

APPENDIX 1

(C0425944.1)

Pension Memorandum of Agreement

Between:

Air Canada

- and -

The International Association of Machinists
and Aerospace Workers and its District Lodge 140 ("IAMAW")

Applicable to TMOS only

TERMS OF AGREEMENT

New IAMAW Plan

1. Effective January 1, 2013 or such other date agreed to by the parties, Air Canada agrees to split the Air Canada Pension Plan for IAMAW represented employees, former employees and retirees (including their surviving spouses and other beneficiaries) and whose collective bargaining agent is or for retirees and former employees was, the IAMAW, and transfer the pro-rata share of the assets, equal to the transferring members' solvency liability multiplied by the Air Canada Pension Plan's solvency ratio, to the Pension Plan for Air Canada IAMAW Employees Formerly Employed by Canadian Airlines International Ltd (the "Plan") which will be renamed the Air Canada IAMAW Pension Plan ("the New Plan"). Air Canada will continue to be the Administrator of the New Plan. The applicable solvency ratio in the Air Canada Pension Plan shall be determined before any benefit changes, affecting members not represented by the IAMAW, become effective.
2. Air Canada agrees that the New IAMAW Plan Committee will operate in the same manner with the same responsibilities as the CAIL Plan committee currently operates. The New IAMAW Plan Committee will have 7 voting members, including 3 representatives of active members, one representative of retired members and 3 company representatives as well as one additional IAMAW non-voting member from each base not represented by a voting member. Three of the seven committee members will be appointed by the IAMAW as well as the retiree representative unless elected by the retirees and three will be appointed by Air Canada. The Plan Committee will meet at least twice per calendar year. The Company shall appoint the chair of the Plan Committee.
3. Air Canada agrees to provide the Plan Committee with sufficient information consistent with its functions. In particular, Air Canada agrees to provide any

changes to the Statement of Investment Policy and Objectives (SIP&O) to the Plan Committee as well as actuarial reports and audited financial statements.

4. If the IAMAW obtains the agreement from the other unions to amend the Income Tax Regulations to allow for the shares held by the IAMAW to be held for the benefit of the New IAMAW Plan, Air Canada will provide their assistance with respect to the request to amend the applicable sections of the Income Tax Regulations and Trust Agreement, provided that any contributions from the trust remain eligible contributions under applicable tax rules.

Benefit Changes

5. The benefit changes provided for in this agreement will take effect on January 1, 2014.
6. The Company and the Union agree to the following changes to help address the solvency funding of the Air Canada pension plans for IAMAW represented plan members by replacing the rules to calculate early retirement pension by the following:
 - (a) a provision in the plans stating that an unreduced pension is payable for plan members who retire on or after age 55, with 80 points and with the consent of Air Canada.
 - (b) provisions in the plans, whereby pensionable age shall be age 65; any member who does not meet the above criteria shall have his pension actuarially reduced from pensionable age.

The parties also agree to the following:

- (c) a provision in the IAMAW Collective Agreement stating that Air Canada will not deny consent for an unreduced pension payable for IAMAW represented plan members retiring on or after age 55 with 80 points from the plans.
- (d) a provision in the IAMAW Collective Agreement stating that IAMAW represented plan members who are involuntarily terminated will receive consent for an unreduced pension from the date they would have reached the age of 55 with 80 points without projection of service. For example, members who:
 - o Die while in service before termination or retirement;
 - o Terminate or retire on account of total and permanent disability;
 - o Resign due to a terminal condition; or
 - o Are terminated by the Company except for cause.

This section 6. (d) does not apply in case of plan termination.

7. Air Canada agrees during the current collective agreement to fund, on both a going concern and solvency basis, the unreduced early retirement of all members who satisfy the eligibility criteria set out in section 6. (a) of this Agreement. During the current collective agreement Air Canada agrees to fund on a going concern basis assuming that these consent benefits will continue after the expiry of the collective agreement.
8. The normal form of pension will cease to be a joint and survivor 50% (J&S50%) and will instead be a 10 year single annuity (G10). Single employees will also be offered a G5 on an actuarial equivalent basis.

Employees with a spouse will be offered a G10, J&S50% and J&S60%. The pension under the G10 form will be reduced by 3% to provide for a J&S50%. The pension under the J&S60% will be the actuarial equivalent of the J&S50% pension. The spouse entitled to the survivor pension will be the spouse at time of retirement.

If the Special Regulation contemplated in Appendix 1 of this Pension Memorandum of Agreement is enacted, this section 8 will be inoperative.

9. The benefit reductions (including the terms of the consent benefits) and the split of the Air Canada Pension Plan in this agreement are subject to the approval of OSFI. IAMAW will support Air Canada's request for OSFI's approval for the above pension plan changes.
10. Air Canada shall draft the new IAMAW Plan text and the amendments to the Air Canada Pension Plan and draft any other documents required to implement this MOA for the IAMAW's review and confirmation that such documents properly reflect the terms of the MOA.

Plan For New IAMAW Represented Employees

11. All new employees hired on or after the date of Arbitrator Michel Picher's decision that constitutes the new collective agreement and whose collective bargaining agent is the IAMAW will participate in a federal multi-employer pension plan that the IAMAW is establishing (the "IAMAW MEPP"), if IAMAW and OSFI confirm that such plan qualifies as a multi-employer pension plan and a negotiated contribution plan under the Pension Benefits Standards Act (PBSA). Notwithstanding that Air Canada and the IAMAW have agreed to the IAMAW MEPP, Air Canada acknowledges that there will be a delay before the IAMAW MEPP is established as other participating employers are required.

If the IMAW MEPP has not been established or does not qualify as a multi-employer pension plan and a negotiated contribution plan, all new employees will participate in an interim defined contribution pension plan ("Interim DC"), described below at section 16.

12. Employer and employee contributions to the IMAW MEPP will be equal to 6 percent of salary each, for a total contribution of 12 percent.
13. The IMAW MEPP will be governed by an independent board of trustees. Air Canada will not become a participating employer in the IMAW MEPP until Air Canada is satisfied that the following conditions are met:
 - a. Air Canada's sole responsibility with respect to the IMAW MEPP will be to remit contributions in accordance with the section 12 above.
 - b. Air Canada will bear no other responsibility, including (without limitation) for any unfunded liability or deficit in the IMAW MEPP, under any circumstances, including as a result of the manner in which the IMAW MEPP is administered.
 - c. In the event that the IMAW MEPP no longer qualifies either as a multi-employer pension plan or a negotiated contribution plan under the Pension Benefits Standards Act (PBSA), Air Canada shall cease to be a participating employer under the IMAW MEPP and all employee and employer contributions shall cease. No replacement defined benefit pension plan shall be established. Air Canada and the IMAW will meet to discuss potential alternatives.
 - d. The text of the IMAW MEPP and any other documents required to implement this MOA properly reflect the terms of the MOA.
 - e. The IMAW MEPP indemnify all members of the Board of Trustees and carry appropriate insurance for the said board.
 - f. The Board of Trustees upon the establishment of the IMAW MEPP is acceptable;
 - g. The benefits under the IMAW MEPP will be reduced to the extent that they are not fully funded upon plan termination.
14. If Air Canada is not satisfied that the conditions in section 13 are met, then Air Canada will so advise the IMAW in writing, and Air Canada and the IMAW will meet to discuss potential solutions.

15. The IAMAW will communicate to its members eligible to participate in the IAMAW MEPP that (i) Air Canada's sole obligation with respect to that plan is limited to its section 12 above contribution obligation, and (ii) benefits under that plan can be reduced while the plan is ongoing or immediately prior to the termination of that plan.
16. The Interim DC shall be registered under the Pension Benefits Standards Act and administered by a board of trustees. The Interim DC will be effective on the date of Arbitrator Michel Picher's decision that constitutes the new collective agreement. All employees hired on or after such date and before the MEPP is implemented shall become members of the Interim DC. Employer and employee contributions shall commence when the Interim DC is implemented. If the Interim DC is implemented by the end of 2012, there will be a one-time contribution retroactive to the employee's date of hire with the corresponding employer contribution. Air Canada will become a participating employer in the Interim DC when Air Canada is satisfied that the following conditions are met:
- a. Air Canada's sole responsibility with respect to the Interim DC will be to remit contributions in the amount required under section 12. Air Canada shall not be responsible for any costs associated with establishment of the Interim DC, maintenance of the Interim DC or conversion or transfer of the Interim DC to an IAMAW MEPP.
 - b. The Interim DC shall not have any benefit provisions other than defined contribution provisions at establishment and may not be amended to contain provisions other than defined contribution provisions.
 - c. Air Canada will bear no other responsibility, under any circumstances, including as a result of the manner in which the Interim DC is administered.
 - d. The text of the Interim DC and any other documents required to implement the Interim DC shall properly reflect the terms of this section 16.
 - e. The Interim DC fund shall be used to indemnify all members of the board of trustees of the Interim DC and to provide appropriate insurance for the said board.
 - f. The board of trustees upon the establishment of the Interim DC is acceptable.

- g. In the event that an IAMAW MEPP is implemented and Air Canada becomes a participating employer to an IAMAW MEPP as contemplated in accordance with sections 11 to 13, all assets in the Interim DC may be transferred to the IAMAW MEPP. Alternatively, the Interim DC may be amended to become the IAMAW MEPP. In either case, no transfer or conversion may be effective unless Air Canada is satisfied that the other conditions of sections 11 to 13 are met.

Pension Funding Relief

- 17. Pension funding relief will be in accordance with the terms outlined in Appendix 1 of this Memorandum of Agreement.

This Pension MOA including Appendix 1 shall form part of the Company's collective agreement with the Union.

Appendix 1 to the
Pension Memorandum of Agreement

WHEREAS the Company administers ten defined benefit registered pension plans (the "Plans");

WHEREAS the Union represents approximately 8,000 employees;

WHEREAS in 2009 the parties agreed, along with the other Canadian-based unions, to temporary solvency deficit funding relief, following which the Government of Canada adopted the Air Canada Pension Plan Funding Regulations, 2009, which will expire in 2014;

WHEREAS the Federal Government continued to request that Air Canada and its Canadian-based unions engage in discussions to address the long-term sustainability of the pension plans;

WHEREAS the parties are committed to the sustainability of the Air Canada pension plans over the long term;

WHEREAS the parties recognize that a reduction in the Company's pension funding obligations is required;

NOW THEREFORE, the Company and the Union agree as follows:

1. The Company and the Union shall vigorously support regulations under the Pension Benefits Standards Act, 1985 (the "Special Regulation") that provide for the funding relief set out below. The Company and the Union shall cooperate, act diligently, and take all actions required to implement this Appendix 1 of the Pension MOA and obtain enactment of the Special Regulation, including, without limitation, the making of representations to any governmental authority in support of implementation of this Appendix 1 of this MOA and enactment of the Special Regulations.
2. In each plan year for the period from January 1, 2014 to December 31, 2023, the aggregate past service contribution in respect of solvency deficits and going concern unfunded liabilities for all Plans combined shall equal the lesser of:
 - (a) \$150 million; and
 - (b) the maximum past service contribution permitted under the Income Tax Act.

3. The past service contribution described in section 2 of this Appendix 1 will be determined on a Plan-by-Plan basis, with the contribution to a particular Plan being the pro rata share of that Plan's solvency deficit to the aggregate solvency deficit for all the Plans in solvency deficit, all as determined as at January 1 of each year, where such solvency deficit:
 - (a) is determined as the solvency liabilities less the market value of the assets of the Plan, as determined by the Company's actuary; and
 - (b) shall not be less than zero for any Plan.

For further clarity, should a Plan have a solvency surplus, such Plan shall be excluded from the pro rata allocation of the past service contribution.

4. The past service contribution to be made to each Plan during a Plan year shall be paid in equal monthly instalments, except that the past service contribution determined in a valuation will remain in effect until the next valuation is filed. When the next valuation is filed, there will be a retroactive adjustment made at the next scheduled remittance date.
5. Air Canada may elect to have past service contributions determined, for that plan year, in respect of all Air Canada pension plans collectively, in accordance with the Pension Benefits Standards Act, 1985, and any applicable regulations thereunder rather than the amounts provided under the Special Regulation.
6. It is a condition of this Appendix 1 of this Pension MOA, and the Special Regulation shall so provide, that there will be no outstanding deemed trust relating to the Plans, except:
 - (a) if and when any contribution required by the application of this Appendix 1 of this Pension MOA is not remitted to the Plan by the due date described herein; or
 - (b) in respect of amounts deducted by the Company from members' remuneration that are not remitted to the Plan when due.
7. Actuarial methods and assumptions to be employed shall be at the discretion of the actuary, within the standards of the Canadian Institute of Actuaries.
8. All dollar amounts expressed herein are expressed in Canadian dollars (CAD).