

Feb. 25 2000 11:34 AM

SOURCE	G Comp		
EFF.	99	01	01
TERM	2000	12	31
No. OF EMPLOYEES	20		
NOMRE	Canadian Regional Airlines Ltd.		

### TEAMSTERS

### LETTER OF UNDERSTANDING NO. 1

This Letter of Understanding ("**LOU**") is entered into between Canadian Regional Airline Time Air Inc., (the "Company"), and the INTERNATIONAL BROTHERHOOD OF TEAMSTERS LOCAL 362 (the "Union") regarding:

The 1997 Business Plan and the Amendment and Extension of the Current Collective Agreement.

The Company's and Canadian's 1997 Business Plan is intended to improve the operating profitability of Canadian Airlines International Ltd. (Canadian) by \$180 million per year for the four (4) years 1997 - 2000 by improving the network (\$40 million), reducing overhead costs and the AMR Corporation (AMR) Service fees (\$70 million). reducing fuel or other taxes (\$38.1 million) and reducing wages (\$31.9 million).

The current Collective Agreement, (collectively, the "Collective Agreement"), which will expire on December 31, 1998 is hereby amended as provided in this LOU and shall expire on December 31, 2000. Unless otherwise stated herein, all other terms in the Collective Agreement shall remain in full force and effect and unamended.

The LOU is one of several Letters of Understanding which will be entered into between the Company and Canadian and each of the unions representing each of its organized employees (collectively, the "**Unions**") relating to the participation of each union in the 1997 Business Plan.

The Unions and non-organized and management employees of Canadian based in Canada and the Unions and management and non-organized employees of the Company are collectively called the "Participating Groups".

#### I. CONTRIBUTION MODIFICATIONS

##### Contribution Period

1.01 The parties agree to implement a Wage Reduction Program, as hereafter defined, for all Participating Groups for a period of **four (4) years** commencing with the first payment for wages in 1997 (i.e. January 25, 1997 paycheque for Union represented employees) (the "Contribution Period"). The wage reduction calculation shall only apply to base salary and overtime ("Annual Wage Compensation"). The Wage Reduction Program shall be a sliding scale such that the first \$25,000 of all employees (full-time or part-time or casual) ANNUAL WAGE COMPENSATION shall not be subject to any reduction (the "Capped Amount"). The parties agree that 10% shall be deducted from the employees annual compensation in excess of the Capped Amount (collectively the "Wage Reduction Program"). For greater certainty, the following sets out examples of the effective reduction rates based on annual compensation:

### Profit Sharing Plan

**P-**  
 1.04 Employees represented by the Union shall be entitled to participate in a profit sharing plan (the "New Plan") for the fiscal years 1997 through 2000, in connection with the Wage Reduction Program. This New Plan shall make available for distribution to employees in Participating Groups 10% of the audited pre-tax profits of CAC for fiscal years 1997 and 1998 and 20% of such profits for fiscal years 1999 and 2000. Any payments under the New Plan will be made in four equal quarterly instalments in the year subsequent to the relevant fiscal year.

The Union's share of the funds available for distribution (the "Pool") under the New Plan (the "UNION Share") shall be determined by dividing the total contribution by employees represented by the Union to the Wage Reduction Program for the relevant year by the total contribution of all members of the Participating Groups for such relevant year and multiplying such ratio by the Pool. The Union shall determine the manner of distribution of the Union's Share among the employees it represents. If the Union fails to select a method of distribution within 60 days of the applicable year end, the Union Share shall be distributed to all represented employees based on each employee's share of T-4 payroll within such group.

### Lay-off Pay

1.05 Any represented employee employed by the Company on December 5, 1996 and laid off during the Contribution Period by the Company shall be entitled to layoff pay in the amount of not less than 40 weeks.

## II. CORPORATE GOVERNANCE

The Company reaffirms its commitment to genuine partnership with, and participation by, the Union in the Company's future.

### Board of Directors

The following provisions shall apply effective from January 1, 1997 to December 31, 2008:

- 2.01 (a) The Board of Directors of CAC shall comprise not more than 12 members and shall consist of the following members:
- (i) one (1) director designated by CALPA's Canadian Master Executive Council (Canadian MEC);
  - (ii) one (1) director designated by the Canadian Component of the IAM;
  - (iii) two (2) directors designated by the Council of Canadian Airline Employees ("CCAEE");
  - (iv) one (1) senior management official of the Company;

ANNUAL, WAGE COMPENSATION	NET REDUCTION RATE
\$25,000	0%
\$30,000	1.7%
\$35,000	2.9%
\$40,000	3.75%
\$45,000	4.4%
\$50,000	5.0%
\$60,000	5.8%
\$70,000	6.4%
\$80,000	6.9%
\$100,000	7.5%

The Wage Reduction Program shall be implemented by determining each employee's estimated annual salary and applying the Wage Reduction Program pro-rata for each pay period. Any reconciliation of the Annual Wage Compensation shall be completed at the end of the applicable fiscal year by the Company.

No management official shall receive any economic benefit (including raises, payments, bonus under any management bonus plan, additional shares, share options, securities, car allowances or any other benefit) for the Contribution Period as a direct or indirect result of the Wage Reduction Program. The calculation shall be based on an individual basis and not on a group or department level.

Salary and wage levels will revert back to the December 31, 1996 book rates (as listed in the Agreement) effective at the expiry of the Contribution Period (last paycheque deduction will be for the period ending December 31, 2000; i.e. January 10, 2001 paycheque).

Productivity Improvements

1.02 After January 1, 1997 and each year thereafter, the Union may propose and the Company may agree, to changes to the manner by which the employees who are members of the Union perform their duties in the workplace which can have the result of actual cost savings to the Company. The actual measurable annual cost savings realized by the Company during the balance of the Contribution Period as a direct result of the implementation of such changes agreed to by the parties subsequent to the implementation of this program shall be returned by the Company by way of a wage increase for the employees who are represented by the Union for the balance of the Contribution Period in a manner which is mutually acceptable to the Company and the Union. If the parties cannot agree to the value of the contribution, a mutually acceptable person shall determine the aggregate amount of the contribution.

Benefits

1.03 For the term of the Contribution Period, pension, life insurance and accidental death and dismemberment insurance benefits and related contributions to each shall be calculated from book rates as of December 31, 1996.

- (v) six (6) directors who are not: (i) members of management of the Company; (ii) employed or associated with AMR Corporation; or (iii) any person who is employed by or is a member of the Unions;
  - (vi) one (1) director who may be a senior management official or an outside director.
- (b) When reconstituted, the Board of Directors of Canadian shall comprise not more than 14 members. The membership of the Board of Directors of Canadian shall include the same persons who serve as directors of CAC plus two (2) directors designated by AMR for so long as AMR maintains the right to designate such directors to the Canadian Board of Directors under its current arrangements with Canadian.

## 2.02 Security

On or before January 15, 1997, the Company and Canadian shall grant in favour of the Union security over all its assets, property and undertaking that secures the existing Royal Bank of Canada ("RBC") indebtedness. The granting of such security shall be subject to: (a) the approval of the RBC and the Governments of Canada, Alberta and British Columbia (the "Governments"); (b) the receipt of advice from the Company's auditors that there is no adverse impact on its income statement; and (c) resolution of a satisfactory arrangement for the release of the security to be provided hereunder at the request of the Company from time to time. The security charge shall be subordinate to the present charges of RBC and the Governments. The security shall secure the wage concessions granted by the employees represented by the Union as it accrues on an annual basis. The intention of the parties is that the obligations to be secured hereby arise only in certain events and shall be extinguished on December 31 of every year unless certain events have occurred. Any security granted in favour of the other Participating Groups shall rank pari passu with the security granted in favour of the Union.

## 2.03 Operational Review Committee

The Company and the Union shall participate in an Operational Review Committee ("ORC") which will include the senior management at CRA and one representative from each Participating Group. Participation will be strictly at the Union's discretion, and if participating, the Union may decline to continue participation at any time. The ORC will take the place of the Business Plan Task Force.

The parties will jointly develop a mandate for the ORC with the objective of such mandate being to provide for meaningful and timely input into the operations and plans of the Company.

The ORC shall meet quarterly concerning changes in the existing business plan to review the Company's and Canadian's performance under the existing business plan, changes to the existing business plan and forecasts for further business plans.

## III. CONDITIONS

## Conditions Precedent

3.01 ~~The implementation of this LOU by the Union and the Company and CAC is subject to the satisfaction of the following conditions:~~

- (a) On or before December 20, 1996, the employees represented by the Union shall have ratified this LOU and Agreement No. 2.
- (b) The shareholders of Canadian and the Board of Directors of CAC shall have approved this LOU on or before December 6, 1996.
- (c) On or before December 15, 1996, AMR Corporation and Aurora Airline Investments Inc. shall have provided any consents or amendments pursuant to any of its agreements with CAC or the Company as may be necessary to permit the terms of this LOU to take effect.
- (d) On or before December 20, 1996, AMR Corporation shall have agreed to reduce the monthly payments under the AMR Services Agreement (the "AMR Agreement") by a minimum of \$4 million for each of the forty-eight (48) months commencing November 1, 1996. Such aggregate amount shall be a reduction and not a deferral of any amounts under the AMR Agreement.
- (e) On or before December 20, 1996, the Governments shall have agreed in writing to provide the Company with support of a minimum of \$38.1 million for each of the four (4) fiscal years 1997 to 2000.
- (f) The Company and Canadian, as applicable, shall have entered into a Letter of Understanding, term sheet or program with each of the Participating Groups, which is on terms or conditions no better than is provided for in this agreement.
- (g) All Unions must have ratified their respective agreement with the Company or Canadian referred to in sub-paragraph (f) above.

## IV. MISCELLANEOUS

- 4.01 The Company and Canadian and the Unions agree to request the governments of Canada and British Columbia to fund a study of financial, capital and other forms of restructuring for Canadian. This study will be directed by a committee consisting of representatives from the Unions.
- 4.02 The Company and Canadian and the Unions shall approach the governments of Canada and British Columbia to form a tripartite committee consisting of representatives from governments, the Unions and the airline industry to recommend policies and guidelines to ensure a competitive and stable environment for airlines in Canada.

4.03 This LOU shall not be amended without the written consent of all of the undersigned parties.

Dated as of January 6, 1997

CANADIAN REGIONAL AIRLINES LTD.

By: Michael Clifton

By: Doug B...

By: Yed ...

By: \_\_\_\_\_

INTERNATIONAL BROTHERHOOD OF TEAMSTERS LOCAL 362

By: [Signature]

By: \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

**LETTER OF UNDERSTANDING No. 2**

**Re: Termination of the Wage Reduction Program**

**between**

**CANADIAN REGIONAL AIRLINES (1998) LTD.**

**and**

**THE INTERNATIONAL BROTHERHOOD OF TEAMSTERS LOCAL 362**

THIS LETTER OF UNDERSTANDING is made and entered into, by and between CANADIAN REGIONAL AIRLINES (1998) LTD. (hereinafter referred to as the "Company") and The International Brotherhood of Teamsters Local 362 (hereinafter referred to as "the Union").

WHEREAS the Company and the Union have agreed to termination of the Wage Reduction Program (hereinafter referred to as the "WRP");

NOW THEREFORE, the parties enter into this Letter of Understanding.

1. The payment of wages to the WRP, as described in LOU No. 01, Paragraph I 1.01, p. 1, of the LOU between the parties, as it applies to the Commissary employees as represented by the Union will cease as of June 01, 2000.
2. Commissary employees who have contributed to the WRP for the months of April 2000 and May 2000 shall be entitled to a contribution bonus equal to their individual contributions made during the aforementioned contribution period. Payment of the contribution bonus will be made on July 10, 2000.
3. Reconciliation of the Annual Wage Compensation, LOU No. 01 Paragraph I 1.01, will be completed no later than July 30, 2000. The Annual Wage Compensation will be prorated for the months of January, February and March 2000.
4. Notwithstanding point 3 above, The Commissary employees as represented by the Union at CRA will receive no less in the reconciliation of the WRP as it relates to January, February and March 2000 than any other participant of the "Participating Groups". For clarity, should any member of the "Participating Groups" achieve a resolution to the reconciliation for the months of January, February and March 2000 that has terms favorable to the terms outlined herein, as determined by the Union, then those terms will be applied to the months of January, February, and March 2000.

5. The Company will advise the Union of the final agreements reached with any of the "Participating Groups", as defined in LOU No.01, p. 1, as it relates to the termination and reconciliation of the WRP.

This LOU shall form part of Collective Agreement No. 02.


The parties hereto have signed this Letter of Understanding on June 29, 2000.

FOR THE COMPANY  
Canadian Regional Airlines (1998) Ltd.



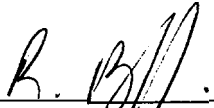
---

Mr. Kim Kapp  
President



---

Mr. David Honsberger  
Manager, Employee Relations



---

Ms Rachel Borrelli  
Director, Inflight Services

FOR THE UNION  
Teamsters Local 362



---

Mr. David Frost  
Business Agent