

**No: 500-11-042345-120**

## **EXHIBIT R-1**

**(In support of the Motion for authorization to cancel  
a letter of credit and to make certain distributions)**

Execution Copy

**PENSION AND BENEFITS AGREEMENT****THIS AGREEMENT** is made as of June 22, 2007.

- AMONG:** AIR CANADA, a corporation existing under the Laws of Canada;
- AND:** ACTS LP, a limited partnership herein acting through and represented by its general partner, ACTS Technical Services Inc., a corporation incorporated under the Laws of Canada, (the "Vendor");
- AND:** KSAGE MRO HOLDINGS INC., a corporation incorporated under the Laws of Canada, (the "Purchaser");

**WHEREAS:**

- A. Pursuant to an asset purchase agreement (the "Purchase Agreement") between the Vendor and the Purchaser made as of June 22, 2007, the Purchaser has agreed to purchase substantially all of the Vendor's assets;
- B. The parties wish to set out their agreement regarding certain pension and benefits matters.

**NOW THEREFORE** in consideration of the premises and covenants and agreements contained in this Agreement and in the Purchase Agreement, the parties hereto agree as follows:

**I. DEFINITIONS****1. Defined Terms**

In this Agreement :

"AC DB Plans" means the Main Plan, the CAIL IAMAW Plan, and/or the CAIL Management Plan, as applicable;

"AC Employee Plans" has the meaning specified in Section 43;

"AC Group RRSP" means the group registered retirement savings plan for Air Canada employees;

**"AC Non-Unionized Employees"** means all non-unionized employees of Air Canada assigned and made available to the Vendor pursuant to the terms and conditions of the General Services Agreement (non-unionized);

**"AC Non-Unionized Plan Beneficiaries"** means: (i) all AC Non-Unionized Employees; and (ii) for greater certainty, all AC Non-Unionized Employees who are Non-Unionized Employees on Leave; in each case who become employed by the Purchaser as at the Closing Date;

**"AC Post-Retirement Group Benefits Plans"** means the plans listed in Schedule A;

**"AC Pre-Retirement Group Benefits Plans"** means the plans listed in Schedule A;

**"AC SERP"** means the Air Canada Supplementary Senior Management Retirement Program and for greater certainty does not include the Air Canada Supplemental Executive Retirement Plan;

**"AC Unionized Employees"** means all unionized employees of Air Canada assigned and made available to the Vendor pursuant to the terms and conditions of the General Services Agreement (unionized);

**"AC Unionized Plan Beneficiaries"** means: (i) all AC Unionized Employees; and (ii) for greater certainty, all AC Unionized Employees who are Unionized Employees on Leave; in each case who become employed by the Purchaser as at the Certification Date;

**"ACTS DC Plan"** means the Air Canada Technical Services Defined Contribution Pension Plan;

**"ACTS Employee Plans"** has the meaning specified in Section 44;

**"ACTS Group RRSP"** means the group registered retirement savings plan for employees of the Vendor;

**"ACTS Post-Retirement Group Benefits Plans"** means the plans listed in Schedule A;

**"ACTS Pre-Retirement Group Benefits Plans"** means the plans listed in Schedule A;

**"Adjusted Non-Unionized Asset Amount"** has the meaning specified in Section 7;

**"Adjusted Unionized Asset Amount"** has the meaning specified in Section 18;

**"Agreement"** means this pension and benefits agreement;

**"Air Canada DC Plan"** means the Air Canada Defined Contribution Pension Plan;

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**"Applicable Legislation"** means all legislation (including, without limitation, related regulations and published guidelines, administrative policies and procedures) that applies to any of the pension plans addressed in this Agreement, including without limitation the *Pension Benefits Standards Act, 1985* (Canada) and the *Income Tax Act* (Canada);

**"Business"** means the business conducted by the Vendor, being the delivery of commercial maintenance, repair and overhaul services to the airline industry, including, heavy maintenance, engine maintenance, component maintenance, and ancillary services;

**"Business Day"** has the meaning specified in Section 53;

**"CAIL IAMAW Plan"** means the Pension Plan for Air Canada IAMAW Employees Formerly Employed by Canadian Airlines International Ltd.;

**"CAIL Management Plan"** means the Pension Plan for Air Canada Management Employees Formerly Employed by Canadian Airlines International Ltd.;

**"Certification Date"** means the date on which the AC Unionized Employees become employees of the Purchaser. For greater certainty, and except as required by Section 62, the parties shall only give effect to the provisions of this Agreement relating to the AC Unionized Plan Beneficiaries to the extent there is a Certification Date;

**"Certification Date Assets"** means the assets of an AC DB Plan held in respect of the AC Unionized Plan Beneficiaries as of the Certification Date, determined as the total assets of the AC DB Plan multiplied by the ratio of the solvency liabilities in respect of the AC Unionized Plan Beneficiaries in the AC DB Plan to the total solvency liabilities of the AC DB Plan. For greater certainty, such determination shall be made in respect of both the Main Plan and the CAIL IAMAW Plan;

**"Claims"** has the meaning specified in Section 4;

**"Closing Date"** means the date of completion of the transaction of purchase and sale contemplated by the Purchase Agreement;

**"Closing Date Assets"** means the assets of an AC DB Plan held in respect of the AC Non-Unionized Plan Beneficiaries as of the Closing Date, determined as the total assets of the AC DB Plan multiplied by the ratio of the solvency liabilities in respect of the AC Non-Unionized Plan Beneficiaries in the AC DB Plan to the total solvency liabilities of the AC DB Plan. For greater certainty, such determination shall be made in respect of both the Main Plan and the CAIL Management Plan;

**"Collective Agreement"** has the meaning set forth in Section 58;

**"Compensation Amount"** has the meaning set forth in Section 24;

**"DB Non-Unionized Transfer Date"** means the date that the Final Non-Unionized Asset Amount or the Adjusted Non-Unionized Asset Amount, as the case may be, attributable to the relevant AC Non-Unionized Plan Beneficiaries is transferred from an AC DB Plan to the Purchaser's DB Plan pursuant to Section 8;

**"DB Unionized Transfer Date"** means the date that the Final Unionized Asset Amount or the Adjusted Unionized Asset Amount, as the case may be, attributable to the relevant AC Unionized Plan Beneficiaries is transferred from an AC DB Plan to the Purchaser's DB Plan pursuant to Section 19;

**"DC Transfer Date"** has the meaning specified in Section 27;

**"Final Non-Unionized Asset Amount"** means the assets in a Segregated Account on the DB Non-Unionized Transfer Date;

**"Final Unionized Asset Amount"** means the assets in a Segregated Account on the DB Unionized Transfer Date;

**"General Services Agreement (non-unionized)"** means the agreement entered into between the Vendor and Air Canada on September 24, 2004 with respect to the temporary assignments from Air Canada to the Vendor of the AC Non-Unionized Employees;

**"General Services Agreement (unionized)"** means the agreement entered into between the Vendor and Air Canada on September 24, 2004 with respect to the temporary assignments from Air Canada to the Vendor of the AC Unionized Employees and as subsequently amended;

**"IAM"** has the meaning set forth in Section 58;

**"Initial Segregated Amount"** has the meaning specified in Section 4 or Section 15, as applicable;

**"Main Plan"** means the Air Canada Pension Plan;

**"Non-Unionized Adjustment"** means an Adjusted Non-Unionized Asset Amount less the corresponding Final Non-Unionized Asset Amount;

**"Non-Unionized Disability Liability"** means the liability for benefits payable to Non-Unionized Employees on Leave under the AC Pre-Retirement Group Benefits Plans. Such liability shall be calculated by Air Canada's actuary in accordance with the methods and assumptions set out in Schedule B. These methods and assumptions shall be in accordance with the approach prescribed

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under CICA Handbook Section 3461 for determining accounting liabilities. The Purchaser shall notify Air Canada within 60 days of receiving a copy of the results of the calculations from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the Non-Unionized Disability Liability. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation. If the Purchaser notifies Air Canada that it disagrees with the calculation, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation. If Air Canada and the Purchaser are unable to agree on the calculation, the provisions of Section 61 shall apply;

**"Non-Unionized Employees on Leave"** means all Air Canada non-unionized employees employed in the Business who are on pregnancy, parental or other paid or unpaid leave, or in receipt of short-term disability, long-term disability or workers compensation benefits as at the Closing Date;

**"Non-Unionized Report"** has the meaning specified in Section 3;

**"Non-Unionized Retiree Liability"** means the liability for AC Post-Retirement Group Benefits Plan benefits in respect of AC Non-Unionized Plan Beneficiaries. Such liability shall be calculated by Air Canada's actuary in accordance with the methods and assumptions set out in Schedule B. These methods and assumptions shall be in accordance with the approach prescribed under CICA Handbook Section 3461 for determining accounting liabilities. The Purchaser shall notify Air Canada within 60 days of receiving a copy of the results of the calculations from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the Non-Unionized Retiree Liability. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation. If the Purchaser notifies Air Canada that it disagrees with the calculation, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation. If Air Canada and the Purchaser are unable to agree on the calculation, the provisions of Section 61 shall apply;

**"Non-Unionized Segregation Date"** has the meaning specified in Section 4;

**"Plan Account Balance"** has the meaning specified in Section 27;

**"Plan Expenses"** means the fees and expenses incurred for administration of an AC DB Plan in respect of AC Non-Unionized Plan Beneficiaries or AC Unionized Plan Beneficiaries, as applicable. For greater certainty, during the period from the Closing Date to the Non-Unionized Segregation Date or from the Certification Date to the Unionized Segregation Date, as applicable, investment management fees shall be considered as fees and expenses incurred for the administration of the relevant AC DB Plan;

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**"Purchase Agreement"** has the meaning specified in recital A to this Agreement;

**"Purchaser Indemnified Parties"** has the meaning specified in Section 11;

**"Purchaser's DB Plan"** has the meaning specified in Section 2;

**"Registered Pension Plan"** means a registered pension plan as defined in the *Income Tax Act* (Canada);

**"Regulatory Authorities"** means the Superintendent of Financial Institutions (Canada), the Canada Revenue Agency and any other applicable governmental agency responsible for regulating Registered Pension Plans;

**"Segregated Account"** means an account established with the funding agent of each AC DB Plan to hold assets with respect to the AC Non-Unionized Plan Beneficiaries or AC Unionized Plan Beneficiaries, as applicable, on a segregated basis within the pension fund of the AC DB Plan in accordance with Section 4 or Section 15, as applicable;

**"SERP Liability"** means the solvency liability in respect of AC Non-Unionized Employees under the AC SERP. Such liability shall be calculated by Air Canada's actuary as soon as practicable following the Closing Date, using the same methods and assumptions used to determine the solvency liabilities in respect of the AC Non-Unionized Plan Beneficiaries in the AC DB Plans. For further clarity, no adjustment shall be made in respect of the different Applicable Legislation governing the AC SERP and the AC DB Plans. The Purchaser shall notify Air Canada within 60 days of receiving a copy of the results of the calculations from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the SERP Liability. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation. If the Purchaser notifies Air Canada that it disagrees with the calculation, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation. If Air Canada and the Purchaser are unable to agree on the calculation, the provisions of Section 61 shall apply;

**"Unionized Adjustment"** means an Adjusted Unionized Asset Amount less the corresponding Final Unionized Asset Amount;

**"Unionized Allocated Percentage"** means the ratio of the solvency liabilities of an AC DB Plan as of each valuation date in respect of the AC Unionized Plan Beneficiaries (for greater clarity, such beneficiaries to be identified at the Certification Date) to the total solvency liabilities of the AC DB Plan;

**"Unionized Closing Date Liabilities"** means the solvency liabilities of an AC DB Plan as of the Closing Date in respect of the AC Unionized Plan Beneficiaries (for greater clarity, such beneficiaries to be identified at the Certification Date). For greater certainty, such liabilities shall be determined in respect of both the Main Plan and the CAIL IAMAW Plan;

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**"Unionized Closing Date Solvency Ratio"** means the ratio determined as of the Closing Date of the total assets of an AC DB Plan to the total solvency liabilities of the AC DB Plan. For greater certainty, such determination shall be made in respect of both the Main Plan and the CAIL IAMAW Plan;

**"Unionized Disability Liability"** means the liability for benefits payable to Unionized Employees on Leave under the AC Pre-Retirement Group Benefits Plans. Such liability shall be calculated by Air Canada's actuary in accordance with the methods and assumptions set out in Schedule B. These methods and assumptions shall be in accordance with the approach prescribed under CICA Handbook Section 3461 for determining accounting liabilities, except that they will be determined as of the Closing Date rather than the Certification Date. The Purchaser shall notify Air Canada within 60 days of receiving a copy of the results of the calculations from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the Unionized Disability Liability. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation. If the Purchaser notifies Air Canada that it disagrees with the calculation, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation. If Air Canada and the Purchaser are unable to agree on the calculation, the provisions of Section 61 shall apply;

**"Unionized Employees on Leave"** means all Air Canada unionized employees employed in the Business who are on lay-off, pregnancy, parental or other paid or unpaid leave, or in receipt of short-term disability, long-term disability or workers compensation benefits as at the Certification Date;

**"Unionized Report"** has the meaning specified in Section 14;

**"Unionized Retiree Liability"** means the liability for AC Post-Retirement Group Benefits Plan benefits in respect of AC Unionized Plan Beneficiaries. Such liability shall be calculated by Air Canada's actuary in accordance with the methods and assumptions set out in Schedule B. These methods and assumptions shall be in accordance with the approach prescribed under CICA Handbook Section 3461 for determining accounting liabilities, except that they will be determined as of the Closing Date rather than the Certification Date. The Purchaser shall notify Air Canada within 60 days of receiving a copy of the results of the calculations from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the Unionized Retiree Liability. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation. If the Purchaser notifies Air Canada that it disagrees with the calculation, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation. If Air Canada and the Purchaser are unable to agree on the calculation, the provisions of Section 61 shall apply;



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"Unionized Segregation Date" has the meaning specified in Section 15;

"Vendor Indemnified Parties" has the meaning specified in Section 4.

## II. DEFINED BENEFIT REGISTERED PENSION PLANS

### (a) Plan Establishment

#### 2. Establishment of Purchaser's DB Plan

As soon as practicable after the Closing Date, the Purchaser shall cause to be established a new defined benefit Registered Pension Plan (the "Purchaser's DB Plan") effective as of the Closing Date to provide pension and other benefits to: (i) the AC Non-Unionized Plan Beneficiaries who belonged to an AC DB Plan, providing the same benefits and otherwise containing substantially similar terms and conditions for at least two years as those applicable to those AC Non-Unionized Plan Beneficiaries immediately before the Closing Date; and (ii) the AC Unionized Plan Beneficiaries who belonged to an AC DB Plan, and subject to the Collective Agreement as it may be amended from time to time or any collective agreement which renews or replaces it, providing the same benefits and otherwise containing substantially similar terms and conditions for at least two years after the Certification Date as those applicable to those AC Unionized Plan Beneficiaries immediately before the Certification Date. The Purchaser shall not terminate the Purchaser's DB Plan or reduce any accrued benefits thereunder until the last payments described in Section 13 and Section 24 have been made.

As soon as practicable after the Closing Date, but no later than December 31 of the year in which the Closing Date falls, the Purchaser shall, at its cost and expense, apply to the applicable Regulatory Authorities to register the Purchaser's DB Plan under Applicable Legislation requiring such registration. The Purchaser shall forthwith notify Air Canada of the filing of the application for and the registration of the Purchaser's DB Plan. The Purchaser shall provide Air Canada with any information related to the Purchaser's DB Plan that Air Canada may reasonably require to complete the transfer of assets contemplated in this Agreement. Air Canada shall provide to the Purchaser such information related to the AC DB Plans as the Purchaser may reasonably require in order to establish the Purchaser's DB Plan and in order to administer benefits for the AC Non-Unionized Plan Beneficiaries and AC Unionized Plan Beneficiaries following the transfers of assets contemplated in this Agreement.

Subject to such reasonable administrative limits as it may impose, the Purchaser shall cause the Purchaser's DB Plan to accept a transfer of assets in respect of any pension credits accrued by an AC Non-Unionized Employee under the CAIL IAMAW Plan or any other Air Canada defined benefit registered pension plan which is not an AC DB Plan, to the extent the AC Non-Unionized Employee chooses to exercise portability rights under Applicable Legislation.

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Notwithstanding any of the foregoing, the Purchaser may at its option establish separate defined benefit Registered Pension Plans for the AC Non-Unionized Plan Beneficiaries and for the AC Unionized Plan Beneficiaries (collectively, also the "Purchaser's DB Plan"), and the provisions of this Agreement shall be construed accordingly. In such case, the Purchaser's DB Plan for the AC Unionized Plan Beneficiaries shall be established effective as of the Certification Date.

**(b) AC Non-Unionized Plan Beneficiaries**

**3. Determination of Closing Date Assets**

As soon as practicable after the Closing Date, Air Canada shall provide all necessary information to its actuary to update the defined benefit pension records of all AC Non-Unionized Plan Beneficiaries. Within 90 days of receiving all such information, Air Canada's actuary shall deliver reports (each, a "Non-Unionized Report") to Air Canada setting out the Closing Date Assets for the Main Plan and the CAIL Management Plan. Each Non-Unionized Report shall utilize reasonable actuarial methods and assumptions, as determined by Air Canada's actuary.

Within 10 days of receiving a Non-Unionized Report, Air Canada shall provide a copy of the Non-Unionized Report to the Purchaser, together with copies of all necessary information and data used to determine the Closing Date Assets and to prepare the Non-Unionized Report and any other information which the Purchaser or its agents may reasonably request.

The Purchaser shall notify Air Canada within 60 days of receiving a copy of a Non-Unionized Report from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the Closing Date Assets set out in the Non-Unionized Report. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation of the Closing Date Assets. If the Purchaser notifies Air Canada that it disagrees with the calculation of the Closing Date Assets, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation of the Closing Date Assets. If Air Canada and the Purchaser are unable to agree on the Closing Date Assets, the provisions of Section 61 shall apply.

**4. Segregation of Assets**

On a date as soon as practicable after Air Canada and the Purchaser agree or are deemed to agree on the calculation of the Closing Date Assets for an AC DB Plan, and subject to the Regulatory Authorities' approval if required, Air Canada shall cause: (i) the Segregated Account for that plan to be established; and (ii) assets with a market value equal to the Closing Date Assets less any benefit and other payments made from the pension fund of the relevant AC DB Plan respecting AC Non-Unionized Plan

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Beneficiaries and Plan Expenses for the period from the Closing Date to such date of segregation (the "Non-Unionized Segregation Date") to be placed within the Segregated Account (the "Initial Segregated Amount"). The Initial Segregated Amount will be augmented or reduced (as the case may be) by the return on AC DB Plan assets with a market value equal to the Closing Date Assets for the period from the Closing Date to the Non-Unionized Segregation Date and reduced by interest on any such benefit and other payments for the period from the relevant payment date to the Non-Unionized Segregation Date, such interest to be at the investment rate of return (whether positive or negative) earned in the AC DB Plan pension fund for the period from the Closing Date to the Non-Unionized Segregation Date. Such assets shall be in the form of cash or other assets, which are mutually acceptable to Air Canada and the Purchaser.

The administration of any assets in the Segregated Account shall, from the Non-Unionized Segregation Date until the DB Non-Unionized Transfer Date, be the responsibility of Air Canada. The Purchaser shall provide to Air Canada such information as is in the possession or control of the Purchaser and which is reasonably required by Air Canada to administer the assets in the Segregated Account and to make benefit and other payments to AC Non-Unionized Plan Beneficiaries pursuant to Section 6. Air Canada may charge to the Segregated Account all reasonable expenses incurred in connection with the Segregated Account together with Plan Expenses for the period from the Non-Unionized Segregation Date to the DB Non-Unionized Transfer Date.

From the Non-Unionized Segregation Date to the DB Non-Unionized Transfer Date, the Purchaser shall, at its sole expense, provide or arrange for the investment management of all assets in the Segregated Account and Air Canada shall direct that the funding agent of the AC DB Plan follow the investment management directions of the Purchaser or its agents.

The Purchaser shall indemnify Air Canada, the Vendor and their respective directors, officers, employees, agents and delegates (collectively, the "Vendor Indemnified Parties") in respect of any claims, demands, actions, causes of action, damages, losses, costs, liabilities or expenses (collectively "Claims") which the Vendor Indemnified Parties may suffer as a result of or in connection with the Purchaser or its agents charging expenses to or providing investment management services and directions respecting assets in the Segregated Account, save and except to the extent that such Claims result from the wilful misconduct of the Vendor Indemnified Party or relate to the act of delegation by Air Canada to the Purchaser of the investment management of the Segregated Account.

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**5. Application for Regulatory Approval of Asset Transfer**

As soon as practicable after Air Canada and the Purchaser agree or are deemed to agree on the Closing Date Assets in respect of an AC DB Plan, Air Canada shall apply where required by Applicable Legislation to the relevant Regulatory Authorities for approval to transfer the Final Non-Unionized Asset Amount to the Purchaser's DB Plan. Air Canada shall cause to be prepared all applications, reports and other materials required under Applicable Legislation or by the applicable Regulatory Authority to obtain such approval and shall diligently pursue all applications. The application materials shall include clear disclosure that under this Agreement, no liabilities under the relevant AC DB Plan in respect of service of the AC Non-Unionized Plan Beneficiaries prior to the Closing Date are being assumed by the Purchaser's DB Plan unless and until the asset transfer that is the subject of the application has been approved and has occurred.

Before filing any application to obtain approval for the transfer of the Final Non-Unionized Asset Amount, Air Canada shall provide copies of the application materials to the Purchaser for the Purchaser's review. The Purchaser shall notify Air Canada within 20 days of receiving a copy of such materials whether it agrees or disagrees with their contents. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the contents. If the Purchaser notifies Air Canada that it disagrees with the contents, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement on the contents.

**6. Benefit Payments**

Air Canada shall ensure that from the Closing Date to the relevant Non-Unionized Segregation Date, any benefit and other payments due and owing to or in respect of any AC Non-Unionized Plan Beneficiary from an AC DB Plan are paid to or for the benefit of the beneficiary. After the relevant Non-Unionized Segregation Date, such payments shall be made from the Segregated Account.

**7. Refusal to Permit Transfer**

Air Canada shall forthwith notify the Purchaser if any Regulatory Authority to which Air Canada has applied to approve the transfer of the Final Non-Unionized Asset Amount from an AC DB Plan to the Purchaser's DB Plan refuses to approve such transfer and directs either that a different amount be transferred or that an assumption or method of calculation used to determine the Closing Date Assets be changed. In such event, Air Canada and Purchaser agree that the amount to be transferred (the "Adjusted Non-Unionized Asset Amount") shall be transferred in accordance with the Regulatory Authority's direction subject to Air Canada's and the Purchaser's right to appeal such direction (until all rights of appeal are exhausted) to any governmental agency or court where Air Canada or the Purchaser, as applicable, on the advice of their

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respective professional advisors, is of the opinion that such direction is not in accordance with Applicable Legislation.

**8. Transfer to Purchaser's DB Plan**

Within 45 days of receiving approval of the last of the applicable Regulatory Authorities to transfer the Final Non-Unionized Asset Amount or Adjusted Non-Unionized Asset Amount, as the case may be, and of receiving notice from the Purchaser of the acceptance for registration of the Purchaser's DB Plan as contemplated by Section 2, Air Canada shall cause the funding agent of the relevant AC DB Plan to transfer to the funding agent of the Purchaser's DB Plan:

- (i) in the case of approval to transfer the Final Non-Unionized Asset Amount, the Final Non-Unionized Asset Amount;
- (ii) in the case of approval to transfer the Adjusted Non-Unionized Asset Amount where such amount exceeds the Final Non-Unionized Asset Amount, the amount of such excess together with the Final Non-Unionized Asset Amount; and
- (iii) in the case of approval to transfer the Adjusted Non-Unionized Asset Amount where such amount is less than the Final Non-Unionized Asset Amount, the Final Non-Unionized Asset Amount less such reduction.

**9. Cessation of Participation**

As of the Closing Date, the AC Non-Unionized Plan Beneficiaries shall cease to participate actively in, and accrue benefits under, the AC DB Plans and shall commence participation in the Purchaser's DB Plan. The Purchaser shall commence remitting contributions to the Purchaser's DB Plan in respect of the service of the AC Non-Unionized Plan Beneficiaries on and after the Closing Date, in accordance with Applicable Legislation. From the Closing Date to the relevant DB Non-Unionized Transfer Date, any special payments owing under Applicable Legislation in respect of a deficit related to the pre-Closing Date service of the AC Non-Unionized Plan Beneficiaries shall be made by the Purchaser into the Purchaser's DB Plan, based on the assets to be transferred to the Purchaser's DB Plan pursuant to Section 8 and the liabilities to be assumed by the Purchaser's DB Plan pursuant to Section 10.

**10. Recognition of Past Service**

Subject to and after receipt by the funding agent of the Purchaser's DB Plan of the Final Non-Unionized Asset Amount or Adjusted Non-Unionized Asset Amount, as the case may be, from an AC DB Plan pursuant to Section 8, the Purchaser shall ensure that the Purchaser's DB Plan recognizes the period of service of the relevant AC Non-

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Unionized Plan Beneficiaries in that AC DB Plan immediately prior to the Closing Date, for all purposes as if such service had been with the Purchaser. The Purchaser and Air Canada acknowledge that unless and until that asset transfer occurs, no liability for benefits earned by the relevant AC Non-Unionized Plan Beneficiaries under such AC DB Plan in respect of service prior to the Closing Date shall be assumed by the Purchaser.

#### **11. Indemnifications**

Subject to and after receipt by the funding agent of the Purchaser's DB Plan of the Final Non-Unionized Asset Amount or Adjusted Non-Unionized Asset Amount, as the case may be, from an AC DB Plan pursuant to Section 8, the Purchaser shall assume liability for, and indemnify and hold harmless the Vendor Indemnified Parties and the AC DB Plan against, payment after the DB Non-Unionized Transfer Date of pension and other benefits accrued by the relevant AC Non-Unionized Plan Beneficiaries under such AC DB Plan.

Air Canada shall indemnify and hold harmless the Purchaser and its directors, officers, employees, agents and delegates (collectively, the "Purchaser Indemnified Parties") in respect of any Claims which the Purchaser Indemnified Parties or the Purchaser's DB Plan may suffer as a result of or in connection with the management or operation of an AC DB Plan; (a) prior to the Non-Unionized Segregation Date; or (b) other than in regard to the Purchaser's investment management services and directions respecting assets in the Segregated Account, between the Non-Unionized Segregation Date and the DB Non-Unionized Transfer Date.

#### **12. Promissory Note**

If the DB Non-Unionized Transfer Date is earlier than July 30, 2008, the Purchaser shall post security effective as of the DB Non-Unionized Transfer Date in favour of the Purchaser's DB Plan in accordance with the following principles. Such security will take the form of a letter of credit or such other security as is acceptable to the Regulatory Authorities. The security will be in an initial amount equal to the remaining balance of the portion of the promissory note issued by Air Canada on September 30, 2004 in favour of the Main Plan relating to the AC Non-Unionized Plan Beneficiaries, determined as the total remaining balance of the promissory note multiplied by the ratio of the solvency liabilities in respect of the AC Non-Unionized Plan Beneficiaries to the total solvency liabilities of the Main Plan at the Closing Date. The security will be reduced from time to time at the same rate as the balance of such promissory note reduces and will expire effective July 30, 2008. No such security shall be posted by the Purchaser in respect of the CAIL Management Plan. For greater certainty, Air Canada shall not reduce the balance of the September 30, 2004 promissory note by virtue of the transactions described in the Purchase Agreement or this Agreement.

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### 13. Quarterly Payments

Air Canada shall make, on each October 30<sup>th</sup>, January 30<sup>th</sup>, April 30<sup>th</sup>, and July 30<sup>th</sup> following the Closing Date and through January 30, 2014, equal quarterly payments to the Purchaser so that the present value of such payments equals the solvency deficit of the AC DB Plans in respect of the AC Non-Unionized Plan Beneficiaries at the Closing Date, being the solvency liabilities in respect of the AC Non-Unionized Plan Beneficiaries at that date less the Closing Date Assets in respect of the Main Plan and the CAIL Management Plan. Such present value shall be determined using the same discount rate as is used to determine such solvency deficit.

If there is a Non-Unionized Adjustment which is greater than zero, Air Canada shall reduce the remaining quarterly payments following the DB Non-Unionized Transfer Date by equal amounts so that the present value of such reduction in payments equals the Non-Unionized Adjustment. If there is a Non-Unionized Adjustment which is less than zero, Air Canada shall increase the remaining quarterly payments following the DB Non-Unionized Transfer Date by equal amounts so that the present value of such additional payments equals the Non-Unionized Adjustment.

For further clarity, if any resulting quarterly payment is negative, either due to there being a solvency surplus at the Closing Date and/or due to a Non-Unionized Adjustment being greater than zero, the Purchaser shall make that quarterly payment to Air Canada, as opposed to Air Canada making that quarterly payment to the Purchaser.

#### (c) AC Unionized Plan Beneficiaries

### 14. Determination of Certification Date Assets

As soon as practicable after the Certification Date, Air Canada shall provide all necessary information to its actuary to update to the Certification Date the pension records of all AC Unionized Plan Beneficiaries. Within 90 days of receiving all such information, Air Canada's actuary shall deliver reports (each, a "Unionized Report") to Air Canada setting out the Certification Date Assets for the Main Plan and the CAIL IAMAW Plan. Each Unionized Report shall utilize reasonable actuarial methods and assumptions, as determined by Air Canada's actuary.

Within 10 days of receiving a Unionized Report, Air Canada shall provide a copy of the Unionized Report to the Purchaser, together with copies of all necessary information and data used to determine the Certification Date Assets and to prepare the Unionized Report and any other information which the Purchaser or its agents may reasonably request.

The Purchaser shall notify Air Canada within 60 days of receiving a copy of a Unionized Report from Air Canada as to whether it agrees or disagrees with Air Canada's actuary's calculation of the Certification Date Assets set out in the Unionized

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Report. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the calculation of the Certification Date Assets. If the Purchaser notifies Air Canada that it disagrees with the calculation of the Certification Date Assets, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation of the Certification Date Assets. If Air Canada and the Purchaser are unable to agree on the disputed Certification Date Assets, the provisions of Section 61 shall apply.

**15. Segregation of Assets**

On a date as soon as practicable after Air Canada and Purchaser agree or are deemed to agree on the calculation of the Certification Date Assets for an AC DB Plan, and subject to the Regulatory Authorities' approval if required, Air Canada shall cause: (i) the Segregated Account for that plan to be established; and (ii) assets with a market value equal to the Certification Date Assets less any benefit and other payments made from the pension fund of the relevant AC DB Plan respecting AC Unionized Plan Beneficiaries and Plan Expenses for the period from the Certification Date to such date of segregation (the "Unionized Segregation Date") to be placed within the Segregated Account (also the "Initial Segregated Amount"). The Initial Segregated Amount will be augmented or reduced (as the case may be) by the return on AC DB Plan assets with a market value equal to the Certification Date Assets for the period from the Certification Date to the Unionized Segregation Date and reduced by interest on any such benefit and other payments for the period from the relevant payment date to the Unionized Segregation Date, such interest to be at the investment rate of return (whether positive or negative) earned in the AC DB Plan pension fund for the period from the Certification Date to the Unionized Segregation Date. Such assets shall be in the form of cash or other assets, which are mutually acceptable to Air Canada and the Purchaser.

The administration of any assets in the Segregated Account shall, from the Unionized Segregation Date until the DB Unionized Transfer Date, be the responsibility of Air Canada. The Purchaser shall provide to Air Canada such information as is in the possession or control of the Purchaser and which is reasonably required by Air Canada to administer the assets in the Segregated Account and to make benefit and other payments to AC Unionized Plan Beneficiaries pursuant to Section 6. Air Canada may charge to the Segregated Account all reasonable expenses incurred in connection with the Segregated Account together with Plan Expenses for the period from the Unionized Segregation Date to the DB Unionized Transfer Date.

From the Unionized Segregation Date to the DB Unionized Transfer Date, the Purchaser shall, at its sole expense, provide or arrange for the investment management of all assets in the Segregated Account and Air Canada shall direct that the funding agent of the AC DB Plan follow the investment management directions of the Purchaser or its agents.



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The Purchaser shall indemnify the Vendor Indemnified Parties in respect of any Claims which the Vendor Indemnified Parties may suffer as a result of or in connection with the Purchaser or its agents charging expenses to or providing investment management services and directions respecting assets in the Segregated Account, save and except to the extent that such Claims result from the wilful misconduct of the Vendor Indemnified Party or relate to the act of delegation by Air Canada to the Purchaser of the investment management of the Segregated Account.

**16. Application for Regulatory Approval of Asset Transfer**

As soon as practicable after Air Canada and the Purchaser agree or are deemed to agree on the Certification Date Assets in respect of an AC DB Plan, Air Canada shall apply where required by Applicable Legislation to the relevant Regulatory Authorities for approval to transfer the Final Unionized Asset Amount to the Purchaser's DB Plan. Air Canada shall cause to be prepared all applications, reports and other materials required under Applicable Legislation or by the applicable Regulatory Authority to obtain such approval and shall diligently pursue all applications. The application materials shall include clear disclosure that under this Agreement, no liabilities under the relevant AC DB Plan in respect of service of the AC Unionized Plan Beneficiaries prior to the Certification Date are being assumed by the Purchaser's DB Plan unless and until the asset transfer that is the subject of the application has been approved and has occurred.

Before filing any application to obtain approval for the transfer of the Final Unionized Asset Amount, Air Canada shall provide copies of the application materials to the Purchaser for the Purchaser's review. The Purchaser shall notify Air Canada within 20 days of receiving a copy of such materials whether it agrees or disagrees with their contents. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with the contents. If the Purchaser notifies Air Canada that it disagrees with the contents, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement on the contents.

**17. Benefit Payments**

Air Canada shall ensure that from the Certification Date to the relevant Unionized Segregation Date, any benefit and other payments due and owing to or in respect of any AC Unionized Plan Beneficiary from an AC DB Plan are paid to or for the benefit of the beneficiary. After the relevant Unionized Segregation Date, such payments shall be made from the Segregated Account.

**18. Refusal to Permit Transfer**

Air Canada shall forthwith notify the Purchaser if any Regulatory Authority to which Air Canada has applied to approve the transfer of the Final Unionized Asset

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Amount from an AC DB Plan to the Purchaser's DB Plan refuses to approve such transfer and directs either that a different amount be transferred or that an assumption or method of calculation used to determine the Certification Date Assets be changed. In such event, Air Canada and Purchaser agree that the amount to be transferred (the "Adjusted Unionized Asset Amount") shall be transferred in accordance with the Regulatory Authority's direction subject to Air Canada's and the Purchaser's right to appeal such direction (until all rights of appeal are exhausted) to any governmental agency or court where Air Canada or the Purchaser, as applicable, on the advice of their respective professional advisors, is of the opinion that such direction is not in accordance with Applicable Legislation.

**19. Transfer to Purchaser's DB Plan**

Within 45 days of receiving approval of the last of the applicable Regulatory Authorities to transfer the Final Unionized Asset Amount or Adjusted Unionized Asset Amount, as the case may be, and of receiving notice from the Purchaser of the acceptance for registration of the Purchaser's DB Plan as contemplated by Section 2, Air Canada shall cause the funding agent of the relevant AC DB Plan to transfer to the funding agent of the Purchaser's DB Plan:

- (i) in the case of approval to transfer the Final Unionized Asset Amount, the Final Unionized Asset Amount;
- (ii) in the case of approval to transfer the Adjusted Unionized Asset Amount where such amount exceeds the Final Unionized Asset Amount, the amount of such excess together with the Final Unionized Asset Amount; and
- (iii) in the case of approval to transfer the Adjusted Unionized Asset Amount where such amount is less than the Final Unionized Asset Amount, the Final Unionized Asset Amount less such reduction.

**20. Cessation of Participation**

As of the Certification Date, the AC Unionized Plan Beneficiaries shall cease to participate actively in, and accrue benefits under, the AC DB Plans and shall commence participation in the Purchaser's DB Plan. The Purchaser shall commence remitting contributions to the Purchaser's DB Plan in respect of the service of the AC Unionized Plan Beneficiaries on and after the Certification Date, in accordance with Applicable Legislation. From the Certification Date to the relevant DB Unionized Transfer Date, any special payments owing under Applicable Legislation in respect of a deficit related to the pre-Certification Date service of the AC Unionized Plan Beneficiaries shall be made by the Purchaser into the Purchaser's DB Plan, based on the assets to be

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transferred to the Purchaser's DB Plan pursuant to Section 19 and the liabilities to be assumed by the Purchaser's DB Plan pursuant to Section 21.

**21. Recognition of Past Service**

Subject to and after receipt by the funding agent of the Purchaser's DB Plan of the Final Unionized Asset Amount or Adjusted Unionized Asset Amount, as the case may be, from an AC DB Plan pursuant to Section 19, the Purchaser shall ensure that the Purchaser's DB Plan recognizes the period of service of the relevant AC Unionized Plan Beneficiaries in that AC DB Plan immediately prior to the Certification Date, for all purposes as if such service had been with the Purchaser. The Purchaser and Air Canada acknowledge that unless and until that asset transfer occurs, no liability for benefits earned by the relevant AC Unionized Plan Beneficiaries under such AC DB Plan in respect of service prior to the Certification Date shall be assumed by the Purchaser.

**22. Indemnifications**

Subject to and after receipt by the funding agent of the Purchaser's DB Plan of the Final Unionized Asset Amount or Adjusted Unionized Asset Amount, as the case may be, from an AC DB Plan pursuant to Section 19, the Purchaser shall assume liability for, and indemnify and hold harmless the Vendor Indemnified Parties and the AC DB Plan against, payment after the DB Unionized Transfer Date of pension and other benefits accrued by the relevant AC Unionized Plan Beneficiaries under such AC DB Plan.

Air Canada shall indemnify and hold harmless the Purchaser Indemnified Parties in respect of any Claims which the Purchaser Indemnified Parties or the Purchaser's DB Plan may suffer as a result of or in connection with the management or operation of an AC DB Plan: (a) prior to the Unionized Segregation Date; or (b) other than in regard to the Purchaser's investment management services and directions respecting assets in the Segregated Account, between the Unionized Segregation Date and the DB Unionized Transfer Date.

**23. Promissory Notes**

If the DB Unionized Transfer Date is earlier than July 30, 2008, the Purchaser shall post security effective as of the DB Unionized Transfer Date in favour of the Purchaser's DB Plan in accordance with the following principles. Such security will take the form of a letter of credit or such other security as is acceptable to the Regulatory Authorities. The security will be in an initial amount equal to the remaining balance of the portions of the promissory notes issued by Air Canada on September 30, 2004 in favour of the Main Plan and the CAIL IAMAW Plan relating to the AC Unionized Plan Beneficiaries, determined as the total remaining balance of the relevant promissory note multiplied by the ratio of the solvency liabilities in respect of the AC Unionized Plan Beneficiaries to the total solvency liabilities of the Main Plan or the

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CAL IMAW Plan, as applicable, at the Certification Date. The security will be reduced from time to time at the same rate as the balance of such promissory notes reduces and will expire effective July 30, 2008. For greater certainty, Air Canada shall not reduce the balance of either September 30, 2004 promissory note by virtue of the transactions described in the Purchase Agreement or this Agreement.

#### **24. Quarterly Payments**

The "Compensation Amount" in respect of an AC DB Plan is the amount determined as at the Certification Date as X, where X= (i) - (ii) + (iii) + (iv), each calculated as follows:

(i) equals the product of (a) and (b), where

(a) is the relevant Unionized Closing Date Liabilities, and

(b) is the amount by which one exceeds the relevant Unionized Closing Date Solvency Ratio;

(ii) for each year or portion thereof between the Closing Date and the Certification Date, equals the product of (c) and (d), where

(c) is the past service contributions remitted by Air Canada to the AC DB Plan, and

(d) is the Unionized Allocated Percentage. For purposes hereof, contributions holidays, if any, shall be treated as negative past service contributions;

(iii) interest on the amounts determined in (i) and (ii) above, between the Closing Date and the Certification Date calculated at the same rate as the discount rate used to determine the Unionized Closing Date Liabilities; and

(iv) any adjustment for AC DB Plan amendments, in the event that Air Canada amends the AC DB Plan between the Closing Date and the Certification Date. This adjustment shall be equal to the amount the Certification Date Assets would have been had such amendment not been made less the amount of the actual Certification Date Assets, adjusted if necessary to account for any past service contributions related to such amendment, as calculated by Air Canada's actuary. This calculation shall include every amendment to the AC DB Plan during the period between the Closing Date and the Certification Date, and a copy of the results of the calculations of Air Canada's actuary shall be provided to the Purchaser. The Purchaser shall notify Air Canada within 30 days of receiving a copy of the results of such calculations as to whether it agrees or disagrees with Air Canada's actuary's calculations of this adjustment. If the Purchaser fails to

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provide such notice to Air Canada, the Purchaser will be deemed to have agreed with the calculations. If the Purchaser notifies Air Canada that it disagrees with the calculations, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting the calculation of this adjustment. If Air Canada and the Purchaser are unable to agree on the adjustment, the provisions of Section 61 shall apply.

If a Compensation Amount is greater than zero, Air Canada shall pay the Purchaser such quarterly payments as are determined in this Section 24. If a Compensation Amount is less than zero, the Purchaser shall pay the absolute value of the Compensation Amount (as if such amount were a positive, rather than a negative number) by making such quarterly payments to Air Canada, *mutatis mutandis*.

Air Canada shall make, on each October 30th, January 30th, April 30th, and July 30th following the Certification Date and through the later of: (i) January 30, 2014; and (ii) the fifth anniversary of the Certification Date, equal quarterly payments to the Purchaser so that the present value of such payments equals the Compensation Amounts in respect of the Main Plan and in respect of the CAIL IAMAW Plan. Such present value shall be determined using the same discount rate as is used to determine the Unionized Closing Date Liabilities.

If there is a Unionized Adjustment which is greater than zero, Air Canada shall reduce the remaining quarterly payments following the DB Unionized Transfer Date by equal amounts so that the present value of such reduction in payments equals the Unionized Adjustment. If there is a Unionized Adjustment which is less than zero, Air Canada shall increase the remaining quarterly payments following the DB Unionized Transfer Date by equal amounts so that the present value of such additional payments equals the Unionized Adjustment.

For further clarity, if any resulting quarterly payment is negative, either due to one or both Compensation Amounts being less than zero and/or due to a Unionized Adjustment being greater than zero, the Purchaser shall make that quarterly payment to Air Canada, as opposed to Air Canada making that quarterly payment to the Purchaser.

### **III. DEFINED CONTRIBUTION REGISTERED PENSION PLANS AND GROUP REGISTERED RETIREMENT SAVINGS PLANS**

#### **25. Assignment and Assumption of ACTS DC Plan and ACTS Group RRSP**

As of the Closing Date, the Vendor shall and hereby does assign, and the Purchaser shall and hereby does assume sponsorship and administration of the ACTS DC Plan and ACTS Group RRSP, to the complete exoneration of the Vendor Indemnified Parties. The parties shall cooperate in taking all steps and preparing and delivering as soon as practicable after the Closing Date all documents necessary to effect

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such assignment and assumption, including without limitation the requisite ACTS DC Plan amendments to the Regulatory Authorities and notices to the funding agents. The Vendor shall provide to the Purchaser all data and documentation in its possession related to the ACTS DC Plan, including any historical documentation, so that the Purchaser can administer such plan on and after the Closing Date.

**26. Cessation of Participation in Air Canada DC Plan**

As of the Closing Date, the relevant AC Non-Unionized Plan Beneficiaries shall cease to participate actively in, and accrue benefits under, the Air Canada DC Plan and AC Group RRSP and shall commence participation in the ACTS DC Plan and ACTS Group RRSP, as applicable. The Purchaser shall commence remitting contributions to the ACTS DC Plan in respect of the AC Non-Unionized Plan Beneficiaries as from the Closing Date, in accordance with Applicable Legislation. The Purchaser shall maintain for two years after the Closing Date at least the same employer contribution level in the ACTS DC Plan in respect of such AC Non-Unionized Plan Beneficiaries as was in effect under the Air Canada DC Plan immediately prior to the Closing Date.

**27. Account Balance Transfer**

As soon as practicable after the Closing Date, Air Canada shall cause the funding agent for the Air Canada DC Plan to report the account balance in respect of each AC Non-Unionized Plan Beneficiary as of the Closing Date under the Air Canada DC Plan (each, a "Plan Account Balance") and shall provide a copy of such balance report to the Purchaser. Air Canada shall seek all required approvals from the Regulatory Authorities to a transfer from the Air Canada DC Plan to the ACTS DC Plan of an amount of cash or assets equal to the Plan Account Balances adjusted to the DC Transfer Date (as defined below). Forthwith upon receipt of any such required regulatory approvals, Air Canada shall cause the funding agent of the Air Canada DC Plan to transfer to the funding agent of the ACTS DC Plan an amount of cash or assets equal to the Plan Account Balances adjusted in accordance with Section 28 from the Closing Date to the date such transfer is effected (the "DC Transfer Date").

Air Canada shall further cause the funding agent of the AC Group RRSP to transfer the account balances therein of the relevant AC Non-Unionized Plan Beneficiaries to the ACTS Group RRSP, promptly following the Closing Date.

**28. Administration of Account Balances**

From the Closing Date to the DC Transfer Date, Air Canada shall confer on the relevant AC Non-Unionized Plan Beneficiaries all rights that active employees have in relation to the investment of the accounts maintained for such employees under the Air Canada DC Plan. During such period, plan administration and investment expenses shall be dealt with in a manner consistent with the terms of the Air Canada DC Plan

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and consistent with prior practice in relation to the payment of such expenses. In particular, such treatment shall include allocating such expenses to the Plan Account Balances, and administration expenses of the type paid directly by Air Canada prior to the date hereof shall be paid by the Purchaser upon receipt of an invoice therefor from Air Canada. For the period from the Closing Date to the DC Transfer Date, Air Canada shall cause the funding agent of the Air Canada DC Plan to accept and record as required all investments, earnings and expenses allocated to the Plan Account Balances, benefit payments and pro-rated trustee or funding agent expenses. These amounts shall be added to or deducted from, as the case may be, the relevant Plan Account Balance. During the period from the Closing Date to the DC Transfer Date, the Plan Account Balances shall be adjusted to take into account the relevant actual returns for such period.

Air Canada shall take similar steps in regard to the AC Group RRSP until the account balance transfer described in the second paragraph of Section 27, *mutatis mutandis*.

**29. Indemnifications**

Upon completion of the transfer of an amount of cash or assets equal to the Plan Account Balances, adjusted in accordance with Section 28, and the AC Group RRSP account balances, the Vendor Indemnified Parties, the Air Canada DC Plan, and the AC Group RRSP shall have no further liability or obligation to or in respect of the AC Non-Unionized Plan Beneficiaries for any Plan Account Balance, the payment of pension and other benefits accrued under the Air Canada DC Plan, or any AC Group RRSP account balance, and the Purchaser, the ACTS DC Plan and the ACTS Group RRSP shall indemnify and hold the Vendor Indemnified Parties, the Air Canada DC Plan, and the AC Group RRSP harmless in respect thereof.

Air Canada shall indemnify and hold harmless the Purchaser Indemnified Parties in respect of any Claims which the Purchaser Indemnified Parties, the ACTS DC Plan, or the ACTS Group RRSP may suffer as a result of or in connection with any claim with respect to the management or operation of the Air Canada DC Plan prior to the DC Transfer Date or of the AC Group RRSP prior to the account balance transfer described in the second paragraph of Section 27.

**IV. PRE-RETIREMENT GROUP BENEFITS PLANS**

**(a) Plan Assignments**

**30. Assignment of ACTS Pre-Retirement Group Benefits Plans**

As of the Closing Date, the Vendor shall and hereby does assign, and the Purchaser shall and hereby does assume sponsorship and administration of the ACTS Pre-Retirement Group Benefits Plans, to the complete exoneration of the Vendor

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**Indemnified Parties.** The parties shall cooperate in taking all steps and preparing and delivering as soon as practicable after the Closing Date all documents necessary to effect such assignment and assumption, including without limitation the requisite notices to the carriers. The AC Non-Unionized Plan Beneficiaries and the AC Unionized Plan Beneficiaries shall participate in the ACTS Pre-Retirement Group Benefits Plans on and after the Closing Date and the Certification Date, respectively.

The Purchaser shall maintain the ACTS Pre-Retirement Group Benefits Plans on the same terms and conditions as the corresponding AC Pre-Retirement Group Benefits Plans for at least two years after the Closing Date, and in any event pursuant to the Collective Agreement as it may be amended from time to time or any applicable collective agreement which renews or replaces it. The Purchaser shall consult with Air Canada with regard to any modifications which it proposes to make to any ACTS Pre-Retirement Group Benefits Plan prior to the Certification Date, and it shall not implement any such modifications which Air Canada reasonably determines could trigger any additional rights for Air Canada unionized employees.

**(b) AC Non-Unionized Plan Beneficiaries**

**31. Pre-Closing Date Claims**

Air Canada shall retain responsibility for the payment of amounts due and owing, up to the Closing Date, of all benefits of the AC Non-Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) under the AC Pre-Retirement Group Benefits Plans as described in Section 32, and Air Canada shall indemnify and hold the Purchaser harmless from and against any and all Claims which the Purchaser may suffer or incur in connection with such amounts.

**32. Idem.**

Without limiting the generality of the foregoing, Air Canada and the AC Pre-Retirement Group Benefits Plans shall be responsible for the following claims or benefit payments of all AC Non-Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) regardless of whether such claims are filed before or after the Closing Date:

- (i) with respect to death claims, those in respect of which the death occurred prior to the Closing Date;
- (ii) with respect to dismemberment claims, those in respect of which the event occurred prior to the Closing Date;
- (iii) with respect to health and dental claims, those in respect of which the services were provided or the supplies were purchased prior to the Closing Date; and



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- (iv) with respect to disability, pregnancy, maternity, or parental leave claims, amounts due and owing to the AC Non-Unionized Plan Beneficiaries prior to the Closing Date.

**33. Post-Closing Date Claims**

The Purchaser shall be responsible for the payment of amounts related to all group benefits of the AC Non-Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) due from and after the Closing Date, and subject to the next paragraph below the Purchaser shall indemnify and hold Air Canada harmless from and against any and all Claims which Air Canada may suffer or incur in connection with such benefits.

Air Canada shall make, on each October 30<sup>th</sup>, January 30<sup>th</sup>, April 30<sup>th</sup>, and July 30<sup>th</sup> following the Closing Date through the fifth anniversary of the Closing Date, equal quarterly payments to the Purchaser so that the present value of such payments equals the Non-Unionized Disability Liability as of the Closing Date. Such present value shall be determined using the same discount rate as is used to determine the Non-Unionized Disability Liability.

**34. Idem.**

Without limiting the generality of the foregoing, the Purchaser and the ACTS Pre-Retirement Group Benefit Plans shall be responsible for the payment of the following claims or benefit payments of the AC Non-Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries):

- (i) with respect to death claims, those in respect of which the death occurred on or after the Closing Date;
- (ii) with respect to dismemberment claims, those in respect of which the event occurred on or after the Closing Date;
- (iii) with respect to health and dental claims, those in respect of which the services were provided or the supplies were purchased on or after the Closing Date;
- (iv) with respect to disability, pregnancy, maternity or paternal leave claims, any amounts due and payable to the AC Non-Unionized Plan Beneficiaries after the Closing Date.

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(c) **AC Unionized Beneficiaries**

**35. Pre-Certification Date Claims**

Air Canada shall retain responsibility for the payment of amounts related to all benefits of the AC Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) under the AC Pre-Retirement Group Benefits Plans due and owing up to the Certification Date as described in Section 36, and Air Canada shall indemnify and hold the Purchaser harmless from and against any and all Claims which the Purchaser may suffer or incur in connection with such amounts.

**36. Idem.**

Without limiting the generality of the foregoing, Air Canada and the AC Pre-Retirement Group Benefits Plans shall be responsible for the following benefit payments to all AC Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) regardless of whether such claims are filed before or after the Certification Date:

- (i) with respect to death claims, those in respect of which the death occurred prior to the Certification Date;
- (ii) with respect to dismemberment claims, those in respect of which the event occurred prior to the Certification Date;
- (iii) with respect to health and dental claims, those in respect of which the services were provided or the supplies were purchased prior to the Certification Date; and
- (iv) with respect to disability, pregnancy, maternity, or parental leave claims, any amounts due and payable to AC Unionized Plan Beneficiaries prior to the Certification Date.

**37. Post-Certification Date Claims**

The Purchaser shall be responsible for the payment of amounts related to all group benefits of the AC Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) due and owing from and after the Certification Date, and subject to the next paragraph below the Purchaser shall indemnify and hold Air Canada harmless from and against any and all Claims which Air Canada may suffer or incur in connection with such amounts.

Air Canada shall make, on each October 30<sup>th</sup>, January 30<sup>th</sup>, April 30<sup>th</sup>, and July 30<sup>th</sup> following the Certification Date through the fifth anniversary of the Certification Date, equal quarterly payments to the Purchaser so that the present value of such payments equals the Unionized Disability Liability as of the Certification Date. Such present value shall be determined using the same discount rate as is used to determine the Unionized Disability Liability.

**38. Idem.**

Without limiting the generality of the foregoing, the Purchaser and the ACTS Pre-Retirement Group Benefits Plans shall be responsible for the payment of the following claims or benefit payments of the AC Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries):

- (i) with respect to death claims, those in respect of which the death occurred on or after the Certification Date;
- (ii) with respect to dismemberment claims, those in respect of which the event occurred on or after the Certification Date;
- (iii) with respect to health and dental claims, those in respect of which the services were provided or the supplies were purchased on or after the Certification Date;
- (iv) with respect to disability, pregnancy, maternity, or parental leave claims, any amounts due and payable on or after the Certification Date.

**V. POST-RETIREMENT GROUP BENEFITS PLANS**

**(a) Plan Assignments**

**39. Assignment of ACTS Post-Retirement Group Benefits Plans**

As of the Closing Date, the Vendor shall and hereby does assign, and the Purchaser shall and hereby does assume sponsorship and administration of the ACTS Post-Retirement Group Benefits Plans, to the complete exoneration of the Vendor Indemnified Parties. The parties shall cooperate in taking all steps and preparing and delivering as soon as practicable after the Closing Date all documents necessary to effect such assignment and assumption, including without limitation the requisite notices to the carriers. The AC Non-Unionized Plan Beneficiaries and the AC Unionized Plan Beneficiaries shall participate in the ACTS Post-Retirement Group Benefits Plans on and after the Closing Date and the Certification Date, respectively.

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The Purchaser shall maintain the ACTS Post-Retirement Group Benefits Plans on the same terms and conditions as the corresponding pre-Closing Date AC Post-Retirement Group Benefits Plans for at least two years after the Closing Date, and in any event pursuant to the Collective Agreement as it may be amended from time to time or any applicable collective agreement which renews or replaces it. The Purchaser shall consult with Air Canada with regard to any modifications which it proposes to make to any ACTS Post-Retirement Group Benefits Plan prior to the Certification Date, and it shall not implement any such modifications which Air Canada reasonably determines could trigger any additional rights for Air Canada unionized employees.

**(b) AC Non-Unionized Plan Beneficiaries**

**40. Post-Closing Date Claims**

The Purchaser shall be responsible for all post-retirement group benefits of the AC Non-Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) payable from and after the Closing Date, and subject to the next paragraph below the Purchaser shall indemnify and hold Air Canada harmless from and against any and all Claims which Air Canada may suffer or incur in connection with such benefits.

Air Canada shall make, on each October 30<sup>th</sup>, January 30<sup>th</sup>, April 30<sup>th</sup>, and July 30<sup>th</sup> following the Closing Date through the fifth anniversary of the Closing Date, equal quarterly payments to the Purchaser so that the present value of such payments equals the Non-Unionized Retiree Liability as of the Closing Date. Such present value shall be determined using the same discount rate as is used to determine the Non-Unionized Retiree Liability.

**(c) AC Unionized Plan Beneficiaries**

**41. Post-Certification Date Claims**

The Purchaser shall be responsible for all post-retirement group benefits of the AC Unionized Plan Beneficiaries (and their spouses, dependants and beneficiaries) payable from and after the Certification Date, and subject to the next paragraph below the Purchaser shall indemnify and hold Air Canada harmless from and against any and all Claims which Air Canada may suffer or incur in connection with such benefits.

Air Canada shall make, on each October 30<sup>th</sup>, January 30<sup>th</sup>, April 30<sup>th</sup>, and July 30<sup>th</sup> following the Certification Date through the fifth anniversary of the Certification Date, equal quarterly payments to the Purchaser so that the present value of such payments equals the Unionized Retiree Liability as of the Certification Date. Such present value shall be determined using the same discount rate as is used to determine the Unionized Retiree Liability.

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**VI. SUPPLEMENTARY PENSION PLAN****42. Assumption of Liability by Purchaser**

The Purchaser shall establish and maintain for at least two years a replacement supplementary pension or retiring allowance plan which will provide benefits to the relevant AC Non-Unionized Plan Beneficiaries identical to those provided under the AC SERP. Such replacement plan shall recognize all past service for all purposes, including benefit accrual, and shall assume all liabilities for payment of benefits accrued by AC Non-Unionized Plan Beneficiaries under the AC SERP, to the complete exoneration of the Vendor Indemnified Parties and the AC SERP. The Purchaser shall maintain the replacement plan on no less favourable terms and conditions than the pre-Closing AC SERP for at least two years after the Closing Date.

Air Canada shall make, as soon as practicable after the Closing Date, a payment to the Purchaser equal to the SERP Liability as of the Closing Date.

**VII. REPRESENTATIONS AND WARRANTIES****43. AC Employee Plans**

As of the Closing Date, Air Canada represents and warrants as follows:

- (a) Schedule A lists all employee pension and benefit plans, programmes, policies and arrangements relating to the AC Non-Unionized Plan Beneficiaries and the AC Unionized Plan Beneficiaries to which Air Canada contributes or which Air Canada sponsors or maintains, whether funded or unfunded, insured or self-insured, registered or unregistered, including for greater certainty the AC SERP, the AC DB Plans, the Air Canada DC Plan, the AC Group RRSP, the AC Pre-Retirement Group Benefits Plans, and the AC Post-Retirement Group Benefits Plans (but not including government-sponsored plans) (the "AC Employee Plans"). Air Canada has made available to the Purchaser true, correct and complete copies of all the AC Employee Plans, as amended to date or, where oral, written summaries of the terms thereof, all booklets and other written explanatory materials concerning these plans which have been provided to AC Non-Unionized Plan Beneficiaries or AC Unionized Plan Beneficiaries, as well as current and complete copies of all material documents relating to these plans, including, as applicable, all trust agreements, insurance contracts and policies, the most recent financial and accounting statements and reports and, for each AC DB Plan, the January 1, 2007 actuarial reports and any supplemental cost certificates filed with any Regulatory Authority in 2006.

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- (b) All contributions and premiums required to be remitted or paid or in respect of each AC Employee Plan have been paid or remitted in a timely fashion in accordance with the terms of such AC Employee Plans and Applicable Legislation, and no taxes, penalties or fees are owing or exigible under or in relation to any AC Employee Plan.
- (c) Except as set out in Schedule A, Air Canada has no formal plan and has made no promise or commitment, whether legally binding or not, to create any additional plan which would constitute an AC Employee Plan if it currently existed, or to improve or change the benefits provided under any existing AC Employee Plan.
- (d) All AC DB Plans have been registered in accordance with Applicable Legislation. To Air Canada's knowledge, no fact or circumstance exists that could adversely affect the existing tax status of any such AC DB Plan.
- (e) To Air Canada's knowledge, Air Canada has complied with all its obligations in respect of the AC Employee Plans in all material respects.
- (f) Except as set out in Schedule A, none of the AC Employee Plans provide for benefit increases or the acceleration of, or an increase in, securing or funding obligations that are contingent upon, or will be triggered by, the entering into of the Purchase Agreement and the completion of the transactions contemplated therein.
- (g) To Air Canada's knowledge, and except as set out in Schedule A, no AC DB Plan is subject to any claim by or in respect of any AC Non-Unionized or Unionized Plan Beneficiary (other than routine claims for benefits).
- (h) To Air Canada's knowledge, all employee data reasonably necessary to administer each AC DB Plan is in the possession of Air Canada or its agents and is in a form which is sufficient for the proper administration of such plan in accordance with its terms and Applicable Legislation and such data is complete and correct.
- (i) Except as set out in Schedule A, none of the AC Employee Plans, other than those that are Registered Pension Plans or AC Post-Retirement Group Benefits Plans, provide benefits beyond retirement or other termination of service to AC Non-Unionized Plan Beneficiaries, AC Unionized Plan Beneficiaries, or to the beneficiaries or dependants of such beneficiaries.

**44. ACTS Employee Plans**

As of the Closing Date, the Vendor represents and warrants as follows:

- (a) Schedule A lists all employee pension and benefit plans, programmes and policies and arrangements relating to the Vendor's employees to which the Vendor contributes or which the Vendor sponsors or maintains, whether funded or unfunded, insured or self-insured, registered or unregistered, including for greater certainty the ACTS DC Plan, the ACTS Group RRSP, the ACTS Pre-Retirement Group Benefits Plans, and the ACTS Post-Retirement Group Benefits Plans (but not including government-sponsored plans) (the "ACTS Employee Plans"). The Vendor has made available to the Purchaser true, correct and complete copies of all the ACTS Employee Plans, as amended to date or, where oral, written summaries of the terms thereof, all booklets and other written explanatory materials concerning these plans which have been provided to the Vendor's employees, as well as current and complete copies of all material documents relating to these plans, including, as applicable, all insurance contracts and policies.
- (b) All contributions and premiums required to be remitted or paid or in respect of each ACTS Employee Plan have been paid or remitted in a timely fashion in accordance with the terms of such ACTS Employee Plans and Applicable Legislation, and no taxes, penalties or fees are owing or exigible under or in relation to any ACTS Employee Plan.
- (c) Except as set out in Schedule A, the Vendor has no formal plan and has made no promise or commitment, whether legally binding or not, to create any additional plan which would constitute an ACTS Employee Plan if it currently existed, or to improve or change the benefits provided under any ACTS Employee Plan.
- (d) To the Vendor's knowledge, the ACTS DC Plan is and has been established, registered, invested and administered, in all material respects, in accordance with Applicable Legislation and in accordance with its terms. To the Vendor's knowledge, no fact or circumstance exists that could adversely affect the existing tax status of the ACTS DC Plan.
- (e) To the Vendor's knowledge, the Vendor has complied with all its obligations in respect of the ACTS Employee Plans in all material respects.
- (f) Except as set out in Schedule A, none of the ACTS Employee Plans provide for benefit increases or the acceleration of, or an increase in, securing or funding obligations that are contingent upon, or will be

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triggered by, the entering into the Purchase Agreement and the completion of the transactions contemplated therein.

- (g) To the Vendor's knowledge, and except as set out in Schedule A, no ACTS Employee Plan is subject to any pending investigation, examination or other proceeding, action or claim initiated by any Regulatory Authority, or by any other person (other than routine claims for benefits), and there exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such investigation, examination or other proceeding, action or claim or to affect the registration of any such Plan required to be registered.
- (h) To the Vendor's knowledge, all employee data reasonably necessary to administer each ACTS Employee Plan is in the possession of the Vendor or its agents and is in a form which is sufficient for the proper administration of such plan in accordance with its terms and Applicable Legislation and such data is complete and correct.
- (i) The Vendor is the only participating employer in each ACTS Employee Plan.
- (j) Except as set out in Schedule A, none of the ACTS Employee Plans, other than those that are Registered Pension Plans or ACTS Post-Retirement Group Benefits Plans, provide benefits beyond retirement or other termination of service to ACTS employees or to the beneficiaries or dependants of such employees.

**45. Survival of Representations and Warranties**

The representations and warranties contained in this Agreement shall continue in full force and effect for a period of one year after the Closing Date. If any event occurs between the Closing Date and the Certification Date which would have made any representation or warranty in Section 43 untrue had it instead been given as of the time of such event, Air Canada shall notify the Purchaser promptly of such event.

**VIII. GENERAL**

**46. Governing Law**

This Agreement shall be governed by and interpreted and enforced in accordance with the laws of Quebec and the federal laws of Canada applicable therein.



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**47. Headings**

The insertion of headings in this Agreement is for convenience of reference only and shall not affect the interpretation of this Agreement.

**48. Interpretation**

In this Agreement, unless the context otherwise requires words importing the singular number only shall include the plural and vice versa and words importing gender include all genders.

**49. Invalidity of Provisions**

Each of the provisions contained in this Agreement is distinct and severable, and a declaration of invalidity or unenforceability of any provision or part of a provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision of this Agreement.

**50. Entire Agreement**

This Agreement, together with the Purchase Agreement, the General Services Agreement (unionized), and the Master Services Agreement between the Vendor and Air Canada, constitutes the entire agreement between the parties pertaining to its subject matter. In the event of any conflict between this Agreement and such Master Services Agreement or the General Services Agreement (unionized), this Agreement shall prevail.

**51. Counterparts**

This Agreement may be executed by the parties in separate counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

**52. Time**

Time shall be of the essence of this Agreement.

**53. Notices**

Any notice, direction or other communication given under this Agreement or any ancillary agreement shall be in writing and given by delivering it or sending it by telecopy addressed:

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(a) if to Air Canada:

AIR CANADA  
7373 Cote Vertu West  
Saint Laurent, Quebec  
H4Y 1H4  
Attention: Chief Financial Officer  
Facsimile: (514) 422-0285  
Attention: General Counsel  
Facsimile: (514) 422-4147  
Attention: Senior Director Total Rewards  
Facsimile: (514) 422-5636

with a copy to:

STIKEMAN ELLIOTT LLP  
1155 René-Lévesque Blvd. West  
40<sup>th</sup> Floor  
Montreal QC H3B 3V2  
Attention: Jean Marc Huot  
France Margaret Bélanger  
Telephone: (514) 397-3000  
Facsimile: (514) 397-3222

(b) if to the Vendor:

ACTS LP  
5100 Maisonneuve Blvd. West  
7<sup>th</sup> Floor  
Montreal QC H4A 3T2  
Attention: Chief Financial Officer  
Telephone: (514) 205-7625  
Facsimile: (514) 205-7859

with a copy to:

ACE AVIATION HOLDINGS INC.  
5100 Maisonneuve Blvd. West  
7<sup>th</sup> Floor  
Montreal QC H4A 3T2  
Attention: Chief Financial Officer

- 34 -

Telephone: (514) 205-7625  
 Facsimile: (514) 205-7859

-and-

STIKEMAN ELLIOTT LLP  
 1155 René-Lévesque Blvd. West  
 40<sup>th</sup> Floor  
 Montreal QC H3B 3V2  
 Attention: Jean Marc Huot  
 France Margaret Bélanger  
 Telephone: (514) 397-3000  
 Facsimile: (514) 397-3222

(c) if to the Purchaser:

AIR SUPPORT JV  
 59 Rue de Rollingergrund  
 L-2440 Luxembourg  
 Grand Duchy of Luxembourg  
 Attention: Wolfgang Zettel  
 Facsimile: +352 26 02 89 30

with copies to:

OSLER, HOSKIN & HARCOURT LLP  
 1000 de la Gauchetière Street West  
 Suite 2100  
 Montreal, QC H3B 4W5  
 Attention: Warren Katz  
 Telephone: (514) 904-8198  
 Facsimile: (514) 904-8101

- and -

SIMPSON, THACHER & BARTLETT LLP  
 425 Lexington Avenue  
 New York, New York 10017

Attention: David J. Sorkin  
 Sean Rodgers  
 Telephone: (212) 455-3387  
 Facsimile: (212) 455-2502

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Any such communication shall be deemed to have been validly and effectively given (i) if personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Montreal time) and otherwise on the next Business Day, or (ii) if transmitted by telecopy, on the Business Day following the date of transmission (a "Business Day" being any day on which the major Canadian chartered banks are open for business in Montreal). Any party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such party at its changed address.

**54. Amendment and Enurement**

This Agreement may only be amended, supplemented or otherwise modified by written instrument signed by Air Canada, the Vendor and the Purchaser. This Agreement and the provisions hereof shall enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.

**55. Further Assurances**

Each of the parties will promptly do, make, execute or deliver, or cause to be done, made, executed or delivered, all further acts, documents and things as the other party may reasonably require from time to time for the purpose of giving effect to this Agreement and will use reasonable efforts and take all steps as may be reasonably within its power to implement to their full extent the provisions of this Agreement.

**56. No Third Party Beneficiaries**

None of Air Canada, the Purchaser or the Vendor intends this Agreement to create any rights or interests, except as between Air Canada, the Purchaser and the Vendor, and no former, current or future employees of any party will be treated as third party beneficiaries in or under this Agreement.

**57. Language**

The parties have requested that this Agreement be written in English; les parties ont demandé que cette convention soit rédigé en anglais.

**58. Labour Considerations**

The Purchaser acknowledges that the transactions contemplated by the Purchase Agreement constitute a sale of business within the meaning of the *Canada Labour Code* (R.S.C. 1985, c. L-2). The Purchaser acknowledges that pursuant to the collective agreement (the "Collective Agreement") currently in force between the International Association of Machinists and Aerospace Workers (the "IAM"), Air Canada and the Vendor, among others, the AC Unionized Employees enjoy the rights and benefits conferred upon them by the AC Employee Plans, including for greater certainty the AC

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DB Plans. The Purchaser also acknowledges that pursuant to the Collective Agreement, the AC Unionized Employees have the right to continue to enjoy the rights and benefits conferred upon them by the AC Employee Plans after the Certification Date and for as long as the Collective Agreement or any collective agreement which renews or replaces it so requires.

The Purchaser further acknowledges that in relation to the AC Unionized Employees, certain of the AC Employee Plans may not be terminated, modified or amended except in accordance with the requirements of article 20.17 of the Collective Agreement and its Letters of Understanding, its Memoranda of Understanding and Appendices and that the Collective Agreement, as it may be amended from time to time as well as any collective agreement which renews or replaces it, supersedes any obligations described herein in relation to the AC Employee Plans as they pertain to the AC Unionized Employees. The parties shall carefully consider and address the consequences the Purchase Agreement and this Agreement may have with respect to the rights of the AC Unionized Employees regarding the AC Employee Plans to ensure that those rights are respected. The parties shall engage in active consultation with the IAM to ensure that those rights are respected.

**59. Costs**

The cost of all services provided by Air Canada's actuary and other advisors shall be borne by Air Canada, and the cost of all services provided by the Purchaser's actuary and other advisors shall be borne by the Purchaser.

**60. Adjustments to Compensation Payments**

In the event that any AC Unionized Plan Beneficiaries become reemployed by Air Canada after the Certification Date through exercise of a right of return to Air Canada which may be negotiated by Air Canada, the Purchaser, and the IAM, then Air Canada and the Purchaser shall cooperate in making the appropriate arrangements (which may include compensation payments) to properly account for such beneficiaries' transfer back to Air Canada. Factors to be considered in this regard include any associated increase in Air Canada's obligations and corresponding reduction in the Purchaser's obligations with regard to: (a) the relevant AC Unionized Plan Beneficiaries' accrued entitlements under the AC DB Plans and/or the Purchaser's DB Plan, (b) the benefits contemplated by the Unionized Disability Liability, and (c) the benefits contemplated by the Unionized Retiree Liability. The purpose of the exercise shall be that to the extent possible, the return of the relevant AC Unionized Plan Beneficiaries to Air Canada shall have a neutral impact on the financial positions of Air Canada and the Purchaser as determined at the time of reemployment. In order to effect any agreed-upon arrangements, (d) Air Canada and/or the Purchaser may adjust the remaining payments under Sections 24, 37 and/or 41, as applicable; and (e) if they do so, then Air Canada and/or the Purchaser shall make the corresponding

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adjustments to the face values of the letters of credit described in Schedule C as soon as the adjustments described in (d) are effected.

For the purposes of this Section 60, once Air Canada and the Purchaser agree on the appropriate arrangements to be made, Air Canada shall cause its actuary to calculate the above-described adjustments and shall provide such calculations to the Purchaser's actuary for review. The methods, assumptions, and procedures associated with the calculation and review shall be agreed by Air Canada and the Purchaser at the time the calculation is to be undertaken. If Air Canada and the Purchaser are unable to agree on the calculations, methods, assumptions and/or procedure, the provisions of Section 61 shall apply, *mutatis mutandis*.

For greater certainty: (x) the provisions of (a), (b), (c), (d) and (e) may be applied more than once, as required; and (y) where the increase in Air Canada's obligations cannot be sufficiently compensated by adjustments to the remaining payments under Sections 24, 37 and/or 41, Air Canada may make adjustments to the remaining payments under Sections 13, 33, and/or 40 (and to the associated letters of credit) necessary to reflect the balance of the reduction, and/or the parties may make alternate arrangements.

#### **61. Actuarial Determinations**

If Air Canada (or Air Canada's actuary) and the Purchaser (or the Purchaser's actuary) cannot agree on any calculation or amount to be calculated under this Agreement, and the provision of this Agreement under which such calculation is to be made or amount is to be determined refers to this Section 61, then Air Canada and the Purchaser shall, within ten days, refer the matter to a third party actuarial firm to be mutually agreed upon, with a direction to determine as experts, not as arbitrators, the disputed amount with 60 days of the referral. The determination by such third party actuarial firm of the disputed amount shall be final and binding upon Air Canada and the Purchaser, and Air Canada and the Purchaser shall be deemed to have agreed on such amount.

The cost of such third party actuarial firm's services shall be shared equally by Air Canada and the Purchaser.

#### **62. Security for Certain Obligations**

The terms set out in Schedule C are incorporated into this Agreement by reference and shall form an integral part of this Agreement.

#### **63. Termination**

This Agreement may, by notice in writing given at or prior to the Closing Date, be terminated: (a) by any party if the Closing Date has not occurred on or before

November 30, 2007; (b) by any party if the Purchase Agreement has been terminated in accordance with its terms; or (c) by any party if one or more courts of competent jurisdiction has issued a final order, decree, injunction, or ruling or taken any other final action restraining, enjoining or otherwise prohibiting the transactions contemplated hereby and such order, decree, injunction, or ruling or any other such final action shall have become final and non-appealable.

**IN WITNESS WHEREOF, the parties hereto have executed this Agreement.**

**AIR CANADA**

\_\_\_\_\_  
**Per:**

**ACTS LP**

\_\_\_\_\_  
**Per:**

**KSAGE MRO HOLDINGS INC.**

\_\_\_\_\_  
**Per:**


IN WITNESS WHEREOF the Parties have executed this Agreement.

**AIR CANADA**

By: \_\_\_\_\_  
Montie R. Brewer  
President, Chief Executive Officer

By: \_\_\_\_\_  
Joshua Koshy  
Executive Vice President, Chief  
Financial Officer

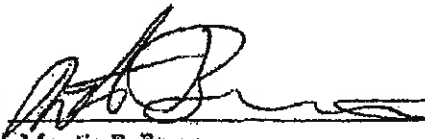
**ACTS LP, by ACTS Technical Services  
Inc., in its capacity as general partner**

By:  \_\_\_\_\_  
Chahram Bolouri  
President and Chief Executive  
Officer



IN WITNESS WHEREOF the Parties have executed this Agreement.

**AIR CANADA**

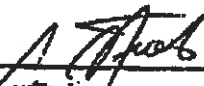
By:   
Montie R. Brewer  
President, Chief Executive Officer

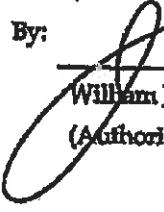
By: \_\_\_\_\_  
Joshua Koshy  
Executive Vice President, Chief  
Financial Officer

**ACTS LP, by ACTS Technical Services  
Inc., in its capacity as general partner**

By: \_\_\_\_\_  
Chahram Bolouri  
President and Chief Executive  
Officer

KSAGE MRO HOLDINGS INC.

By:   
\_\_\_\_\_  
Scott Stuart  
(Authorized Signatory)

By:   
\_\_\_\_\_  
William Janetschek  
(Authorized Signatory)

Schedule A

**AIR CANADA**  
**"AC Pre-Retirement Group Benefits Plans"**  
**June 07**

**INVENTORY OF AIR CANADA GROUP INSURANCE CONTRACTS IN WHICH AC EMPLOYEES SECONDED TO ACTS PARTICIPATE**

Contract Number	Contract Number	Groups	Insurance Provider	Status
Basic Life Insurance	132880	All active employees except US	Great-West Life - Canada	Insured
	138253	CAIL Pilots Additional Life & CAIL IAM Clerical	Great-West Life - Canada	Insured
Supplemental Life Insurance	19985	All Canadian & foreign active & retired employees except US	Manulife	Insured
	138254	CAIL IAM Clerical	Great-West-Life - Canada	Insured
Basic Accidental Death & Dismemberment	GSR 4917	All Canadian & US employees, IAM-Main, CAW & Crew schedulers only covered while on special assignment for the company Also Covers UK executive management employees	RBC	Insured
	GSR 19026	Business Travel - IAM CAIL employees on DND project	RBC	Insured
Voluntary Accidental Death & Dismemberment	GTA 4918	All employees - Special Hazards	RBC	Insured
	GSR 4916	All Canadian, foreign & US Active and retired employees	RBC	Insured
Long Term Disability (GDIP)	51208	All active Canadian employees, except ACPA, CUPE, CAW & Crew Schedulers	Great West Life - Canada	ASO
	56888	All active IAMAW (includes Winnipeg Finance & IAM Clerical)	Medisys - (Payer GWL)	ASO
	56889	All active ATS, Management and CALDA	Medisys - (Payer GWL)	ASO

Note: Above does not include base pay and working conditions

<b>Health Care</b>	50171A	All AC Canadian employees	Great-West Life - Canada	ASO
	51601	CAL management retirees & CAL IAM clerical	Great-West Life- Canada	ASO
<b>Dental Care</b>	83170	All active employees except Canadian executives and US employees	Manulife	ASO
<b>Maternity Leave</b>	51190	All Canadian employees	Great-West-Life - Canada	ASO
<b>Emergency Travel Aid</b>	-	All Canadian employees - Personal Travel	SOS International	ASO
	-	All Canadian employees - Business Travel	World Access	ASO
<b>Critical Advantage</b>		All Canadian employees	Trans America - Morris McKenzie	Insured

Note: Above does not include base pay and working conditions

ACTS  
 "ACTS Pre-Retirement Group Benefits Plans"  
 (June 07)

**INVENTORY OF ACTS GROUP INSURANCE CONTRACTS FOR EMPLOYEES CURRENTLY EMPLOYED BY ACTS**

Basic Life Insurance	159165	ACTS Management & ATS hired on or after July 1, 2006	Great-West Life - Canada	Insured
Supplemental Life Insurance	30005	ACTS Management & ATS hired on or after July 1, 2006	Manulife	Insured
Basic Accidental Death & Dismemberment	GSR 60345	ACTS Management & ATS hired on or after July 1, 2006	RBC	Insured
Voluntary Accidental Death & Dismemberment	GSR 60346	ACTS Management & ATS hired on or after July 1, 2006	RBC	Insured
Long Term Disability (GDIP)	55290	ACTS Management & ATS hired on or after July 1, 2006	Great-West Life - Canada	ASO
	56890	ACTS Management & ATS hired on or after July 1, 2006	Mediays -- (Payer GWL)	ASO
Health Care	55286	ACTS Management & ATS hired on or after July 1, 2006	Great-West Life - Canada	ASO
Dental Care	84604	ACTS Management & ATS hired on or after July 1, 2006	Manulife	ASO
Maternity Leave	55294	ACTS Management & ATS hired on or after July 1, 2006	Great-West-Life -- Canada	ASO
Emergency Travel Aid	-	ACTS Management & ATS hired on or after July 1, 2006 -- Personal Travel	SOS International	ASO
	-	ACTS Management & ATS hired on or after July 1, 2006 -- Business Travel	World Access	ASO
Critical Advantage		All Canadian employees	Trans America -- Morris McKenzie	Insured

Note: Above does not include base pay and working conditions

## AIR CANADA COMPENSATION PROGRAMS

INVENTORY OF AIR CANADA COMPENSATION PROGRAMS IN WHICH ALL EMPLOYEES SECONDED FROM AC AND CURRENT ACTS EMPLOYEES PARTICIPATE

Air Canada Profit Sharing / Sharing our Success	Only AC, all active non-union and union employees	Air Canada	
Air Canada Employee Share Ownership Plan	All active union employees	Computershare	
ACE Employee Share Purchase Plan	Only AC, all active non-union employees	Computershare	
ACE Stock Option Plan	AC senior management	Solium Capital	
Air Canada Vacation Purchase Plan	All active non-union employees	Air Canada	
Executive Car Lease Plan	All AC Senior A and ACTS Executive Management	GB Fleet Capital	
Executive Financial Counseling	All AC Senior A and ACTS Executive Management	Acumen	
Executive Health Counseling	All AC Senior and ACTS Executive Management	Medisys	
Executive Air Travel Transportation Allowance	President & CEO of ACTS	Air Canada	
Deferred Payment Leave Plan (DPLP)	All IAMAW employees	AC	
Special Leave of Absence Program (SLOA)	All IAMAW employees	AC	

Note: Above does not include base pay and working conditions

**ACTS COMPENSATION PROGRAMS**

**INVENTORY OF ACTS COMPENSATION PROGRAMS IN WHICH ALL EMPLOYEES SECONDED FROM AC AND CURRENT ACTS EMPLOYEES PARTICIPATE**

ACTS Incentive Plan		All active non-union employees	ACTS	
ACTS Sales Incentive Plan		Sales director and sales account managers	ACTS	

Note: Above does not include base pay and working conditions



**AIR CANADA**  
**"AC Post-Retirement Group Benefits Plans"**  
**(June 07)**

**INVENTORY OF AIR CANADA GROUP INSURANCE CONTRACTS IN WHICH EMPLOYEES SECONDED TO ACTS PARTICIPATE**

Contract Description	Contract Number	Participants Covered	Insurance Provider	Status
Basic Life Insurance	132908	AC Canadian based retirees - No current participants as no seconded retirees	Great-West Life - Canada	Insured
Retiree Health Care	25240	AC Canadian based retirees - No current participants as no seconded retirees – Voluntary Supplementary Health Plan	Sun Life - Canada	ASO
	23212	AC Canadian based retirees - No current participants as no seconded retirees – Basic Health Plan	Sun Life - Canada	ASO

Note: Above does not include base pay and working conditions

**ACTS**  
**"ACTS Post-Retirement Group Benefits Plans"**  
**(June 07)**

**INVENTORY OF ACTS GROUP INSURANCE CONTRACTS FOR EMPLOYEES CURRENTLY EMPLOYED BY ACTS**

Benefit	Contract Number	Description	Carrier	Plan Type
Basic Life Insurance	To be obtained	No current participants as no ACTS retirees	Great-West Life - Canada	Insured
Retiree Health Care	15228	No current participants as no ACTS retirees - Voluntary Supplementary Health Plan	Sun Life - Canada	ASO
	15224	No current participants as no ACTS retirees - Basic Health Plan	Sun Life - Canada	ASO

Note: Above does not include base pay and working conditions

## AIR CANADA PENSION PLANS

INVENTORY OF AIR CANADA PENSION PLANS IN WHICH EMPLOYEES SECONDED TO ACTS PARTICIPATE

Pension Plan Name	Registration Number	Registration Number	Groups Covered
<b>Air Canada Pension Plan</b>	0352930	55345	All AC employees without service with Canadian Airlines except the pilots and the executives
<b>Pension Plan for Air Canada IAMAW Employees Formerly Employed by Canadian Airlines International Ltd.</b>	0557215	55391	All former Canadian Airlines Employees with service while covered by the collective agreement between the Company and the IAMAW
<b>Pension Plan for Air Canada Management Employees Formerly Employed by Canadian Airlines International Ltd.</b>	0513903	55248	All former Canadian Airlines Employees with service as Management
<b>Air Canada Defined Contribution Pension Plan</b>	1136662	57391	Air Canada Management and A&TS employees: <ul style="list-style-type: none"> <li>&gt; hired on or after January 1, 2005, or</li> <li>&gt; elected to transfer from the Air Canada Pension Plan or the Pension Plan for Air Canada Management Employees Formerly Employed by Canadian Airlines International Ltd.</li> </ul>
<b>Air Canada Executive Pension Plan</b>	0579136	55755	ACTS Chief executive officer is the only participant.
<b>Supplementary Senior Management Retirement Program (SSMRP)</b>	N/A	N/A	All management employees
<b>Air Canada Supplemental Executive Retirement Plan (SERP)</b>	N/A	N/A	ACTS Chief executive officer is the only participant.
<b>Air Canada Group Retirement Savings Plan (GRSP)</b>	N/A	N/A	Voluntary participation for members of the Air Canada Defined Contribution Pension Plan and employees who were participating in a previous AC GRSP

Note: Above does not include base pay and working conditions

**ACTS PENSION PLANS**

**INVENTORY OF ACTS REGISTERED PENSION PLANS FOR EMPLOYEES CURRENTLY EMPLOYED BY ACTS**

Registered Pension Plan	Registered Pension Plan Number	Number of Employees	Description
Air Canada Technical Services Defined Contribution Pension Plan	1170133	57460	All management employees
<b>Non Registered Pension Plans</b>			
Air Canada Technical Services Group Retirement Savings Plan (RRSP)	N/A	N/A	Voluntary participation for members of the Air Canada Technical Services Defined Contribution Pension Plan

Note: Above does not include base pay and working conditions

Schedule A

(for the purpose of disclosure provided under  
the representations and warranties in Section  
43 and Section 44 of the Agreement)

*Disclosure pursuant to Section 43 of the Agreement – AC Employees Plan*

- 43 (a):
  - (i) See "AC Pre-Retirement Group Benefits Plans (June 07) – Inventory of Air Canada Group Insurance Contracts in which Employees Seconded to ACTS Participate" on page 2 herein;
  - (ii) See "Inventory of Air Canada Compensation Programs in which All Employees Seconded from Air Canada and Current ACTS Employees Participate" on page 5 herein;
  - (iii) See "AC Post-Retirement Group Benefits Plans (June 07) – Inventory of Air Canada Group Insurance Contracts in which Employees Seconded to ACTS Participate" on page 7 herein; and
  - (iv) See "Inventory of Air Canada Pension Plans in which Employees Seconded to ACTS Participate" on page 9 herein.
- 43 (c): Air Canada filed with OSFI on July 18, 2006 an application for an amendment to the Air Canada Pension Plan and the related cost certificate. The amendment is to increase the maximum pension payable to management employees from \$1,722 per year of allowable service to the limit allowed by the Income Tax Act to a maximum of \$3,500 per year of allowable service. Additional benefits provided as per this amendment are offset by a corresponding reduction under the Supplementary Senior Management Retirement Program. As per the Air Canada Regulations, such amendment is subject to approval by OSFI. The amendment has not been implemented yet as Air Canada is still waiting for OSFI's approval. A similar request was made for the Pension Plan for Management Employees Formerly Employed by Canadian Airlines International Ltd; the cost certificate was filed but no amendment as the whole plan text is still in a draft form.
- 43 (d): The texts for the Pension Plan for Management Employees Formerly Employed by Canadian Airlines International Ltd, and the Pension Plan for Air Canada IAMAW Employees Formerly Employed by Canadian Airlines International Ltd, have yet to be filed with OSFI and CRA, this is why the texts provided are in a draft format.
 

When Air Canada acquired Canadian Airlines International in 2000, it was agreed that the CAIL pension plan provisions would be amended effective August 1, 2000 (January 1, 2002 for IAM) to mirror from that date the provisions of the Air Canada Pension Plan for the same group of employees. In accordance with the pension plan text, the union/pension committee has to approve the amendments to the text. Last year we came to an agreement with the CAIL Management pension committee on the draft text dated October 4, 2006. We are still waiting for a letter from the IAM confirming their agreement on the draft restated text dated November 24, 2006 but they verbally confirmed their agreement. Both texts will be on the agenda of the next meeting of the Board of Directors on August 9, 2007 for approval and after the meeting we will file the texts with CRA and OSFI. However, it is important to note that OSFI and CRA are aware of the situation and all actuarial valuations since the date of the amendment reflected the amendments and the administration of the plans has been done as if the texts had been filed.
- 43 (f): NIL
- 43 (g): NIL

- 43 (i): NIL

*Disclosure pursuant to Section 44 of the Agreement – ACTS Employees Plan*

- 44 (a):
  - (i) See "ACTS Pre-Retirement Group Benefits Plans (June 07) – Inventory of ACTS Group Insurance Contracts for Employees Currently Employed by ACTS" on page 4 herein
  - (ii) See "Inventory of ACTS Compensation Programs in which All Employees Seconded from Air Canada and Current ACTS Employees Participate" on page 6 herein;
  - (iii) See "ACTS Post-Retirement Group Benefits Plans (June 07) – Inventory of ACTS Group Insurance Contracts for Employees Currently Employed by ACTS" on page 8 herein; and
  - (iv) See "Inventory of ACTS Registered Pension Plans for Employees Currently Employed by ACTS" on page 10 herein.
- 44 (c): ACTS has the intent to establish compensation programs comparable to AC programs.
- 44 (f): There are currently three individuals who have been promised retention bonuses, for an amount ranging from \$7,500 to \$12,500, payable upon closing of transactions contemplated in the Purchase Agreement.
- 44 (g): NIL
- 44 (j): NIL

## SCHEDULE B

### **Non-Unionized Disability Liability**

The Non-Unionized Disability Liability shall mean the obligation related to benefits payable to Non-Unionized Employees on Leave under the AC Pre-Retirement Group Benefits Plans.

The Non-Unionized Disability Liability shall be determined based on the following:

- i) The methodology used to determine the Non-Unionized Disability Liability is described in A below.
- ii) The assumptions used to determine the Non-Unionized Disability Liability are outlined in B below.
- iii) All necessary information regarding Non-Unionized Employees on Leave as at the Closing Date shall be provided by Air Canada to its actuary as soon as practicable after the Closing Date.
- iv) The determination of the Non-Unionized Disability Liability shall be made by Air Canada's actuary, and documented in a report, within 90 days of receiving the information stated in iii) above.

### **Unionized Disability Liability**

The Unionized Disability Liability shall mean obligation related to benefits payable to Unionized Employees on Leave under the AC Pre-Retirement Group Benefits Plans.

The Unionized Disability Liability shall be determined based on the following:

- i) The methodology used to determine the Unionized Disability Liability is described in A below.
- ii) The assumptions used to determine the Unionized Disability Liability are outlined in B below.
- iii) All necessary information regarding Unionized Employees on Leave as at the Certification Date shall be provided by Air Canada to its actuary as soon as practicable after the Certification Date.
- iv) The determination of the Unionized Disability Liability shall be made by Air Canada's actuary, and documented in a report, within 90 days of receiving the information stated in iii) above.

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**A. Methodology (Disability Liability)**

The benefit obligation is equal to the present value of future benefits payable to employees or former employees who have been disabled for 6 months or more. These future benefits include the replacement of income, as well as the continuation of benefits under the AC Pre-retirement Group Benefits Plans.

The benefit obligation for employees on leave, including employees disabled for less than 6 months, is equal to a percentage of the previous year's paid claims for the first six months of disability.

**B. Assumptions (Disability Liability)**

<b>Recovery and Mortality Table (Disabled Life Reserves)</b>	1987 Commissioners Disability Table. The termination rates have been adjusted by applying the factors listed below to reflect Air Canada's past experience: <table border="0" style="margin-left: 20px;"> <tr> <td>■ First year of disability</td> <td style="text-align: right;">2.00</td> </tr> <tr> <td>■ From 2 to 5 years of disability</td> <td style="text-align: right;">3.00</td> </tr> <tr> <td>■ From 6 to 15 years of disability</td> <td style="text-align: right;">1.05</td> </tr> </table>	■ First year of disability	2.00	■ From 2 to 5 years of disability	3.00	■ From 6 to 15 years of disability	1.05
■ First year of disability	2.00						
■ From 2 to 5 years of disability	3.00						
■ From 6 to 15 years of disability	1.05						
<b>Mortality after Disablement (Cont. of Life Insurance)</b>	1987 Commissioners Group Disability Table						
<b>Discount rate</b>	<ul style="list-style-type: none"> <li>• To be determined on the Closing Date</li> </ul> <p>The discount rate reflects market rates on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments in the plan. Such expected benefit payment shall be based on the results at the actuarial valuation. For example, as at the measurement date of the most recent disclosure, or November 30, 2006, the rate would have been 4.50%.</p>						
<b>Consumer Price Index</b>	2.25% per year from 2006 to 2010 and 3% thereafter						
<b>Cost-of-living adjustment</b>	The cost-of-living adjustment is equal to 1% for each 1% rise in the Consumer Price Index above 3% up to a maximum annual increase of 5%						
<b>Expenses and Taxes</b>	<table border="0" style="margin-left: 20px;"> <tr> <td>Disability Benefits:</td> <td style="text-align: right;">5.5%</td> </tr> <tr> <td>Life Insurance:</td> <td style="text-align: right;">10.0%</td> </tr> <tr> <td>Health &amp; Dental:</td> <td style="text-align: right;">Included in the annual costs (13.2% on average).</td> </tr> </table>	Disability Benefits:	5.5%	Life Insurance:	10.0%	Health & Dental:	Included in the annual costs (13.2% on average).
Disability Benefits:	5.5%						
Life Insurance:	10.0%						
Health & Dental:	Included in the annual costs (13.2% on average).						
<b>Reserves for Unreported Disabilities</b>	50% of the year's new disabled life reserves						



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**Obligation for employees on leave, including employees disabled for less than 6 months** 16.7% of the claims paid in 2006 relating to the first six months of disability

<b>2007 annual claims cost per covered person for continuation of health and dental benefits</b>	<b>Drugs:</b>	\$910.11
	<b>Other medical:</b>	\$871.13
	<b>Dental:</b>	\$951.64

**Percentage of employees disabled less than 18 months assumed to become eligible to C/QPP disability benefits** 50%

**Annual increase in claims costs**

- **Drugs:** 11% in 2007 decreasing by 1% per year to an ultimate rate of 5% in 2013
- **Hospital/others:** 7.0% in 2007 decreasing by 0.5% per year to an ultimate rate of 5% in 2011
- **Dental:** 5% per year

#### **Non-Unionized Retiree Liability**

The Non-Unionized Retiree Liability shall mean the obligation related to benefits payable to AC Non-Unionized Plan Beneficiaries under the AC Post-Retirement Group Benefits Plans.

The Non-Unionized Retiree Liability shall be determined based on the following

- i) The methodology used to determine the Non-Unionized Retiree Liability is described in C below.
- ii) The assumptions used to determine the Non-Unionized Retiree Liability are outlined in D below.
- iii) All necessary information regarding AC Non-Unionized Plan Beneficiaries as at the Closing Date shall be provided by Air Canada to its actuary as soon as practicable after the Closing Date.
- iv) The determination of the Non-Unionized Retiree Liability shall be made by Air Canada's actuary, and documented in a report, within 90 days of receiving the information stated in iii) above.

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### **Unionized Retiree Liability**

The Unionized Retiree Liability shall mean the obligation related to benefits payable to AC Unionized Plan Beneficiaries under the AC Post-Retirement Group Benefits Plans.

The Unionized Retiree Liability shall be determined based on the following:

- i) The methodology used to determine the Unionized Retiree Liability is described in C below.
- ii) The assumptions used to determine the Unionized Retiree Liability are outlined in D below.
- iii) All necessary information regarding AC Unionized Plan Beneficiaries as at the Certification Date shall be provided by Air Canada to its actuary as soon as practicable after the Certification Date.
- iv) The determination of the Unionized Retiree Liability shall be made by Air Canada's actuary, and documented in a report, within 90 days of receiving the information stated in iii) above.

### **C. Methodology (Retiree Liability)**

The projected unit credit service pro-rate cost method will be used to determine the Retiree Liability.

Prospective benefits are calculated for each eligible active employee according to the actuarial assumptions described below. The benefit obligation for each eligible active employee is calculated as the actuarial present value of his prospective benefits multiplied by the ratio of his Air Canada service prior to the valuation date to total potential Air Canada service, limited to full eligibility for benefits.

#### Calculation of Unit Costs for Health Benefits

2006 unit costs for medical care after retirement were derived from claims information supplied by Sun Life and Great-West Life on behalf of calendar years 2004 and 2005. Unit costs were calculated for current employees based on expected future participation under both the Basic and the Voluntary Supplementary Health Plans. Unit Costs are outlined as Exhibit 1.

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**D. Assumptions (Retiree Liability)**

Discount rate	<p>• To be determined on the Closing Date. The discount rate reflects market rates on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments in the plan. Such expected benefit payments shall be based on the results at the actuarial valuation.</p> <p>For example, as at the measurement date of the most recent disclosure, or November 30, 2006, the rate would have been 5.00%.</p>
Salary Increases	None. All employees are expected to receive the maximum life insurance benefit at retirement
Annual increase in medical costs	
■ Drugs	12% in 2006 decreasing by 1% per year to an ultimate rate of 5% in 2013
■ Hospital/others	7.5% in 2006 decreasing by 0.5% per year to an ultimate rate of 5% in 2011
Expenses	
■ Medical care	Included in unit costs (11.6% on average)
■ Life insurance	10%
Mortality	Uninsured Pensioner 1994 Mortality Table projected for 21 years
Withdrawal	Age related tables (Exhibit 2)
Retirement Age	Age related tables (Exhibit 3)
Disability	Nil
Spouses' age	Males assumed to be 3 years older than females
Percentage married at retirement	80%
Participation in the Group Health Benefit Plans	Basic Plan: 15% Voluntary Plan: 85%

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**Exhibit 1 2006 Unit Costs for Current Active Employees – (per person covered, including expenses and taxes)**

Age	Quebec	Ontario	Other provinces
<b>Hospital</b>			
-50	\$ 10.32	\$ 20.94	\$ 3.39
50-54	12.36	25.08	4.06
55-59	17.75	36.01	5.83
60-64	25.48	51.70	8.37
65-69	36.59	74.22	12.02
70-74	52.52	106.55	17.25
75-79	71.10	144.23	23.36
80-84	90.74	184.08	29.81
85-89	115.81	234.94	38.04
90+	147.80	299.85	48.55
<b>Drugs</b>			
-50	691.01	476.79	332.89
50-54	753.08	519.61	362.79
55-59	894.42	617.13	430.88
60-64	1,062.29	732.95	511.75
65-69	391.63	284.67	586.02
70-74	432.39	314.30	647.01
75-79	454.33	330.25	679.85
80-84	454.33	330.25	679.85
85-89	454.33	330.25	679.85
90+	454.33	330.25	679.85
<b>Other Benefits</b>			
-50	114.87	74.10	59.90
50-54	114.87	74.10	59.90
55-59	114.87	74.10	59.90
60-64	114.87	74.10	59.90
65-69	114.87	74.10	59.90
70-74	114.87	74.10	59.90
75-79	114.87	74.10	59.90
80-84	114.87	74.10	59.90
85-89	114.87	74.10	59.90
90+	114.87	74.10	59.90
<b>Total</b>			
-50	816.20	571.82	396.18
50-54	880.31	618.79	426.75
55-59	1,027.04	727.24	496.61
60-64	1,202.64	858.75	580.02
65-69	543.08	432.99	657.94
70-74	599.78	494.95	724.16
75-79	640.30	548.58	763.10
80-84	659.94	588.43	769.56
85-89	685.01	639.29	777.79
90+	717.01	704.20	788.30

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**Exhibit 2 - Sample Annual Turnover Rates**

<b>Age</b>	<b>Bargaining</b>	<b>Non-Bargaining</b>
25	6.0%	6.9%
30	2.8	4.4
35	1.4	2.3
40	0.7	1.2
45	0.0	0.0
50	0.0	0.0
55	0.0	0.0

Note: No withdrawal rates after age 45.

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**Exhibit 3 – Annual Retirement Rates**

<b>Age</b>	<b>Bargaining</b>	<b>Non-Bargaining</b>
55	0.125	0.150
56	0.125	0.150
57	0.125	0.150
58	0.125	0.150
59	0.125	0.150
60	0.250	0.250
61	0.250	0.250
62	0.250	0.250
63	0.250	0.250
64	0.250	0.250
65	1.000	1.000

<sup>1</sup> Retirement rates begin on the later of the following occurrences:

- Earlier of 25 years of service, age 65 or 80 points;
- Age 55

## SCHEDULE C-1

1. Air Canada acknowledges that it is obligated to pay to the Purchaser an amount equal to:
  - (a) the Non-Unionized Disability Liability as of the Closing Date; plus
  - (b) the Non-Unionized Retiree Liability as of the Closing Date; plus
  - (c) the aggregate Solvency deficiency, if any, in respect of the AC DB Plans as of the Closing Date in respect of the AC Non-Unionized Plan Beneficiaries; plus
  - (d) the aggregate Solvency deficiency, if any, in respect of the AC DB Plans as of the Closing Date in respect of the AC Unionized Plan Beneficiaries; plus
  - (e) the estimated amount on the Closing Date of the Unionized Disability Liability as at the Certification Date assuming that the Certification Date is one (1) year from the Closing Date and that the AC Unionized Plan Beneficiaries at the Certification Date are the same as at the Closing Date; plus
  - (f) the estimated amount on the Closing Date of the Unionized Retiree Liability as at the Certification Date assuming that the Certification Date is one (1) year from the Closing Date and the AC Unionized Plan Beneficiaries at the Certification Date are the same as at the Closing Date

(collectively, the "Air Canada Payment Obligations") and as security for the Air Canada Payment Obligations, subject to subsection (2) hereof Air Canada shall have arranged for one or more financial institutions (acceptable to the Purchaser, acting reasonably) to issue irrevocable stand-by letters of credit in favour of the Purchaser on or before the Closing Date consistent with the principles contained in Schedule C-2 (the "Air Canada Letters of Credit"), unless such requirement to have any such letters of credit issued shall have otherwise been waived in the sole discretion of the Purchaser. For greater certainty Air Canada acknowledges that the Air Canada Payment Obligations exist on the Closing Date but that the Purchaser has agreed (and hereby agrees) that the Air Canada Payment Obligations shall be paid in accordance with Sections 13, 24, 33, 37, 40 and 41, subject to subsection (2) hereof.

2. The Purchaser acknowledges that it is obligated to pay to Air Canada an amount equal to:

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- (a) the aggregate Solvency surplus, if any, in respect of the AC DB Plans as of the Closing Date in respect of the AC Non-Unionized Plan Beneficiaries; plus
- (b) the aggregate Solvency surplus, if any, in respect of the AC DB Plans as of the Closing Date in respect of the AC Unionized Plan Beneficiaries

(collectively, the "Purchaser Payment Obligations"), and as security for the Purchaser Payment Obligations the Purchaser shall have arranged for one or more financial institutions (acceptable to Air Canada, acting reasonably) to issue irrevocable stand-by letter or letters of credit, as applicable, in favour of Air Canada on or before the Closing Date (individually or collectively the "Purchaser Letters of Credit"), unless such requirement to have either such letter of letters of credit issued shall have otherwise been waived in the sole discretion of Air Canada. Such Purchaser Letters of Credit shall be issued on the terms and conditions as provided for in paragraphs 1 and/or 2, as applicable, of Schedule C-2 (including the footnotes thereto). For greater certainty the Purchaser acknowledges that the Purchaser Payment Obligations exist on the Closing Date but that Air Canada has agreed (and hereby agrees) that the Purchaser Payment Obligations shall be paid in accordance with Sections 13 and/or 24, as applicable.

3. The Purchaser covenants in favour of Air Canada to provide it with weekly updates in writing of the projected Closing Date. Each of Air Canada and the Purchaser acknowledges that the final forms of the Air Canada Letters of Credit and/or the Purchaser Letters of Credit may contain additional provisions (standard terms or otherwise) as required by the financial institution issuing such letters of credit, and that such financial institution may also require that any principle contained in Schedule C-2 be modified as a condition to the issuance of such letters of credit, and in each such case each of Air Canada and the Purchaser agrees to act reasonably with each other and with the financial institution in order to have such letters of credit issued in their final form (including any replacement letters of credit to the initial letters of credit as contemplated under the "Adjustments" heading in Schedule C-2).
4. If the Purchaser is entitled to draw on any Air Canada Letter of Credit as provided for in such Air Canada Letter of Credit, this paragraph or as provided for in the applicable paragraph or paragraphs of Schedule C-2, the particular Air Canada Payment Obligation (including, for greater certainty, any amount owing from and after the Certification Date) shall be immediately due and payable to the Purchaser, and the Purchaser's sole recourse to satisfy the payment of the particular Air Canada Payment



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Obligation (including, for greater certainty, any amount owing from and after the Certification Date) which has been so accelerated and/or become so due and payable, as the case may be, shall be to draw on such Air Canada Letter of Credit accordingly. The Purchaser covenants in favour of Air Canada that it will only draw on any Air Canada Letter of Credit acting in good faith and strictly in compliance with the terms and conditions thereof (and, if such terms and conditions in the letter of credit are the simple delivering of a certificate by the beneficiary certifying that the drawdown conditions have been met or otherwise do not specifically reference the conditions contained in the applicable "Drawdown" provision or provisions of Schedule C-2, strictly in compliance with such conditions in Schedule C-2), and the Purchaser acknowledges and confirms that Air Canada reserves all of its rights and remedies (contractual, at law or otherwise) (including without limitation injunction and damages) in connection with any drawing on any such Air Canada Letter of Credit that is not strictly in compliance with the terms and conditions thereof (or the applicable "Drawdown" provision or provisions of Schedule C-2).

5. If Air Canada is entitled to draw on any Purchaser Letter of Credit as provided for in such Purchaser Letter of Credit, this paragraph or as provided for in the applicable paragraph or paragraphs of Schedule C-2 (including the footnotes thereto), the particular Purchaser Payment Obligation (including, for greater certainty, any amount owing from and after the Certification Date) in respect of such amount payable to Air Canada (as provided for in paragraphs 1 and/or 2, as applicable, of Schedule C-2 (including the footnotes thereto)) shall be immediately due and payable to Air Canada, and Air Canada's sole recourse to satisfy the payment of the particular Purchaser Payment Obligation (including, for greater certainty, any amount owing from and after the Certification Date) which has been so accelerated and/or become so due and payable, as the case may be, shall be to draw on such Purchaser Letter of Credit accordingly. Air Canada covenants in favour of the Purchaser that it will only draw on any Purchaser Letter of Credit acting in good faith and strictly in compliance with the terms and conditions thereof (and, if such terms and conditions in the letter of credit are the simple delivering of a certificate by the beneficiary certifying that the drawdown conditions have been met or otherwise do not specifically reference the conditions contained in the "Drawdown" provisions of paragraphs 1 and/or 2, as applicable, of Schedule C-2 (including the footnotes thereto), strictly in compliance with such conditions in such paragraph or paragraphs of Schedule C-2 (including the footnotes thereto)), and Air Canada acknowledges and confirms that the Purchaser reserves all of its rights and remedies (contractual, at law or otherwise) (including without limitation injunction and damages) in connection with any drawing on such Purchaser

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Letter of Credit that is not strictly in compliance with the terms and conditions thereof (or the "Drawdown" provisions of paragraphs 1 and/or 2, as applicable, of Schedule C-2 (including the footnotes thereto)).

6. The Purchaser acknowledges that any failure of Air Canada to arrange for the issuance of any Air Canada Letter of Credit on or before the Closing Date, or the failure of any financial institution to issue any such Air Canada Letter of Credit on or before the Closing Date, shall only result in the failure of a condition precedent to the closing of the transactions contemplated by this Agreement in favour of the Purchaser to be satisfied and, other than under the Purchase Agreement, shall not result in any other rights and remedies in favour of the Purchaser or the Parent (each as defined in the Purchase Agreement) against Air Canada, the Vendor or ACE Aviation Holdings Inc. The Purchaser also acknowledges that if it fails to arrange for the issuance of any Purchaser Letter of Credit on or before the Closing Date that it is required to deliver pursuant to subsection (2) above, or if any financial institution fails to issue any such Purchaser Letter of Credit, then Air Canada shall have the option in its sole discretion to arrange for one or more of the Air Canada Letters of Credit in favour of the Purchaser as contemplated by subsection (1) above to be issued in a reduced face amount the aggregate reduction being equal to the face amount of the Purchaser Letter of Credit which would have been issued, and the Purchaser shall not be entitled to invoke or rely on such Air Canada Letters of Credit being issued by such reduced amount in such event as a failure of a condition precedent to the closing of the transactions contemplated by this Agreement or the Purchase Agreement in favour of the Purchaser to be satisfied.
7. Air Canada acknowledges that any failure of the Purchaser to arrange for the issuance of any Purchaser Letter of Credit on or before the Closing Date, or the failure of any financial institution to issue any such Purchaser Letter of Credit on or before the Closing Date, shall only result in the failure of a condition precedent to the closing of the transactions contemplated by this Agreement in favour of Air Canada to be satisfied and shall not result in any other rights and remedies in favour of Air Canada (other than the right to waive or not to waive such condition precedent or issue Air Canada Letters of Credit in a reduced face amount pursuant to subsection (6) above), the Vendor (other than under the Purchase Agreement) or ACE Aviation Holdings Inc. (other than under the Purchase Agreement) against the Purchaser or the Parent (each as defined in the Purchase Agreement).
8. Each of Air Canada and the Purchaser covenant to act reasonably in connection with any subsequent sale of the Purchaser where it becomes a new entity (by merger, amalgamation or otherwise) (or of all or substantially all of the assets of the Business) in order to ensure any such purchaser of the

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Purchaser where it becomes a new entity (by merger, amalgamation or otherwise) (or of all or substantially all of the assets of the Business) shall be a beneficiary of any Air Canada Letters of Credit (to the extent any such letter or letters of credit have not expired or remain undrawn), and the Purchaser covenants in favour of Air Canada that it shall not permit any such sale at a time when any Purchaser Letter of Credit is issued as contemplated by subsection (2) above (to the extent any such letter or letters of credit have not expired or remain undrawn) without such purchaser having arranged for replacement Purchaser Letters of Credit to have been issued in favour of Air Canada no later than the closing date of such sale on the same terms and conditions provided for in subsection (2) above (and paragraphs 1 and/or 2, as applicable, of Schedule C-2 (including the footnotes thereto)).

9. Each of the Purchaser and Air Canada covenant to act reasonably in connection with any subsequent sale of Air Canada where it becomes a new entity (by merger, amalgamation or otherwise) (or of all or substantially all of the assets of Air Canada) in order to ensure any such purchaser of Air Canada where it becomes a new entity (by merger, amalgamation or otherwise) (or of all or substantially all of the assets of Air Canada) shall be a beneficiary of any Purchaser Letter of Credit (to the extent any such letter or letters of credit have not expired or remain undrawn), and Air Canada covenants in favour of the Purchaser that it shall not permit any such sale at a time when any Air Canada Letter of Credit is issued as contemplated by subsection (1) above (to the extent any such letter or letters of credit have not expired or remain undrawn) without such purchaser having arranged for replacement Air Canada Letters of Credit to have been issued in favour of the Purchaser no later than the closing date of such sale on the same terms and conditions provided for in subsection (1) above (and the applicable paragraphs of Schedule C-2).
10. Provided the Purchaser has been delivering the weekly updates as contemplated by paragraph 3, Air Canada shall deliver to the Purchaser no less than seven Business Days prior to the Closing Date, an estimate of the amount of the Air Canada Payment Obligations and, if applicable, the Purchaser Payment Obligations along with copies of the calculations and supporting materials used in connection with such estimates. In the event that, not less than three Business Days prior to the Closing Date, Purchaser notifies Air Canada that it disagrees with the estimates, Air Canada shall in good faith consider the Purchaser's comments and make any amendments to the estimates as Air Canada, acting in good faith, deems necessary or appropriate.

SCHEDULE C-2  
LETTERS OF CREDIT  
ASSOCIATED WITH THE PENSION AND BENEFITS AGREEMENT

Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
1. Aggregate solvency deficiency of AC DB Plans for AC Non-Unionized Plan Beneficiaries as of Closing Date (Section 13) <sup>3</sup>	Purchaser	Approximately 2-6 months after Closing Date  Declining amount schedule based on quarterly payments to Beneficiary (which declining schedule shall not take into consideration any payment made within the previous month).	(a) Certificate of Beneficiary certifying: either (i) non-payment under Section 13 (partial draw for amount of non-payment), (ii) Insolvency of Air Canada, or (iii) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry; and  (b) if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in a trust and that adequate arrangements have been made such that any required contributions in respect of the deficit related to the benefits earned by the AC Non-Unionized Plan Beneficiaries under the AC DB Plans prior to the Closing Date will be made or will continue to be made from such trust when required and

<sup>1</sup> Further adjustments may be necessary pursuant to Sections 13 (Non-Unionized Adjustment), 24 (Unionized Adjustment) and 60 of the Pension and Benefits Agreement.

<sup>2</sup> In the period following the Closing Date or the Certification Date, as applicable, prior to final determination of the relevant aggregate solvency deficiency or liability, payment of the related letter of credit if payment is made based on the then Air Canada for purposes of calculating the applicable quarterly payment of such solvency deficiency or liability.

<sup>3</sup> If there is an aggregate solvency surplus, Purchaser to provide letter of credit with equivalent provisions (drawdown conditions in (a) only to apply) to Air Canada.

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Obligations/ Face amount	Beneficiary	Adjustments <sup>4</sup>	Drawdown <sup>2</sup>
			in spite of the Beneficiary Insolvency.
2. Aggregate solvency deficiency of AC DB Plans for AC Unionized Plan Beneficiaries as of Closing Date (Section 24) <sup>4</sup>	Purchaser	<p>Approximately 2-6 months after Closing Date</p> <p>Approximately 2-6 months after Certification Date.</p> <p>From the Closing Date and prior to the Certification Date, declining amount schedule based on the past service contributions by Air Canada to the AC DB Plans for AC Unionized Plan Beneficiaries.</p> <p>Post-Certification Date, declining amount schedule based on quarterly payments to Beneficiary (which declining schedule shall not take into consideration any payment made within the previous month).</p>	<p>Prior to Certification Date:</p> <p>Certificate of Beneficiary certifying:</p> <p>(a) Certification Date has not occurred; and</p> <p>(b) either (A) (i) a competent tribunal has found in a non-appealable judgment that Beneficiary has become liable to pay an amount in respect of benefits earned by the AC Unionized Plan Beneficiaries under an AC DB Plan for AC Unionized Plan Beneficiaries, (ii) Air Canada has failed to pay such amount, and (iii) Beneficiary has paid such amount (partial draw for amount paid by Beneficiary); or (B) non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry.</p>

<sup>4</sup> If there is an aggregate solvency surplus, Purchaser to provide letter of credit with equivalent provisions (drawdown conditions in (b) only under "After the Certification Date" to apply

Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
			<p>Additionally, if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that any required contributions in respect of benefits earned by the AC Unionized Plan Beneficiaries under the AC DB Plans will be made or will continue to be made from such trust when required and in spite of the Beneficiary Insolvency.</p> <p>After Certification Date:</p> <p>Certificate of Beneficiary certifying:</p> <ul style="list-style-type: none"> <li>(a) Certification Date has occurred; and</li> <li>(b) either (i) non-payment under Section 24 (partial draw for amount of non-payment), (ii) Insolvency of Air Canada, or (iii) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry.</li> </ul> <p>Additionally, if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that any required contributions in respect of benefits earned by the AC Unionized Plan Beneficiaries under the AC DB Plans prior to</p>

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Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
			the Certification Date will be made or will continue to be made from such trust when required and in spite of the Beneficiary Insolvency.
3. Non-Unionized Disability Liability as of the Closing Date (Section 33)	Purchaser	Approximately 2-6 months after Closing Date Declining amount schedule based on quarterly payments to Beneficiary (which declining schedule shall not take into consideration any payment made within the previous month).	<p>(a) Certificate of Beneficiary certifying: either (i) non-payment under Section 33 (partial draw for amount of non-payment), (ii) Insolvency of Air Canada, or (iii) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry; and</p> <p>(b) if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that payments, when required, from such trust in respect of the Non-Unionized Disability Liability in spite of the Beneficiary Insolvency will be made.</p>

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Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
<p>4. Unionized Disability Liability as contemplated under Section 37 of the FBA.</p> <p>The face amount of the LC delivered on the Closing Date will be based on estimates, available on or prior to such date, of the relevant liability. The face amount of the LC will be adjusted thereafter in accordance herewith.</p>	Purchaser	<p>Approximately 2-6 months after Closing Date</p> <p>Approximately 2-6 months after Certification Date</p> <p>Post-Certification Date, declining amount schedule based on quarterly payments to Beneficiary (which declining schedule shall not take into consideration any payment made within the previous month).</p>	<p>Prior to Certification Date:</p> <p>Certificate of Beneficiary certifying:</p> <p>(a) Certification Date has not occurred; and</p> <p>(b) either (A) a competent tribunal has found in a non-appealable judgment that Beneficiary has become liable (to the exclusion of Air Canada) to pay an amount in respect of the Unionized Disability Liability (partial draw for amount paid by Beneficiary, subject to a minimum threshold acceptable to issuer), or (B) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry.</p> <p>Additionally, if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that payments, when required, from such trust in respect of the Unionized Disability Liability in spite of the Beneficiary Insolvency will be made.</p>



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Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
			<p>After Certification Date:</p> <p>Certificate by Beneficiary certifying:</p> <p>(a) Certification Date has occurred; and</p> <p>(b) either (i) non-payment under Section 37 (partial draw for amount of non-payment), (ii) Insolvency of Air Canada, or (iii) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry.</p> <p>Additionally, if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that payments, as required, from such trust in respect of the Unionized Disability Liability in spite of the Beneficiary Insolvency will be made.</p>

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Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
5. Non-Unionized Retiree Liability as of the Closing Date (Section 40)	Purchaser	<p>Approximately 2-6 months after Closing Date.</p> <p>Declining amount schedule based on quarterly payments to Beneficiary (which declining schedule shall not take into consideration any payment made within the previous month).</p>	<p>(a) Certificate of Beneficiary certifying: either (i) non-payment under Section 40 (partial draw for amount of non payment), (ii) Insolvency of Air Canada, or (iii) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry; and</p> <p>(b) if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that payments, when required, from such trust in respect of the Non-Unionized Retiree Liability in spite of the Beneficiary Insolvency will be made.</p>

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Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
<p>6. Unionized Retiree Liability as contemplated under Section 41 of the FBA.</p> <p>The face amount of the LC delivered on the Closing Date will be based on estimates, available on or prior to such date, of the relevant liability. The face amount of the LC will be adjusted thereafter in accordance herewith.</p>	Purchaser	<p>Approximately 2-6 months after Closing Date.</p> <p>Approximately 2-6 months after Certification Date.</p> <p>Post-Certification Date, declining amount schedule based on quarterly payments to Beneficiary (which declining schedule shall not take into consideration any payment made within the previous month).</p>	<p>Prior to Certification Date:</p> <p>Certificate of Beneficiary certifying:</p> <p>(a) Certification Date has not occurred; and</p> <p>(b) either (A) a competent tribunal has found in a non-appealable judgment that Beneficiary has become liable (to the exclusion of Air Canada) to pay an amount in respect of the Unionized Retiree Liability (partial draw for amount paid by Beneficiary, subject to a minimum threshold acceptable to issuer), or (B) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry.</p>

Obligations/ Face amount	Beneficiary	Adjustments <sup>1</sup>	Drawdown <sup>2</sup>
			<p>Additionally, if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that payments, when required, from such trust in respect of the Unionized Retiree Liability in spite of the Beneficiary Insolvency will be made.</p> <p>After Certification Date:</p> <p>Certificate of Beneficiary certifying:</p> <ul style="list-style-type: none"><li>(a) Certification Date has occurred; and</li><li>(b) either (i) non-payment under Section 41 (partial draw for amount of non-payment), (ii) Insolvency of Air Canada, or (iii) notice of non-renewal of the letter of credit by issuer and Air Canada has not provided a replacement letter of credit on the same terms (with a face amount reduced as permitted herein) within 21 days prior to expiry.</li></ul> <p>Additionally, if Beneficiary is Insolvent, certificate of an investment-grade trustee to the effect that the drawdowns under the letter of credit will be held in trust and that adequate arrangements have been made such that payments, when required, from such trust in respect of the Unionized Retiree Liability in spite of the Beneficiary Insolvency will be made.</p>

## SCHEDULE C-3

"Insolvent" or "Insolvency" means when a party (i) admits in writing its inability to pay its debts generally or makes a general assignment for the benefit of creditors; (ii) institutes or has instituted against it any proceeding seeking (x) to adjudicate it a bankrupt or insolvent, (y) liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors including any plan of compromise or arrangement or other corporate proceeding involving or affecting its creditors, or (z) the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any material portion of its assets, and in the case of any such proceeding or order instituted against it (but not instituted by it), either the proceeding is not contested in good faith diligently and on a timely basis and the proceeding remains undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its assets) occurs; (iii) takes any corporate action to authorize any of the above actions (provided that a party shall not be "Insolvent" if the proceedings are instituted against it in a jurisdiction other than Canada or the United States or any political subdivision thereof, whether state, provincial, territorial or local, where no substantial material assets of the party are located and are the result of frivolous or vexatious proceedings and the party in good faith by appropriate proceedings contests such proceedings); or (iv) any secured creditor of that party appoints any agent, receiver, manager, receiver and manager or person with like or comparable powers to take possession or control (actual or constructive) of that party or any material portion of its assets, and such appointment is not contested in good faith diligently and on a timely basis and such appointment remains in effect for a period of 60 days.

No 500-11-042345-120

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SUPERIOR COURT (Commercial Division)  
DISTRICT OF MONTRÉAL

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IN THE MATTER OF THE PROPOSED PLAN OF  
COMPROMISE AND ARRANGEMENT OF :

AVEOS FLEET PERFORMANCE INC. / AVEOS  
PERFORMANCE AÉRONAUTIQUE INC.

And  
AERO TECHNICAL US, INC.

Insolvent Debtors/Petitioners

And  
FTI CONSULTING CANADA INC.

Monitor

And  
AIR CANADA and  
CANADIAN IMPERIAL BANK OF CANADA  
And AL.

Mises-en-cause

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Me Roger P. Simard/ Our file: 548732-001

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## EXHIBIT R-1

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