except those on permanent lay-off on the CIRB Date.

“Eligible to Retire” means Air Canada Employees who under the applicable Air Canada Pension Plan meet the criteria for early or normal retirement as set out therein.

“General Services Agreement” means the Amended and Restated Memorandum of Agreement between Air Canada and Aveos dated June 22, 2007 providing, in part, terms and conditions upon which Air Canada Employees perform work for Aveos.

“Pension and Benefits Agreement” means the agreement made as of June 22, 2007 between Air Canada, ACTS LP and KSAGE MRO Holdings Inc., as amended and as required to be amended to reflect the transition process set out below.

“Selection Closure Date” means seventy-four (74) days after the CIRB Date.

“Selection Form” means the form to be provided to Eligible Employees setting out the options for transitioning to Aveos or remaining at Air Canada.

“Seniority Lists” means seniority lists updated to the CIRB Date.

“Transition Date” means the date upon which an Air Canada Employee who accepts a position with Aveos will become an employee of Aveos in accordance with Section VI below, regardless of whether or not he/she is thereafter temporarily assigned to work for the benefit of Air Canada. The Transition Date will not be prior to January 1, 2009.

II. CONDITIONS PRECEDENT

The parties agree that all of their respective obligations under this Memorandum of Agreement are completely and entirely conditional upon the following:

1. The CIRB ordering the severance of the current TMOS and Clerical bargaining units in the manner described in the definition of CIRB Date;

2. The execution of an agreement between Air Canada and Aveos providing that Aveos is to remain the exclusive provider of heavy maintenance services to Air Canada as set out in the Services Agreement for Airframe Heavy Maintenance Services, as amended, until at least June 30, 2013.
3. The execution of an agreement between Air Canada and Aveos regarding the transition of employees between Air Canada and Aveos, the allocation of certain costs and expenses relating to such transition and other related matters.
4. The execution of an agreement between Air Canada and Aveos providing for the secondment of employees of Aveos to Air Canada for the purposes of this Memorandum of Agreement, including particularly Section VI.
5. The amendment of the General Services Agreement to provide for the secondment of employees of Air Canada to Aveos for the purposes of this Memorandum of Agreement, including particularly Section VI.
6. The amendment of the Pension and Benefits Agreement as required to reflect the transition process set out herein.

III. TRANSITION OPTIONS

Eligible Employees will be required to select from the following transition options:

1. Eligible Employees will have the option to remain employees of Air Canada ("**Transition Option 1**"); or
2. Eligible Employees will have the option to accept available employment with Aveos ("**Transition Option 2**"); or
3. Eligible Employees assigned to work for the benefit of Aveos on the CIRB Date under the General Services Agreement, who are Eligible to Retire as of the Selection Closure Date, will have the option to retire from Air Canada in order to accept a one-time offer of an available position from Aveos in the employee's basic category and basic classification ("**Transition Option 3**"); or
4. Eligible Employees assigned to work for the benefit of Aveos on the CIRB Date under the General Services Agreement will have the option to resign from Air Canada in order to accept a one-time offer of an available position from Aveos in the employee's basic category and basic classification ("**Transition Option 4**"); or
5. Eligible Employees who choose under Transition Option 1 to remain employees of Air Canada will have the further option to accept a one-time offer of an available position from Aveos in the employee's current or basic category and classification if the employee's seniority does not allow such employee to remain employed by Air Canada at his/her home base ("**Transition Option 5**"); or

6. Eligible Employees who are not assigned to work for the benefit of Aveos on the CIRB Date under the General Services Agreement, who choose under Transition Option 1 to remain employees of Air Canada, and who are Eligible to Retire as of the Selection Closure Date, will have the further option to retire from Air Canada in order to accept a one-time offer of an available position from Aveos in the employee's basic category and basic classification, provided that the employee's retirement will have the effect of avoiding at the point the lay-off of another Air Canada Employee as a result of the transition process in this Memorandum of Agreement ("**Transition Option 6**"); or
7. Eligible Employees who are not assigned for the benefit of Aveos on the CIRB Date under the General Services Agreement and who choose under Transition Option 1 to remain employees of Air Canada will have the further option to resign from Air Canada in order to accept a one-time offer of an available position from Aveos in the employee's basic category and basic classification, provided that the employee's resignation will have the effect of avoiding at the point the lay-off of another Air Canada Employee as a result of the transition process in this Memorandum of Agreement ("**Transition Option 7**").

For certainty, an Eligible Employee's decision pursuant to paragraph 2 will be actioned at the employee's current station, irrespective of any recall right to another station.

For further certainty, an Eligible Employee's decision pursuant to paragraphs 3, 4, 6, or 7 above is conditional upon the employee receiving from Aveos an offer of an available position in the employee's basic category and basic classification.

IV. SELECTION PROCESS

1. All Eligible Employees shall be sent by registered mail a Selection Form within sixty (60) days of the CIRB Date. The Selection Form shall require Eligible Employees to select from among the options set out in Section III, Transition Options, above. Eligible Employees shall be required to return the Selection Form to coordinator-lr-technicalservices@aircanada.ca or via fax 514-422-5669 and to the applicable International Association of Machinists and Aerospace Workers Local Shop Committee no later than the Selection Closure Date. A draft Selection Form will be mutually agreed upon by Air Canada, Aveos and the Union in advance of mailing. Air Canada will provide copies of the completed Selection Forms to Aveos immediately following the Selection Closure Date.
2. Once an Eligible Employee has completed and submitted a Selection Form, the selected option is irrevocable and cannot be changed or withdrawn, except that an election to retire or resign pursuant to paragraphs 3, 4, 6 or 7 in Section III, Transition Options, above will only become binding upon the employee if Aveos makes an offer of an available position to the employee in his/her basic category and basic classification.

3. An Eligible Employee will be advised in writing if his/her selected option is approved or unavailable. Once the selection is confirmed to the Eligible Employee, he/she will have no further rights with regard to the employer, whether Air Canada or Aveos, not selected, except as specifically provided for below, or as may arise from the binding arbitration referred to below in Section VIII.
4. If the Eligible Employee does not indicate any selection, or does not return the Selection Form by the Selection Closure Date, the Eligible Employee shall be deemed to have selected the employer, whether Air Canada or Aveos, for which the Eligible Employee was performing work on the Selection Closure Date, or for which employer the Eligible Employee had last performed work prior to the Selection Closure Date. Such Eligible Employee shall cease to have any rights with regard to the other employer, whether Air Canada or Aveos, except as specifically provided herein. For greater certainty, any Eligible Employees assigned to work for the benefit of Aveos on the CIRB Date under the General Services Agreement who do not select a transition option or do not return the Selection Form by the Selection Closure Date shall be deemed to have selected to become employees of Aveos, pursuant to Transition Option 2.

V. PRIORITIES IN THE PROCESSING OF SELECTED TRANSITION OPTIONS

A. Procedure Applicable to Eligible Employees Who Select Employment With Aveos

Following the Selection Closure Date, the available positions at Aveos will be offered to Eligible Employees in the following order of priority:

1. First, Eligible Employees who have selected to accept employment with Aveos in accordance with Transition Options 2 or 5;
2. Second, Eligible Employees who are assigned to work for the benefit of Aveos and who elect to retire from Air Canada in accordance with Transition Option 3;
3. Third, Eligible Employees who are assigned to work for the benefit of Aveos and who elect to resign from Air Canada in accordance with Transition Option 4;
4. Fourth, Eligible Employees who are not assigned to work for the benefit of Aveos and who elect to retire from Air Canada in accordance with Transition Option 6;
5. Fifth, Eligible Employees who are not assigned to work for the benefit of Aveos and who elect to resign from Air Canada in accordance with Transition Option 7.

For certainty, Transition Options 3, 4, 6 and 7 shall apply one after the other after Transition Option 2 and 5 and only for remaining available positions in employees' basic categories and basic classifications; within each Transition Option, offers of such available positions shall be made in order of employees' basic seniority according to the Seniority Lists.

Eligible employees placed on temporary lay-off on or after June 1, 2008 shall have the following options:

1. Selection of employment with Aveos under Transition Option 2.
2. Employees who were assigned to work for the benefit of Aveos prior to lay-off may elect to resign from Air Canada and take a position at Aveos in accordance with Transition Option 4.
3. To be treated the same as employees on permanent lay-off as at the CIRB Date, in accordance with the outcome of the arbitration referred to in Section VIII.

Employees who select Transition Options 2 or 4 shall immediately be placed on the Aveos recall list and be removed from the Air Canada recall list. Return to work will take place at the time of any recall by Aveos.

B. Procedure applicable to Air Canada Employees as a result of the implementation of Transition Option 1

1. Air Canada will determine its requirements in all categories and classifications at relevant points where Eligible Employees work and will issue a notice of lay-off of any surplus employees in accordance with the applicable Collective Agreement. Any such lay-off will be mapped out in advance in the same manner as the 2007 Vancouver lay-off. Air Canada and Aveos will review the schedule for such lay-offs and affected employees will be advised either of the date to report to their new stations or the date of their lay-off.
2. Air Canada Employees who are laid off at a point who can hold a position based on system seniority will be required to bump within Air Canada in accordance with the applicable Collective Agreement or elect laid-off status with recall rights to Air Canada only pursuant to the applicable Collective Agreement.
3. Air Canada Employees who cannot hold a position with their system seniority will have a one-time opportunity to accept an offer of employment at Aveos if a vacant position is available in the category and classification from which they would otherwise have been laid off (to the street) at Air Canada. Such offers will be made in order of seniority in the said category and classification, after the application of Transition Options 2 and 5 and prior to the application of Transition Options 3, 4, 6 & 7. In the event that an Air Canada Employee accepts an offer of a position at Aveos, the employee will be treated in the same manner as an Eligible Employee who selected to become an employee of Aveos under Transition Option 2 or under Transition Option 5 and the employee will forfeit all recall rights to Air Canada. Conversely, if an Air Canada Employee refuses an offer of employment in a vacant position at Aveos, the employee will forfeit any future right to be offered employment at Aveos and will be laid off with recall rights to Air Canada only.

4. Air Canada shall ensure that the administrative procedures set out in Sections V B.1 and 2. are fully completed within eighty (80) days of the Selection Closure Date so that Aveos may complete the administrative procedure set out in Section V B.3 by the ninetieth (90th) day following the Selection Closure Date. Without limiting the generality of the foregoing, Air Canada shall ensure that all requirements of the *Canada Labour Code* in connection with the possible lay off of employees as set out above are fully respected. However, the parties agree that the present Memorandum of Agreement contains measures for the assistance of redundant employees that are to the same effect as the measures established by Division IX of the *Canada Labour Code*.

VI. TRANSITION DATE

The Transition Date for Air Canada Employees who accept or are deemed to accept a position with Aveos (Transition Options 2, 3, 4, 5, 6 and 7) will be the date determined by Aveos within ninety (90) days following the Selection Closure Date. Aveos shall have the option, but not the obligation, of deferring this date should the administrative procedures set out in Sections V B. 1 and 2 not be fully completed within eighty (80) days of the Selection Closure Date. It is agreed that if the application of this provision would result in a Transition Date prior to January 1, 2009, the Transition Date shall be January 1, 2009.

Eligible Employees who were not assigned to work for the benefit of Aveos under the terms of the General Services Agreement at the CIRB Date but who become employees of Aveos pursuant to Transition Options 2, 5, 6, or 7 shall, notwithstanding what their Transition Date may be, commence their new assignment with Aveos on a date determined by Air Canada and Aveos with regard to the operational requirements of Air Canada and Aveos. The parties estimate that while the assignment of such Eligible Employees to Aveos will, in most cases, be carried out within twelve (12) months, such an assignment may take up to thirty-six (36) months following the CIRB Date.

Similarly, Eligible Employees assigned to work for the benefit of Aveos at the CIRB Date who remain an employee of Air Canada pursuant to the transition process contemplated by this Memorandum of Agreement shall commence their new assignment with Air Canada on a date determined by Air Canada and Aveos with regard to the operational requirements of Air Canada and Aveos, including such factors as whether a sufficient number of employees in each category and classification have selected employment with Aveos. The parties estimate that while the new assignment of such Eligible Employees to Air Canada will, in most cases, be carried out within twelve (12) months, such an assignment may take up to thirty-six (36) months following the CIRB Date.

The parties agree that for the duration of the period following the Transition Date during which each Eligible Employee is assigned to work for the benefit of the company, Air Canada or Aveos, as the case may be, other than the company for whose benefit he/she will work upon the completion of the processes described in the two preceding paragraphs, the Collective Agreement Time Bank rules applicable to the company to which that employee is assigned during that period shall govern his/her Time Bank rights and obligations.

VII. TERMS OF EMPLOYMENT AT AVEOS

- A. The following terms and conditions of employment will apply as of the Transition Date to Eligible Employees who select or who are deemed to select employment with Aveos (Transition Options 2 and 5):
1. The employee will be removed from the Air Canada Seniority List and placed on the Aveos Seniority List.
 2. The employee's seniority date with Aveos will be the same as his/her former Air Canada seniority date.
 3. The employee's Aveos company service date will be the same as his/her Air Canada company service date.
 4. The employee will continue to be paid at the prevailing rates in the applicable Collective Agreement in force.
 5. Aveos will assume responsibility for certain pension and non-pension benefits earned during employment with Air Canada in accordance with the Pension and Benefits Agreement.
 6. The employee will participate in Aveos benefit plans which will be equivalent to the provisions of the Air Canada benefit plans set out in the applicable Collective Agreement, as set out in Schedule 3.
 7. Recall rights to other stations held by active employees continue at Aveos, and can be actioned after the completion of an employee's transition.
- B. The following terms and conditions of employment will apply as of the Transition Date to Eligible Employees who retire or resign from Air Canada and elect to accept an offer of an available position for employment at Aveos (Transition Options 3, 4, 6 and 7):
1. The employee's name will be removed from the Air Canada Seniority List and be added to the Aveos Seniority List with a seniority date that corresponds to the Transition Date, but shall be placed on the list in accordance with his/her position on the Air Canada Seniority List.
 2. The employee will become an employee of Aveos on the Transition Date.
 3. The employee will be paid at the level of pay in the current applicable Collective Agreement for the basic classification the employee held upon retirement or resignation.

4. In the event the employee retired or resigned from an above basic or higher classification, the employee will be paid at the maximum rate of pay for the corresponding basic classification that the employee held upon retirement or resignation from Air Canada. Subject to operational requirements, such an employee may be temporarily transferred and expected to perform functions in his/her former above basic or higher category/classification until Aveos finds suitable replacements. An employee performing above basic or higher category/classification functions will be paid at the level provided for in the applicable Collective Agreement for that function. The maximum duration of such temporary assignments as of the Transition Date is:
 - a) Category 3 and Technical Instructing category: five (5) years;
 - b) Categories 4, 6, 9 and 10 and Planner, Licensed Planner, and Technical Writer categories: twelve to thirty-six (12 to 36) months;
 - c) Lead Mechanics and LLAT's in all categories: twelve to thirty-six (12 to 36) months;

Within ninety (90) days following the Transition Date, Aveos shall post the required Promotional Bulletins or Vacancy Notices to fill these positions. Aveos will make all reasonable efforts to fill these positions prior to the expiry of the maximum time periods set out above. In particular, Aveos agrees that successful candidates will be assigned progressively to their new positions.

Successful candidates forfeit recall rights awarded pursuant to Section VIII.3 of this Memorandum of Agreement, if any.

Employees who are expected to perform functions in a former above-basic category or classification in accordance with section VII.B.4. will not be prejudiced by that assignment, in that the application of this Memorandum of Agreement shall not result in the lay-off of such employees upon the termination of their temporary assignment.

5. The employee will be immediately eligible for Aveos benefits for service after the Transition Date only.
6. Air Canada will remain responsible for all benefits including pension and post-retirement benefits acquired prior to the Transition Date and Aveos will not assume any responsibility for such benefits.
7. The employee will become a member of the new Aveos Pension Plan as a new employee, and will only accumulate service in the Aveos Pension Plan after the Transition Date, in accordance with the terms of such plan.

8. The delivery of post-retirement benefits will be coordinated to avoid duplication of coverage in the case of an employee of Aveos who retires from Aveos who may be eligible for post-retirement benefits from both Air Canada and Aveos, with Air Canada being the first payer.

VIII. OUTSTANDING ISSUES

- A. The following are all of the issues that remain outstanding between the parties:
 1. Whether an Eligible Employee who retires or resigns from Air Canada pursuant to Transition Options 3, 4, 6, or 7 and accepts an available position from Aveos will commence employment with or without any recognized service at Aveos for vacation entitlement;
 2. Whether an Air Canada Employee on permanent lay-off on the CIRB Date whose name appears on the Seniority Lists and who holds recall rights in categories and classifications used at Aveos at points at which both Aveos and Air Canada have operations involving those categories and classifications will be required to choose by the Selection Closure Date or other date agreed to by the parties between remaining on the Air Canada recall list or being placed on the Aveos recall list, or whether such employee will be allowed to wait and make his or her choice at the time of the first recall opportunity presented by either Air Canada or Aveos, together with the employee's rights upon recall;
 3. Whether, following the severance of bargaining units Eligible Employees who become employees of Aveos in accordance with Transition Option 5, or Air Canada Employees who become employees of Aveos pursuant to Section V. B. 3., should retain their position and rights on Air Canada's recall list for a period not extending beyond thirty-six (36) months following the CIRB Date, and if so, under what terms and conditions.
 4. Whether the travel privileges proposed by Air Canada in Schedule 1 will apply to Air Canada Employees transitioning to Aveos under this Memorandum of Agreement, or whether the travel privileges should be the same as those that apply at Air Canada. The parties agree that the issue of whether the arbitrator has jurisdiction to determine the scope of travel privileges provided by Air Canada or whether the travel privileges proposed by Air Canada in Schedule 1 will apply is properly before the arbitrator.
 5. Whether any Air Canada Employee who accepts available employment with Aveos, or who elects laid off status with recall rights to Air Canada, pursuant to the terms of this Memorandum of Agreement, is as a result entitled, under either the applicable Collective Agreement or the *Canada Labour Code*, to receive severance pay.

- B. The parties agree to have these outstanding issues resolved through a process of final and binding interest mediation/arbitration before arbitrator Martin Teplitsky or such other arbitrator as he may designate. While the arbitrator shall act as an interest mediator/arbitrator, he shall have the powers of an arbitrator under Section 60 and 61 of the *Canada Labour Code*.

IX. GENERAL

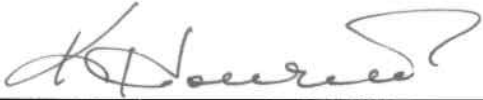
1. A transition process flow chart was developed by the parties during the negotiation of this Memorandum of Agreement and its related documents. For clarity, the terms of the Memorandum of Agreement itself govern in the event of any difference or conflict between that flow chart and this Memorandum of Agreement.
2. The transition process contemplated in this Memorandum of Agreement shall neither increase nor decrease the number of employees at Air Canada or Aveos. It is recognized that such an increase or decrease may occur as a result of an insufficient number of employees selecting to transition to Aveos or selecting to remain at Air Canada or for reasons relating to the operation of the applicable Collective Agreement that are independent of the transition process in this Memorandum of Agreement. It is understood that Aveos shall have no obligation, under the transition process or otherwise, to accept any Air Canada Employees who have selected Aveos as their employer beyond the number of employees it employs in each category and classification on the Selection Closure Date.
3. Air Canada will provide the Union with copies of the Seniority Lists.
4. All permanent transfer requests as provided for by the applicable Collective Agreement that would result in the transfer of the employee from performing work for Air Canada to performing work for Aveos, or the reverse, whether filed prior to or subsequent to the CIRB Date, shall be cancelled and superseded by the transition process in this Memorandum of Agreement.
5. For certainty, there is no mitigation program other than that provided herein relating to any lay-offs resulting from the transition process contemplated by this Memorandum of Agreement.
6. The parties recognize that, in application to the Clerical bargaining unit and Collective Agreement, certain modifications to the strict terms of this Memorandum of Agreement may be necessary to give effect to the principles that it embodies.
7. The parties will establish a Transition Committee for each of the bargaining units, made up of an agreed number of representatives of each party in order to ensure the effective implementation of this Memorandum of Agreement.

8. The parties agree that any issues of implementation that cannot be resolved by the Transition Committee, or as between the parties to this Memorandum of Agreement, shall be referred exclusively to final and binding mediation/arbitration before arbitrator Martin Teplitsky, or to a mutually agreed-upon alternative arbitrator, or an alternative arbitrator appointed by the CIRB.
9. The parties recognize that the interest arbitration award arising from the proceeding set out in Section VIII, above, may require consequential amendments to the terms of this Memorandum of Agreement.
10. The parties agree to resolve fully and irrevocably the complaint and all issues raised in CIRB File 26054-C in accordance with the terms of this Memorandum of Agreement, and further agree that this Memorandum supersedes the letter of understanding of August 7, 2007 between Air Canada, ACTS Limited Partnership and the Union. The parties request that the CIRB incorporate this Agreement into an Order of the Board.
11. The parties agree that the Air Canada and Aveos will file a joint application to the CIRB under ss. 44 and 45 of the *Canada Labour Code* in the form attached as Appendix A to this Memorandum of Agreement in the event that the Board issues an Order incorporating this Agreement.
12. The parties agree that employees of Air Canada in the IAMAW Finance bargaining unit who are affected by the sale of business referred to in the preamble shall be dealt with in the matter set out in Schedule 2 attached hereto.

13. The parties acknowledge and agree that the terms of this Memorandum of Agreement together with the award of arbitrator Martin Teplitsky or such other arbitrator as he may designate and related orders or directions of the CIRB are exhaustive of the rights of any Air Canada Employee affected by the sale of the business of ACTS LP and that no party will assert any claim, demand or grievance related or arising from the transitioning of Air Canada Employees to Aveos except in accordance with this Memorandum of Agreement.

THIS AGREEMENT made as of the 8th day of January, 2009

AIR CANADA



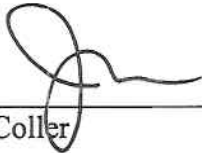
Per: Kevin Howlett

AVEOS FLEET PERFORMANCE INC.



Per: Alex Emile-Gold-Dalg

**INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE WORKERS**



Per: Jim Coller



Per: Tony Didoshak



Per: Chuck Atkinson

SCHEDULE 1

**Application of Air Canada Travel Privileges
to Employees covered by the
Air Canada/IAMAW Collective Agreements (TMOS and Clerical)
who cease to be Air Canada Employees
by reason of the transfer of operations to Aveos**

Introduction:

The following summarizes Air Canada's airline and other travel privileges to those employees of Air Canada who are affected by the transfer of certain operations to Aveos and who meet the eligibility requirements set forth below. No other employees represented by the IAMAW in the TMOS and Clerical (ATS) bargaining units, except those specifically described below, shall be granted Air Canada travel privileges hereunder.

Air Canada travel privileges to be provided pursuant to the terms hereof are intended to constitute a retiring allowance within the meaning of the Income Tax Act (Canada).

This schedule also applies to any Air Canada employee who ceases to be an employee of Air Canada pursuant to Schedule 2 of the Memorandum of Agreement.

A. Eligibility:

1. Air Canada Employees who cease to be employees of Air Canada pursuant to Transition Option 2 of the Memorandum of Agreement, whether they have selected this option or are deemed to have selected it, or pursuant to Transition Options 3, 4, 5, 6 or 7 of the said Memorandum, or Air Canada employees who cease to be employees of Air Canada pursuant to Schedule 2 of the said Memorandum or Air Canada employees who, by reason of the transfer of operations to Aveos, choose to resign from Air Canada and Aveos waive their right of recall to any position be it at Air Canada or Aveos.

2. For certainty, the following are also eligible:
- a. Air Canada Employees who were on temporary lay-off at the CIRB Date and have elected not to remain at Air Canada, thus ceasing to be employees of Air Canada, provided that they are subsequently recalled within one (1) year of their lay-off date.
 - b. Air Canada Employees who were on a personal leave of absence at the CIRB Date and who cease to be Air Canada employees pursuant to Transition Option 2 of the Memorandum of Agreement, whether they have selected this option or are deemed to have selected it, or pursuant to Transition Options 3, 4, 5, 6 or 7 of the said Memorandum.
 - c. Air Canada Employees who were either on a short-term or long-term disability leave at the CIRB Date and who cease to be Air Canada employees pursuant to Transition Option 2 of the Memorandum of Agreement, whether they have selected this option or are deemed to have selected it, or pursuant to Transition Options 3, 4, 5, 6 or 7 of the said Memorandum.
 - d. Air Canada Employees who were absent because of a work-related injury for which Workers Compensation benefits are being paid at the CIRB Date and who cease to be Air Canada employees pursuant to Transition Option 2 of the Memorandum of Agreement, whether they have selected this option or are deemed to have selected it, or pursuant to Transition Options 3, 4, 5, 6 or 7 of the said Memorandum.
 - e. Air Canada Employees who were on IMMS Leave (Inability to Meet Medical Standards) at the CIRB Date and who cease to be Air Canada employees pursuant to Transition Option 2 of the Memorandum of Agreement, whether they have selected this option or are deemed to have selected it, or pursuant to Transition Options 3, 4, 5, 6 or 7 of the said Memorandum.
 - f. Air Canada employees who, by reason of the transfer of operations to Aveos, at the CIRB Date, choose to resign from Air Canada and waive their right of recall to any position be it at Air Canada or Aveos.

B. Air Canada Personal Travel Privileges:

Air Canada personal travel privileges beyond the Transition Date are based on four (4) service related categories and are based on an Eligible Employee's continuous service (last date of hire) with Air Canada as of the Transition Date.

1. **Category 1- Eligible to retire:** Employees Eligible to Retire on the Transition Date will receive full retirement travel benefits as per the Air Canada Employee Travel Policy (regardless of whether they elect to retire or not).
2. **Category 2- 15 plus years of service:** Employees with fifteen (15) years of service or more but who are not Employees Eligible to Retire on the Transition Date, upon ceasing to be an employee of Air Canada, will receive unlimited Air Canada personal travel privileges (except where noted under General Applications below) until the number of eligible years of service at Air Canada plus the number of years elapsed since the Transition Date total 25 or otherwise at such time when the former employee would have been Eligible to Retire had he/she continued employment with Air Canada. Upon meeting either of these two criteria, the employee is entitled, upon personally notifying Air Canada, to receive full Air Canada retiree travel privileges as if such employee was in Category 1.
3. **Category 3- 5 to less than 15 years of service:** Employees with less than fifteen (15) years of service but five (5) or more years of service on the Transition Date, upon ceasing to be an employee of Air Canada, will receive "reduced" Air Canada Personal Travel Privileges (except where noted under General Applications below), consisting of eighteen (18) Air Canada Passes annually per eligible family member, as defined under the Air Canada Travel Policy, to be used each year and such privilege shall end on the second anniversary of the Transition Date.
4. **Category 4- Less than 5 years of service:** Employees with less than five (5) years of service on the Transition Date, upon ceasing to be an employee of Air Canada will receive "reduced" Air Canada Personal Travel Privileges, (except where noted under General Applications below) consisting of four (4) Air Canada Passes per eligible family member, as defined under the Air Canada Travel Policy, and such privilege shall end on the first anniversary of the Transition Date.
5. **General Applications for personal travel for the four (4) categories identified above.**
 - a. All Air Canada Personal Travel Privileges granted by this document remain subject to the Air Canada employee travel policies which may change from time to time at the discretion of Air Canada before or after the Transition Date;

- b. All changes to the current Air Canada Personal Travel Privileges Program to which Air Canada employees have access and which comprise those covered by this Schedule take effect ninety (90) days after the Transition Date;
- c. The Air Canada Personal Travel Privileges and the Air Canada Passes for Categories 2, 3 and 4 refer to return space available travel on Air Canada or Air Canada Jazz only and do not include charter flights or flights operated as a code-share on another airline;
- d. The Employee Pass priority will remain the same (C2 or future equivalent) after the Transition Date; the Air Canada Travel Service date for travel purposes will be deemed to be the employee's date of hire frozen at the Transition Date;
- e. Employee Travel Service charges are waived as per current application (until 2009);
- f. Air Canada Travel partner space available passes:
 - i. No changes to Category 1 (eligible to retire);
 - ii. No changes to Category 2 (fifteen plus (15+) years of service);
 - iii. Category 3 (5-15) reduced to five (5) travel partner passes annually;
 - iv. Category 4, travel partner passes eliminated;
- g. Air Canada Parental passes will be reduced to half the number of employee passes for Categories 3 and 4;
- h. All eligibility for Air Canada C1/J10 passes terminates ninety (90) days after the Transition Date;
- i. All eligibility for Air Canada Incentive passes terminates ninety (90) days after the Transition Date;
- j. All eligibility for the Air Canada Family Affair program terminates ninety (90) days after the Transition Date unless employee is in Category 1;
- k. All eligibility for Air Canada Cargo discounts terminates ninety (90) days after the Transition Date unless employee is in Category 1;
- l. No Air Canada survivor travel privileges for Categories 2, 3 and 4 (survivor travel privileges are only applicable to Category 1 after the Transition Date);

- m. All other airline (OAL) interline privileges and all other travel related agreements, such as those involving car rentals, hotels, attractions, restaurants, etc., terminate on the Transition Date, unless employee is in Category 1.

- C. Employees eligible for Air Canada personal travel privileges under this Schedule shall be responsible for any and all travel service charges and all associated taxes and fees. Failure to pay these services charges and/or associated taxes and fees shall result in immediate and permanent withdrawal of this travel privilege.

- D. All privileges set out above are and shall be determined, granted and applied by Air Canada alone; Aveos has and shall have no role or responsibility whatsoever in this regard.

- E. **Union (IAMAW) Business travel**

All business travel arrangements between the IAMAW and Air Canada for business travel by IAMAW officials will be extended to cover business travel in relation to matters involving employees of Aveos who transition pursuant to the Memorandum of Agreement. These business travel arrangements will end three (3) years following the signature of this Memorandum of Agreement.

SCHEDULE 2

AIR CANADA FINANCE EMPLOYEES

Introduction

This Schedule describes the parties' agreement regarding:

- (i) the transition and mitigation programs which shall be implemented by Air Canada to alleviate the effects on IAMAW represented employees by the termination of certain parts, namely those parts which are not concerned with payroll and pension accounting services matters, of Annex 1.0 of the Amended and Restated Master Services Agreement between Air Canada and Aveos (the "**Terminated Accounting Services**"); and,
 - (ii) the transition and mitigation programs which shall be implemented by Air Canada to alleviate the effects on IAMAW-represented employees of the termination of those parts which are concerned with payroll and pension accounting services of Annex 1.0 of the Amended and Restated Master Services Agreement between Air Canada and Aveos (the "**Payroll and Pension Services**");
 - (iii) the continued IAMAW representation at Aveos of employees holding positions in classifications covered at Air Canada by the bargaining certificate pertaining to certain Air Canada Finance employees located in Winnipeg, Manitoba (the "**Winnipeg Finance Employees**").
1. The parties agree that upon Aveos terminating the Terminated Accounting Services which, notwithstanding any contrary provision in Annex 1.0 or the Amended and Restated Master Services Agreement between Air Canada and Aveos, may be effected by Aveos by written notice of not less than sixty (60) days which shall not, however, be given before November 1, 2008, the positions created at Aveos referred to in paragraph 5 will be included in the IAMAW Clerical bargaining unit and Collective Agreement applicable to Aveos pursuant to the Order of the CIRB contemplated in Section IX – 11 of the MOA;
 2. In this regard, Aveos and the IAMAW agree that they will negotiate any necessary modifications to the Clerical Collective Agreement in order to incorporate such positions;

3. The parties agree that the IAMAW certification as set out in CIRB Certification Order No. 8227-U and the Finance Collective Agreement entered into by Air Canada and the IAMAW with respect to the Winnipeg Finance Employees shall have no application to Aveos;
4. Air Canada shall determine how many Winnipeg Finance Employees are surplus to its needs as a direct result of the termination of that part of Annex 1.0 described above;
5. Aveos shall create, as of the Transition Date, at least four (4) positions within the Clerical bargaining unit in its Montreal, Quebec, offices to perform the duties currently performed for its benefit by Winnipeg Finance Employees;
6. Before hiring any other employees, Aveos shall offer to hire, as of the Transition Date, qualified Winnipeg Finance Employees, in seniority order, and with full recognition of their seniority, in the positions referred to in paragraph 5, above;
7. Exceptionally, and without creating a precedent, Aveos agrees to reimburse the reasonable incurred moving costs from Winnipeg to the Greater Montreal Area of any Winnipeg Finance Employee who accepts one of the positions referred to in paragraph 5 up to a maximum, per employee, of thirty-five thousand (\$35,000) for home owners or fifteen thousand (\$15,000) for renters. Aveos shall apply the current Air Canada Employee Relocation Policy to govern the terms and conditions of the move;
8. If the number of Winnipeg Finance Employees who accept employment in accordance with paragraph 6, above, is insufficient to mitigate the full effect of the surplus determined by Air Canada identified pursuant to paragraph 4, above, a number of employees equivalent to the surplus determined by Air Canada will not be laid off by Air Canada as a result of implementing this Schedule and will be carried supernumerary; Aveos shall assume no costs or liabilities in connection with any Winnipeg Finance Employee, other than as specifically set out in paragraph 7;
9. Paragraphs 4, 6, and 7, of this Schedule shall cease to have effect once the positions created pursuant to paragraph 5, above, have been initially filled.
10. Should Aveos terminate the Payroll and Pensions Services, a number of employees equivalent to the surplus determined by Air Canada, in the same manner as described in paragraph 4 above, will not be laid off by Air Canada as a result of implementing this Schedule and will be carried supernumerary.

SCHEDULE 3

IAMAW EMPLOYEES – PENSION MATTERS RELATED TO TRANSITION PROCESS

Pension Plan

Aveos will create a single pension plan (instead of the two (2) plans (Air Canada Pension Plan (AC Plan) and IAMAW CAIL Pension Plan) currently applicable to Air Canada IAMAW employees). At the time it is established, and as set out in the Pension and Benefits Agreement, the Aveos Pension Plan will provide, to each employee who transitions to Aveos on the Transition Date pursuant to Transition Options 2 and 5 or Section V.B.3, the same pension benefits as provided under his/her plan of origin as in effect on the Transition Date.

This refers to:

- The employee contribution formula;
- The benefit formula, including what earnings and service are to be recognized;
- The normal retirement age;
- The early retirement conditions;
- The vesting requirements;
- The payment forms offered upon retirement;

The IAMAW will be provided with copies of the actuarial reports (currently issued annually) in relation to the Aveos Pension Plan.

More particulars as to the Aveos Pension Plan to be created for IAMAW employees are set out in the Pension and Benefits Agreement. The other provisions of the Aveos plan shall be in accordance with applicable law, the relevant Collective Agreement, and the Pension and Benefits Agreement.