AIR CANADA

NOTICE OF

2013 ANNUAL MEETING

OF SHAREHOLDERS

AND MANAGEMENT PROXY CIRCULAR

AIR CANADA

WHAT'S INSIDE

AIR CANADA

Letter from the Chairman and the President and Chief Executive Officer

May 21, 2013

Dear Shareholder:

You are cordially invited to attend our annual meeting of shareholders of Air Canada. It will be held on Thursday, June 27th, 2013 at 11:00 a.m. (local time), at the Fairmont Pacific Rim, 1038 Canada Place, Vancouver, British Columbia.

As a shareholder of Air Canada, you have the right to vote your shares on all items that come before the meeting. You can vote your shares either by proxy or in person at the meeting. This management proxy circular will provide you with information about these items and how to exercise your right to vote. It will also tell you about the director nominees, the proposed auditors, the compensation of directors and certain officers, and our corporate governance practices. In addition, this circular contains detailed information about our executive compensation philosophy, policies and programs.

During the meeting, we will present management's report for 2012 and discuss our corporate priorities for 2013. In the past year, we made important progress in Air Canada’s ongoing transformation toward the goal of sustainable, long-term profitability by focusing on our core priorities. Along with ongoing initiatives for revenue generation and cost control, we continue to build our international network through ongoing wide-body aircraft fleet modernization, expansion of existing services, new routes and the introduction of new products such as Premium Economy and the launch of Air Canada *rouge*™. Further, we will continue to promote an organizational culture that encourages adaptability, innovation and an entrepreneurial approach to customer service. These efforts were recognized by many awards and accolades throughout the year, culminating in Air Canada receiving a Four-star rating in the Skytrax Airline Star rating, the only international network carrier in North America to earn this distinction. Ultimately, our strategies are designed to provide increased benefits and value for all our stakeholders.

We look forward to seeing you at our annual shareholder meeting. If you are unable to attend the meeting in person, please complete and return a proxy by the date indicated on your form.

Sincerely,

David I. Richardson
Chairman

Calin Rovinescu
President and Chief Executive Officer

AIR CANADA

NOTICE OF 2013 ANNUAL SHAREHOLDER MEETING

When

June 27th, 2013 at 11:00 a.m. (local time)

Where

Fairmont Pacific Rim
1038 Canada Place
Vancouver, British Columbia

Webcast

A live webcast of the meeting will be available on our website at www.aircanada.com.

Business of the 2013 Annual Shareholder Meeting

Three items will be covered at the meeting:

1. placement before shareholders of the consolidated financial statements of Air Canada for the year ended December 31, 2012, including the auditors' report thereon;

2. election of directors who will serve until the end of the next annual shareholder meeting or until their successors are elected or appointed;

3. appointment of auditors; and

4. consideration of such other business, if any, that may properly come before the meeting or any adjournment thereof.

You are entitled to receive notice of, and vote at, our annual shareholder meeting or any adjournment thereof if you were a shareholder on May 15, 2013.

Your vote is important.

As a shareholder of Air Canada, it is very important that you read this material carefully and vote your shares, either by proxy or in person at the meeting.

The following pages tell you more about how to exercise your right to vote your shares and provide additional information relating to the matters to be dealt with at the meeting.

By Order of the Board of Directors,

Carolyn M. Hadrovic

Carolyn M. Hadrovic
Corporate Secretary

Montreal, Québec
May 21, 2013

AIR CANADA

MANAGEMENT PROXY CIRCULAR

In this management proxy circular ("**circular**"), *you* and *your* refer to the shareholder. *We*, *us*, *our*, *Air Canada* and the *Corporation* refer to Air Canada. Unless otherwise stated, all dollar amounts contained in this circular are expressed in Canadian dollars.

This circular is for our annual shareholder meeting to be held on June 27th, 2013 ("**meeting**"). As a shareholder of Air Canada, you have the right to vote your shares on the election of the directors, the appointment of the auditors and on any other items that may properly come before the meeting or any adjournment thereof.

To help you make an informed decision, please read this circular. This circular tells you about the meeting, the director nominees, the proposed auditors, our corporate governance practices, the compensation of directors and certain officers, and other matters. The information in this document is current as at May 21, 2013 unless otherwise indicated. Financial information on Air Canada and its subsidiaries is provided in its consolidated financial statements and management's discussion and analysis for the year ended December 31, 2012 and for the three-month period ended March 31, 2013.

Your proxy is solicited by or on behalf of the management of Air Canada for use at the meeting. In addition to solicitation by mail, our employees or agents may solicit proxies by other means. The cost of any such solicitation will be borne by the Corporation. The Corporation may also reimburse brokers and other persons holding shares in their names or in the names of nominees, for their costs incurred in sending proxy materials to beneficial owners and obtaining their proxies or voting instructions.

This circular and related proxy materials are being sent to both registered and non-registered shareholders. The Corporation does not send proxy-related materials directly to non-registered shareholders and is not relying on the notice-and-access provisions of securities laws for delivery to either registered or non-registered shareholders. The Corporation will deliver proxy-related materials to nominees, custodians and fiduciaries and they will be asked to promptly forward them to non-registered shareholders. If you are a non-registered shareholder your nominee should send you a voting instruction form or proxy form along with this circular. The Corporation has elected to pay for the delivery of the proxy-related materials to non-registered shareholders who are "objecting beneficial holders" that have not declined to receive such proxy-related materials. Refer to the section entitled "Voting Your Shares" to find out if you are a non-registered holder.

If you have any questions about any of the information in this circular, please call Shareholder Relations at (514) 422-6644 for service in English or in French.

Approval of this circular

The board of directors of Air Canada (the "**Board of Directors**" or "**Board**") approved the contents of this circular and authorized it to be sent to each shareholder who is eligible to receive notice of, and vote his or her shares at, our annual shareholder meeting, as well as to each director and to the auditors.

Carolyn M. Hadrovic

Carolyn M. Hadrovic
Corporate Secretary

Montreal, Québec
May 21, 2013

AIR CANADA

VOTING YOUR SHARES

Your vote is important

As a shareholder of Air Canada, it is very important that you read the following information on how to vote your shares and then vote your shares, either by proxy or in person at the meeting.

Voting

You can attend the meeting or you can appoint someone else to vote for you as your proxyholder. A shareholder entitled to vote at the meeting may, by means of a proxy, appoint a proxyholder or one or more alternate proxyholders, who are not required to be shareholders, to attend and act at the meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. Voting by proxy means that you are giving the person named on your form of proxy or your voting instruction form ("**proxyholder**") the authority to vote your shares for you at the meeting or any adjournment thereof.

The persons who are named on the form of proxy or voting instruction form are directors or officers of the Corporation and will vote your shares for you. **You have the right to appoint someone else to be your proxyholder**. If you appoint someone else, he or she must attend the meeting to vote your shares.

How to vote – registered shareholders

You are a registered shareholder if your name appears on your share certificate.

If you are not sure whether you are a registered shareholder, please contact Canadian Stock Transfer Company Inc. ("**CST**") as administrative agent for CIBC Mellon Trust Company at 1-800-387-0825.

By proxy

By facsimile or by mail

Complete your form of proxy and return it by facsimile at (416) 368-2502 or return it in the business reply envelope we have provided or by delivering it to one of CST's principal offices in Halifax, Montreal, Toronto, Calgary or Vancouver for receipt before 4:00 p.m. (Montreal time) on June 25, 2013. A list of addresses for the principal offices of CST is set forth on page 75 of this circular.

If you return your proxy by facsimile or mail, you can appoint a person other than the directors or officers named in the form of proxy as your proxyholder. This person does not have to be a shareholder. Fill in the name of the person you are appointing in the blank space provided on the form of proxy. Complete your voting instructions, and date and sign the form. Make sure that the person you appoint is aware that he or she has been appointed and attends the meeting.

Please see the section titled "Completing the form of proxy" for more information.

In person at the meeting

You do not need to complete or return your form of proxy.

You will receive a shareholder card at the meeting upon registration at the registration desk for admittance to the meeting.

How to vote – non-registered shareholders

You are a non-registered shareholder if your bank, trust company, securities broker or other financial institution (your "**nominee**") holds your shares for you.

If you are not sure whether you are a non-registered shareholder, please contact CST at 1-800-387-0825.

By proxy

Your nominee is required to ask for your voting instructions before the meeting. Please contact your nominee if you did not receive a request for voting instructions in this package.

On the Internet

Go to the website at www.proxyvote.com and follow the instructions on the screen. Your voting instructions are then conveyed electronically over the Internet.

You will need the 12 digit Control Number found on your voting instruction form.

If you return your voting instruction form via the Internet, you can appoint a person other than the directors or officers named on the voting instruction form as your proxyholder. This person does not have to be a shareholder. Indicate the name of the person you are appointing in the space provided on the voting instruction form. Complete your voting instructions, and date and submit the form. Make sure that the person you appoint is aware that he or she has been appointed and attends the meeting.

The cut-off time for voting over the Internet is 11:59 p.m. (Montreal time) on June 24, 2013.

By mail

Alternatively you may vote your shares by completing the voting instruction form as directed on the form and returning it in the business reply envelope provided **for receipt before 4:00 p.m. (Montreal time) on June 24, 2013.**

In person at the meeting

You can vote your shares in person at the meeting if you have instructed your nominee to appoint you as proxyholder.

To do this, write your name in the space provided on the voting instruction form and follow the instructions of your nominee.

How to vote – employees holding shares under the Employee Share Ownership Plan or the Employee Recognition Share Award Plan of Air Canada

Shares purchased by employees of Air Canada or its subsidiaries under the Employee Share Ownership Plan and shares received by employees of Air Canada or its subsidiaries under the Employee Recognition Share Award Plan (collectively, "**Employee Shares**") are registered in the name of Computershare Trust Company of Canada ("**Computershare**"), as trustee in accordance with the provisions of such plans unless the employees have withdrawn their shares from the plan.

If you are not sure whether you are an employee holding your shares through Computershare, please contact Computershare at 1-877-982-8766.

In the event that an employee holds any shares other than Employee Shares, he or she must also complete a form of proxy or voting instruction form with respect to such additional shares in the manner indicated above for registered shareholders or non-registered shareholders, as applicable.

By proxy

A voting instruction form is enclosed with this circular which allows you to provide your voting instructions on the Internet or by mail.

On the Internet

Go to the website at www.investorvote.com and follow the instructions on the screen. Your voting instructions are then conveyed electronically over the Internet.

You will need the 15 digit Control Number found on your voting instruction form.

You can appoint a person other than Computershare as your proxyholder. This person does not have to be a shareholder. Indicate the name of the person you are appointing in the space provided on the website or on the voting instruction form. Make sure that the person you appoint is aware that he or she has been appointed and attends the meeting.

The cut-off time for voting over the Internet is 11:59 p.m. (Montreal time) on June 24, 2013.

By mail

Alternatively you may vote your shares by completing the voting instruction form as directed on the form and returning it in the business reply envelope provided **for receipt before 4:00 p.m. (Montreal time) on June 24, 2013.**

In person at the meeting

You can vote your shares in person at the meeting if you have instructed Computershare to appoint you as proxyholder.

To do this, enter your name in the appropriate box on the website or write your name in the space provided on the voting instruction form and follow the instructions provided in the voting instruction form.

Completing the form of proxy

You can choose to vote "For" or "Withhold" with respect to the election of the directors and the appointment of the auditors. If you are a non-registered shareholder voting your shares, or an employee voting your Employee Shares held pursuant to the Employee Share Ownership Plan or the Employee Recognition Share Award Plan of Air Canada, please follow the instructions provided in the voting instruction form.

When you complete the form of proxy without appointing an alternate proxyholder, you authorize David I. Richardson, Calin Rovinescu or Carolyn M. Hadrovic, who are directors or officers of Air Canada, to vote your shares for you at the meeting in accordance with your instructions. **If you return your proxy without specifying how you want to vote your shares, your vote will be counted FOR electing the director nominees who are named in this circular and FOR appointing PricewaterhouseCoopers LLP as auditors of the Corporation.**

Management is not aware of any other matters which will be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons designated in the enclosed form of proxy will vote in accordance with their judgment, pursuant to the discretionary authority conferred by the proxy with respect to such matters.

You have the right to appoint someone other than the management proxy nominees to be your proxyholder. If you are appointing someone else to vote your shares for you at the meeting, fill in the name of the person voting for you in the blank space provided on the form of proxy.

If you do not specify how you want your shares voted, the persons named as proxyholder will vote your shares in favour of each item scheduled to come before the meeting and as he or she sees fit on any other matter that may properly come before the meeting.

A proxyholder has the same rights as the shareholder by whom it was appointed to speak at the meeting in respect of any matter, to vote by way of ballot at the meeting and, except where the proxyholder has conflicting instructions from more than one shareholder, to vote at the meeting in respect of any matter by way of any show of hands.

If you are an individual shareholder, you or your authorized attorney must sign the form of proxy. If you are a corporation or other legal entity, an authorized officer or attorney must sign the form of proxy.

You must also complete the Declaration of Canadian Status contained in the form of proxy, voting instruction form or in the Internet voting instructions to inform the Corporation whether you are Canadian or not in order to enable Air Canada to comply with the restrictions imposed by its articles and the *Canada Transportation Act* on the ownership and voting of its voting securities. If you do not complete such declaration or if it is determined by Air Canada or its transfer agent that you incorrectly indicated (through inadvertence or otherwise) that the shares represented by proxy are owned and controlled by a Canadian, you will be deemed to be a non-Canadian for purposes of voting at the meeting.

If you need assistance completing your form of proxy or voting instruction form, please contact Shareholder Relations at (514) 422-6644 for service in English or in French.

Changing your vote

In addition to revocation in any other manner permitted by law, a shareholder giving a proxy and submitting it by mail may revoke it by an instrument in writing executed by the shareholder or the shareholder's attorney authorized in writing and deposited either at the Montreal office of Air Canada's transfer agent, CST, 2001 University Street, Suite 1600, Montreal, Québec, or at Air Canada's registered office, 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof. If the voting instructions were conveyed over the Internet, conveying new voting instructions by Internet or by mail within the applicable cut-off times will revoke the prior instructions.

Voting requirements

The election of directors and the appointment of auditors will each be determined by a majority of votes cast at the meeting by proxy or in person. If there is a tie, the chairman of the meeting is not entitled to a second or casting vote. The Corporation's transfer agent, CST, counts and tabulates the votes.

For details concerning the Corporation's "Majority Voting Policy" with respect to the election of its directors, please refer to the information under the heading "Election of Directors" at page 8 of this circular.

Voting shares and quorum

As of May 17, 2013, there were 240,974,540 Class B voting shares and 35,006,861 Class A variable voting shares outstanding. Shareholders of record on May 15, 2013 are entitled to receive notice of and vote at the meeting. The list of shareholders entitled to vote at the meeting is available for inspection during usual business hours at the Montreal office of the Corporation's transfer agent, CST, 2001 University Street, Suite 1600, Montreal, Québec and at the meeting.

A quorum is present at the meeting if the holders of not less than 25% of the shares entitled to vote at the meeting are present in person or represented by proxy, irrespective of the number of persons actually at the meeting. If a quorum is present at the opening of the meeting, the shareholders present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of the meeting, the shareholders present or represented by proxy may adjourn the meeting to a fixed time and place but may not transact any other business.

If a body corporate or association is a shareholder of the Corporation, the Corporation shall recognize any individual authorized by a resolution of the directors or governing body of the body corporate or association to represent it at the meeting. An individual thus authorized may exercise on behalf of the body corporate or association all the powers it could exercise if it were an individual shareholder.

If two or more persons hold shares jointly, one of those holders present at the meeting may in the absence of the others vote the shares, but if two or more of those persons who are present, in person or by proxy, vote, they shall vote as one on the shares jointly held by them.

Restrictions on voting securities

Currently, the *Air Canada Public Participation Act* requires the articles of the Corporation to contain provisions limiting ownership of the Corporation's voting interests by non-residents of Canada to a maximum of 25% or any higher percentage that the Governor in Council may by regulation specify. Also, the applicable provisions of the *Canada Transportation Act* require that national holders of domestic, scheduled international and non-scheduled international licences be Canadian. In the case of each licence holder, this requires that it be controlled in fact by Canadians and that, currently, at least 75% of its voting interests be owned and controlled by Canadians. The articles of the Corporation contain restrictions to ensure that Air Canada remains Canadian under the *Canada Transportation Act*. The definition of the term "Canadian" under section 55(1) of the *Canada Transportation Act* may, currently, be summarized as follows:

(a) Canadian citizen or a permanent resident within the meaning of the *Immigration and Refugee Protection Act* (Canada);

(b) government in Canada or an agent of such a government; or

(c) a corporation or other entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians and of which at least 75%, or such lesser percentage as the Governor in Council may by regulation specify, of the voting interests are owned and controlled by Canadians.

Air Canada has two classes of shares: (i) Class B voting shares and (ii) Class A variable voting shares.

The Class B voting shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Class B voting share shall be converted into one Class A variable voting share, automatically and without any further act of Air Canada or the holder, if such Class B voting share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian. Each Class B voting share confers the right to one vote.

The Class A variable voting shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians. An issued and outstanding Class A variable voting share shall be converted into one Class B voting share, automatically and without any further act of Air Canada or the holder, if such Class A variable voting share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian.

Each Class A variable voting share confers the right to one vote unless: (i) the number of Class A variable voting shares outstanding, as a percentage of the total number of voting shares outstanding of Air Canada exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify), or (ii) the total number of votes cast by or on behalf of holders of Class A variable voting shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Class A variable voting share will decrease proportionately such that: (i) the Class A variable voting shares as a class do not carry more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate votes attached to all issued and outstanding voting shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Class A variable voting shares at any meeting do not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the votes that may be cast at such meeting.

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, contains provisions whereby the restrictions relating to voting securities in the *Air Canada Public Participation Act* would be repealed and the *Canada Transportation Act* would be amended to provide the Governor in Council with flexibility to increase the foreign voting interests ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance in the case of the *Air Canada Public Participation Act*, and on the recommendation of the Minister of Transport in the case of the *Canada Transportation Act*. Air Canada does not expect that these provisions will come into effect prior to the meeting.

The holders of Class A variable voting shares and Class B voting shares will vote together at the meeting and no separate meeting is being held for any such class of shares.

Shareholders who wish to vote at the meeting either by completing and delivering a proxy or a voting instruction form or by attending and voting at the meeting will be required to complete a Declaration of Canadian Status in order to enable Air Canada to comply with the restrictions imposed by its articles and the *Canada Transportation Act* on the ownership and voting of its voting securities. If you do not complete such declaration or if it is determined by Air Canada or its transfer agent that you incorrectly indicated (through inadvertence or otherwise) that the shares represented by the proxy are owned and controlled by a Canadian, you will be deemed to be a non-Canadian for purposes of voting at the meeting. Such declaration is contained in the accompanying form of proxy or in the voting instruction form provided to you if you are a non-registered shareholder or an employee voting shares under the Employee Share Ownership Plan or the Employee Recognition Share Award Plan of Air Canada, as well as in the Internet voting instructions.

The Corporation has adopted various procedures and processes to ensure that the non-Canadian ownership restriction of voting shares is respected.

Principal shareholders

On May 4, 2012, pursuant to an application by Air Canada, the *Autorité des marchés financiers*, as principal regulator, the Ontario Securities Commission and the securities regulatory authorities in the other provinces of Canada granted exemptive relief (the "**Decision**") from (i) applicable formal take-over bid requirements, as contained under Canadian securities laws, such that those requirements would only apply to an offer to acquire 20% or more of the outstanding Class A variable voting shares and Class B voting shares of Air Canada on a combined basis, and (ii) applicable early warning reporting requirements, as contained under Canadian securities laws, such that those requirements would only apply to an acquirer that acquires or holds beneficial ownership of, or control or direction over, 10% or more of the outstanding Class A variable voting shares and Class B voting shares of Air Canada on a combined basis (or 5% in the case of acquisitions during a take-over bid). The Decision was subject to shareholder approval of the proposed amendments to Air Canada's shareholder rights plan which were approved at Air Canada's annual and special meeting of shareholders held on June 4, 2012.

As of May 17, 2013, to the knowledge of the officers or directors of the Corporation, each of the following entities beneficially owned or exercised control or direction over, directly or indirectly, shares carrying 10% or more of the votes attached to any class of shares entitled to vote in connection with any matters being proposed for consideration at the meeting.

Name of Shareholder	Number and Type of Shares	% of Outstanding Shares of Such Class
Letko, Brosseau & Associates Inc. ("**Letko**")(1)	45,678,207 Class B voting shares	19.0% of all outstanding Class B voting shares
PAR Capital Management, Inc. ("**PAR**")(2)	9,250,000 Class A variable voting shares	26.4% of all outstanding Class A variable voting shares

(1) Based on its alternative monthly report dated November 30, 2012, Letko also holds 24,500 Class A variable voting shares.

(2) Based on its alternative monthly report dated July 10, 2012, PAR also holds 4,166,666 warrants, each entitling PAR to purchase one Class A variable voting share.

BUSINESS OF THE MEETING

Three items will be covered at the meeting:

1. placement before shareholders of the consolidated financial statements of Air Canada for the year ended December 31, 2012, including the auditors' report thereon;

2. election of directors who will serve until the end of the next annual shareholder meeting or until their successors are elected or appointed;

3. appointment of auditors; and

4. consideration of such other business, if any, that may properly come before the meeting or any adjournment thereof.

As of the date of this circular, management is not aware of any changes to these items, and does not expect any other items to be brought forward at the meeting. If there are changes or new items, your proxyholder can vote your shares on these items as he or she sees fit.

1. Placement of Air Canada's financial statements

The consolidated financial statements for the year ended December 31, 2012, including the auditors' report thereon, are available on SEDAR at www.sedar.com or on the Corporation's website at www.aircanada.com. Copies of such statements will also be available at the meeting.

2. Election of directors

Ten (10) directors are to be elected to the Board. Please see "The Nominated Directors" for more information. Directors elected at the meeting will serve until the end of the next annual shareholder meeting or until their successors are elected or appointed.

All of the individuals to be nominated as directors were previously elected to the Board by the shareholders of the Corporation, except for Annette Verschuren who was appointed on November 12, 2012, Thomas Birks who was appointed on February 7, 2013 and Christie J. B. Clark who is a new nominee.

The Board has adopted a "Majority Voting Policy" to the effect that a nominee for election as a director of Air Canada who receives a greater number of votes "withheld" than votes "for", with respect to the election of directors by shareholders, will be expected to offer to tender his or her resignation to the Chairman promptly following the meeting of shareholders at which the director was elected. The Governance and Corporate Matters Committee will consider such offer and make a recommendation to the Board whether to accept it or not. The Board will make its decision and announce it in a press release within ninety (90) days following the meeting of shareholders. The director who offered to tender his or her resignation should not be part of any committee or Board deliberations pertaining to the resignation offer. This Majority Voting Policy only applies in circumstances involving an uncontested election of directors. An "uncontested election of directors" means an election of directors in respect of which (i) the number of director nominees is the same as the number of directors to be elected to the Board; and (ii) no proxy materials are circulated in support of one or more nominees who are not part of the candidates supported by the Board.

If you do not specify how you want your shares voted, the persons named as proxyholders in the management form of proxy or voting instruction form will cast the votes represented by proxy at the meeting FOR the election of the director nominees who are named in this circular.

3. Appointment of auditors

The Board, on the advice of the Audit, Finance and Risk Committee, recommends that PricewaterhouseCoopers LLP, Chartered Accountants, be reappointed as auditors. PricewaterhouseCoopers LLP were first appointed as auditors of Air Canada on April 26, 1990.

The auditors appointed at the meeting will serve until the end of the next annual shareholder meeting or until their successors are appointed.

Fees payable for the years ended December 31, 2012 and December 31, 2011 to PricewaterhouseCoopers LLP and its affiliates are $2,725,564 and $2,789,161 respectively, as detailed in the following table:

	Year ended December 31, 2012 ($)	**Year ended December 31, 2011 ($)**
Audit fees	1,769,465	1,734,574
Audit-related fees	612,639	779,484
Tax fees	131,558	103,271
All other fees	211,902	171,832
Total fees	2,725,564	2,789,161

The nature of each category of fees is described below.

Audit fees. Audit fees were paid for professional services rendered for the audit of Air Canada's annual consolidated financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements related to the annual consolidated financial statements, including review engagements performed on the interim consolidated financial statements of Air Canada.

Audit-related fees. Audit-related fees were paid for professional services related to the audit of the non-consolidated financial statements of Air Canada, pension plan audits, audits of subsidiary companies, where required, specified procedures reports and other audit engagements not related to the consolidated financial statements of Air Canada.

Tax fees. Tax fees were paid for professional services rendered with respect to income taxes.

All Other fees. Other fees were paid for translation services, advisory services and fees related to the auditor's involvement with offering documents, as applicable.

More information on Air Canada's Audit, Finance and Risk Committee is contained in Air Canada's Annual Information Form filed by Air Canada on March 22, 2013 and which is available on SEDAR at www.sedar.com or on the Corporation's website at www.aircanada.com.

If you do not specify how you want your shares voted, the persons named as proxyholders in the management form of proxy or voting instruction form will cast the votes represented by proxy at the meeting FOR the appointment of PricewaterhouseCoopers LLP as auditors.

4. Consideration of other business

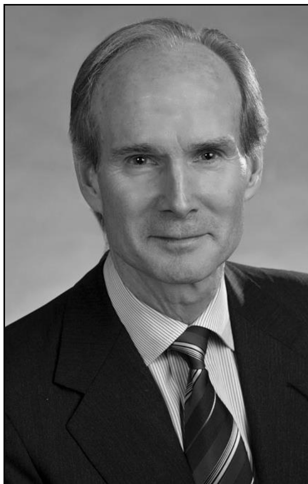
We will also:

- report on other items that are significant to our business; and
- invite questions from shareholders.

THE NOMINATED DIRECTORS

Ten (10) directors are to be elected at the meeting, each of whom is to hold office until the end of the next annual meeting of shareholders or until their successor is elected or appointed.

All nominees have established their eligibility and willingness to serve as directors. If prior to the meeting, any of the listed nominees would become unable or unavailable to serve, proxies will be voted for any other nominee or nominees at the discretion of the proxyholder. The tables below set out, among other things, the names of the proposed nominees for election as directors, together with their municipality of residence, the date they became directors, their principal occupation, other principal directorships, committee memberships, attendance record, total compensation received in their capacity as a director of Air Canada, independence and their areas of expertise. Also indicated is the number of securities beneficially owned, or over which control was exercised, directly or indirectly, as of May 17, 2013, the total market value of such securities and whether each director meets the Corporation's minimum shareholding requirements.



THOMAS BIRKS

Montreal, Québec, Canada
Age: 66

Air Canada
Director since February 7, 2013

Independent

Areas of Expertise:
Global senior executive management
Governance
Finance
Investments
Mergers and acquisitions
Human resources practices and compensation
Strategy

Thomas Birks is the President of Birinco Inc., a merchant bank with investment portfolios ranging from private equity to passive investments. Mr. Birks previously served as the President of Henry Birks and Sons Ltd. from 1985 to 1989 and has extensive global experience having worked in various countries including Australia, Japan and South Africa for Coles-Myer, Mitsubishi Bank, and Van Zwam, Vladykin and Douglas, respectively.

Mr. Birks has served as Chair of the board of directors of Viterra Inc. as well as Chair and board member of numerous corporations, educational institutions, hospitals and foundations.

Mr. Birks graduated from McGill University with a Bachelor of Arts and he holds a Master of Business Administration from the Harvard Business School. He has also studied at the University of Lausanne, the University of Fribourg and the University of Paris.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board **Audit, Finance and Risk Committee** **Pension Committee**	N/A N/A N/A			None.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements
May 17, 2013	405,300 Class B voting shares 17,610.76 deferred share units	$934,633(2)	$951,363(3)	$180,000	Yes

Value of Total Compensation Received	
Year	$
2012	N/A
2011	N/A

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Class B voting shares and deferred share units are calculated at a market value of $2.21 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares).

(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17, 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

CHRISTIE J.B. CLARK

Toronto, Ontario, Canada
Age: 59

First nomination for election as director of Air Canada

Independent

Areas of Expertise:
Business Management
Finance
Accounting
Strategy
Governance

Christie J.B. Clark is a corporate director. Mr. Clark is a director of Brookfield Office Properties Inc., IGM Financial Inc. and Loblaw Companies Limited. From 2005 to 2011, Mr. Clark was the Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP. Prior to being elected as Chief Executive Officer, Mr. Clark was a National Managing Partner and a member of the firm's Executive Committee from 2001 to 2005.

Mr. Clark is also Chair of the board of the Canadian Partnership Against Cancer Corporation, Chair of the Finance and Governance Committees of Alpine Canada and a member of the Advisory Council of Queen's University School of Business.

Mr. Clark graduated from Queen's University with a Bachelor of Commerce and the University of Toronto with a Master of Business Administration. He is a Fellow Chartered Accountant.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:	
N/A	N/A	N/A	N/A	Loblaw Companies Limited Brookfield Office Properties Inc. IGM Financial Inc.	October 2011 May 2012 May 2012

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements(2)
May 17, 2013	-	Nil	Nil	$180,000	N/A

Value of Total Compensation Received

Year	$
2012	N/A
2011	N/A

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Mr. Clark is a new nominee to the Board and will have until June 27, 2019 to meet Air Canada's share ownership requirements.

AIR CANADA

MICHAEL M. GREEN
Radnor, Pennsylvania, USA
Age: 54

Air Canada
Director since March 30, 2009

Independent

Areas of Expertise:

Finance	Investments
Engineering	Management
Strategy	Transportation

Michael M. Green is the Chief Executive Officer and Managing Director of Tenex Capital Management, a private investment firm. Mr. Green has a multi-industry investment and operations background in aerospace, transportation, telecommunications and software systems. Mr. Green was the Managing Director of Cerberus Capital Management, L.P. from 2004 to 2009. From 1999 to 2004, Mr. Green was the Managing Partner of TenX Capital Partners and joined Cerberus in 2004 when Cerberus acquired certain portfolio companies from TenX. Previously, Mr. Green was the Chief Executive Officer of several privately held companies, Trispan Solutions and Naviant Technology. Mr. Green began his career at General Electric Company where he worked in several operating departments and held positions in engineering, manufacturing, sales, marketing and general management.

Mr. Green holds a dual Bachelor of Science in Electrical Engineering and Physics from State University of New York, Buffalo and a Masters of Science in Electrical Engineering from Villanova University.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board Audit, Finance and Risk Committee (Chair) Pension Committee Human Resources and Compensation Committee Nominating Committee	12 of 14 4 of 4 6 of 6 7 of 7 5 of 6	34 of 37	92%	None.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements[1]	Meets Requirements
May 17, 2013	100,000 Class B voting shares	$221,000[2]	$221,000[3]	$180,000	Yes
April 23, 2012	100,000 Class B voting shares 50,000 Warrants - Class B voting shares	$84,000 [4]	$156,000 [5]	$120,000	Yes

Value of Total Compensation Received

Year	$
2012	$160,000 [6]
2011	$156,566

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Class B voting shares are calculated at a market value of $2.21 per share (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares).

(3) This amount represents the greater of: (i) the market value of the shares as at May 17, 2013 (described above), and (ii) the purchase price of the shares.

(4) Class B voting shares are calculated at a market value of $0.84 per share (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class B voting shares). Warrants are calculated at a market value of $0.025 per warrant (based on the April 23, 2012 Toronto Stock Exchange closing price of the warrants).

(5) This amount represents the greater of: (i) the market value of the shares as at April 23, 2012 (described above), and (ii) the purchase price of the shares. Warrants are not taken into account for the purposes of Air Canada's share ownership requirements.

(6) For further details on director remuneration, see "Remuneration of Directors".

AIR CANADA

JEAN MARC HUOT
Montreal, Québec, Canada
Age: 51

Air Canada
Director since May 8, 2009

Independent

Areas of Expertise:
Legal
Corporate Finance
Mergers and Acquisitions
Corporate Governance

Jean Marc Huot is a partner with the Canadian law firm Stikeman Elliott LLP and co-chair of the firm's national Securities Law Group. His practice is focused primarily in the areas of corporate finance, mergers and acquisitions, corporate governance and securities law matters.

Mr. Huot holds a Bachelor of Arts and a Bachelor of Law from Laval University.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board Pension Committee	14 of 14 6 of 6	20 of 20	100%	None.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements
May 17, 2013	25,000 Class B voting shares 178,818.44 deferred share units	$450,439(2)	$469,960(3)	$180,000	Yes
April 23, 2012	25,000 Class B voting shares 134,241.38 deferred share units	$133,763(4)	$248,320(5)	$120,000	Yes

Value of Total Compensation Received

Year	$
2012	$135,000(6)
2011	$135,000

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Class B voting shares and deferred share units are calculated at a market value of $2.21 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares).

(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17, 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

(4) Class B voting shares and deferred share units are calculated at a market value of $0.84 per share and unit (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class B voting shares).

(5) This amount represents the greater of: (i) the market value of the shares and deferred share units as at April 23, 2012 (described above), and (ii) the purchase price of the shares and deferred share units.

(6) For further details on director remuneration, see "Remuneration of Directors"

JOSEPH B. LEONARD
Minneapolis, Minnesota, USA
Age: 69

Air Canada
Director since May 21, 2008

Independent

Areas of Expertise:

Executive leadership	Airline industry
Aerospace industry	Strategy
Mergers and acquisitions	
Human resource practices	
Corporate finance	
Corporate governance	
Government and regulatory affairs	

Joseph B. Leonard is a corporate director. Mr. Leonard is a director of Mueller Water Products, Inc. and Walter Energy, Inc. Mr. Leonard was the Interim Chief Executive Officer of Walter Energy, Inc. from 2010 to 2011, and the Chairman of AirTran Holdings, Inc. from 1999 to 2008 and Chief Executive Officer from 1999 to 2007. Mr. Leonard was also the President and Chief Executive Officer of AlliedSignal's Aerospace marketing, sales and service organization and previously held various senior management positions with Northwest Airlines, Eastern Airlines and American Airlines.

Mr. Leonard holds a Bachelor of Science in Aerospace Engineering from Auburn University Montgomery.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:	
Member of the Board Audit, Finance and Risk Committee Pension Committee Human Resources and Compensation Committee	13 of 14 4 of 4 6 of 6 6 of 7	29 of 31	94%	Mueller Water Products, Inc. Walter Energy, Inc.	April 2006 June 2005 to April 2007. Reappointed in February 2009.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements
May 17, 2013	100,000 Class A variable voting shares 3,223.44 deferred share units	\$229,156(2)	\$242,758(3)	\$180,000	Yes
April 23, 2012	100,000 Class A variable voting shares 3,223.44 deferred share units 25,000 Warrants – Class A variable voting shares	\$88,365(4)	\$202,258(5)	\$120,000	Yes

Value of Total Compensation Received

Year	\$
2012	\$145,000(6)
2011	\$145,000

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Class A variable voting shares and deferred share units are calculated at a market value of \$2.22 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class A variable voting shares).

(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17, 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

(4) Class A variable voting shares and deferred share units are calculated at a market value of \$0.85 per share and unit (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class A variable voting shares). Warrants are calculated at a market value of \$0.025 per warrant (based on the April 23, 2012 Toronto Stock Exchange closing price of the warrants).

(5) This amount represents the greater of: (i) the market value of the shares and deferred share units as at April 23, 2012 (described above), and (ii) the purchase price of the shares and deferred share units. Warrants are not taken into account for the purposes of Air Canada's share ownership requirements.

(6) For further details on director remuneration, see "Remuneration of Directors".

DAVID I. RICHARDSON
Grafton, Ontario, Canada
Age: 71

Air Canada
Director since September 30, 2004
and Chairman since January 1, 2008

Independent

<u>Areas of Expertise:</u>

Accounting	Finance
Mergers and acquisitions	Banking
Credit restructuring	Investments
Business management	Governance
Strategy	

David I. Richardson is a corporate director. Mr. Richardson is the former Chairman of Ernst & Young Inc. (Canada) and a former Executive Partner of Ernst & Young LLP. Mr. Richardson joined its predecessor Clarkson, Gordon & Co. in 1963 and was appointed President of The Clarkson Company Limited in 1982. Mr. Richardson was also a member of the Management and Executive Committees of Ernst & Young LLP, national managing partner of the firm's Corporate Finance practice and the senior partner in the Corporate Recovery and Restructuring practice until his retirement from the partnership in 2002. Mr. Richardson is also a Vice Chair of the Board of Governors of Upper Canada College.

Mr. Richardson has served as the Chair of the board of directors of Nortel Networks Corporation and Nortel Networks Limited, a director of ACE Aviation Holdings Inc., Husky Injection Molding Systems Ltd. and Jazz Air Holding GP Inc. (Chorus Aviation Inc.), and a trustee of Aeroplan Income Fund (Aimia Inc.).

Mr. Richardson holds a Bachelor of Commerce from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board Nominating Committee (Chair)	14 of 14 6 of 6	20 of 20	100%	None.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements
May 17, 2013	30,000 Class B voting shares 83,750.01 deferred share units	$251,388(2)	$445,838(3)	$180,000	Yes
April 23, 2012	30,000 Class B voting shares	$25,200 (4)	$260,750 (5)	$120,000	Yes

Value of Total Compensation Received

Year	$
2012	$333,956 (6)
2011	$325,000

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

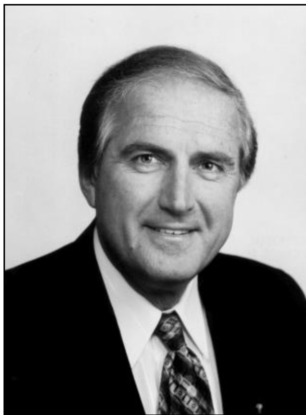
(2) Class B voting shares and deferred share units are calculated at a market value of $2.21 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares).

(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

(4) Class B voting shares calculated at a market value of $0.84 per share (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class B voting shares).

(5) This amount represents the greater of: (i) the market value of the shares as at April 23, 2012 (described above), and (ii) the purchase price of the shares.

(6) For further details on director remuneration, see "Remuneration of Directors".



ROY J. ROMANOW, P.C., O.C., S.O.M., Q.C.
Saskatoon, Saskatchewan, Canada
Age: 73

Air Canada
Director since February 9, 2010

Independent

Areas of Expertise:
Public policy
Legal
Governance
Government and regulatory affairs

Roy J. Romanow is a Senior Fellow in Public Policy at the University of Saskatchewan. During his career in public office, Mr. Romanow served as Premier of Saskatchewan from 1991 until 2001. Mr. Romanow was previously Deputy Premier, Attorney General and Minister of Intergovernmental Affairs. From 2001 to 2002, Mr. Romanow led the Royal Commission on the Future of Health Care in Canada, and from 2003 to 2008, he served on Canada's Security Intelligence Review Committee. Mr. Romanow is a Member of the Queen's Privy Council for Canada and an Officer of the Order of Canada.

Mr. Romanow holds a Bachelor of Arts and a Bachelor of Law from the University of Saskatchewan. He is also the recipient of several honorary degrees.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board Audit, Finance and Risk Committee Governance and Corporate Matters Committee (Chair)	14 of 14 4 of 4 5 of 5	23 of 23	100%	None.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements
May 17, 2013	10,000 Class B voting shares 76,917.06 deferred share units	$192,087(2)	$198,023(3)	$180,000	Yes
April 23, 2012	10,000 Class B voting shares 43,897.01 deferred share units	$45,273(4)	$81,370(5)	$120,000	No

Value of Total Compensation Received	
Year	$
2012	$140,206 (6)
2011	$135,000

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Class B voting shares and deferred share units calculated at a market value of $2.21 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares).

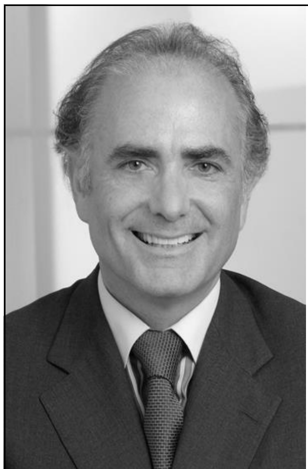
(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17, 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

(4) Class B voting shares calculated at a market value of $0.84 per share and deferred share unit (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class B voting shares).

(5) This amount represents the greater of: (i) the market value of the shares and deferred share units as at April 23, 2012 (described above), and (ii) the purchase price of the shares and deferred share units.

(6) For further details on director remuneration, see "Remuneration of Directors".

AIR CANADA



CALIN ROVINESCU
Montreal, Québec, Canada
Age: 57

Air Canada
Director since April 1, 2009

Not Independent

Areas of Expertise:

Airline industry	Legal
Corporate finance	Banking
Mergers and acquisitions	Governance
Business management	Strategy
Employment and labour	

Calin Rovinescu was appointed President and Chief Executive Officer of Air Canada on April 1, 2009. Mr. Rovinescu was the Executive Vice President, Corporate Development and Strategy of Air Canada from 2000 to 2004, and during the airline's restructuring, he also held the position of Chief Restructuring Officer. From 2004 to 2009, Mr. Rovinescu was a Co-founder and Principal of Genuity Capital Markets, an independent investment bank. From 1979 to 2000, Mr. Rovinescu was a lawyer and then a partner with the Canadian law firm Stikeman Elliott LLP, and was the Managing Partner of its Montreal office from 1996 to 2000.

Mr. Rovinescu is the Chairman of the Star Alliance Chief Executive Board and a member of the IATA Board of Governors. Mr. Rovinescu also serves on the boards of several private and non-profit corporations.

Mr. Rovinescu holds a D.E.C. degree from McGill University and Bachelor of Law degrees from the University of Montreal and the University of Ottawa.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board	14 of 14	14 of 14	100%	None.

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Number/Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements	Meets Requirements
May 17, 2013	336,532 Class B voting shares 3,464,330 Options – Class B voting shares 2,273,944 Performance share units – Class B voting shares	$8,166,003(1)	$5,946,805(2)	1 times base salary	Yes
April 23, 2012	275,000 Class B voting shares 2,645,181 Options – Class B voting shares 1,955,637 Performance share units – Class B voting shares 50,000 Warrants – Class B voting shares	$1,874,985(3)	$1,945,735(4)	1 times base salary	Yes

Value of Total Compensation Received as a Director(5)	
Year	$
2012	None.
2011	None.

(1) Class B voting shares are calculated at a market value of $2.21 per share (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares). Performance share units and options are calculated at a market value of $2.21 per share underlying the performance share units and in-the-money options (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares), less the applicable exercise price in the case of the options.

(2) This amount represents the sum of (a) the market value of the shares underlying the performance share units as at May 17, 2013 (described above); and (b) the greater of: (i) the market value of the shares as at May 17, 2013 (described above), and (ii) the purchase price of the shares. Options are not taken into account for the purposes of Air Canada's share ownership requirements.

(3) Class B voting shares are calculated at a market value of $0.84 per share (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class B voting shares). Warrants are calculated at a market value of $0.025 per warrant (based on the April 23, 2012 Toronto Stock Exchange closing price of the warrants). Performance share units and options are calculated at a market value of $0.84 per share underlying the performance share units and in-the-money options (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class B voting shares), less the applicable exercise price in the case of the options.

(4) This amount represents the sum of (a) the market value of the shares underlying the performance share units as at April 23, 2012 (described above); and (b) the greater of: (i) the market value of the shares as at April 23, 2012 (described above), and (ii) the purchase price of the shares. Options and warrants are not taken into account for the purposes of Air Canada's share ownership requirements.

(5) For further details on director remuneration, see "Remuneration of Directors".

VAGN SØRENSEN
Holte, Denmark
Age: 53

Air Canada
Director since November 15, 2006

Independent

Areas of Expertise:
International business
Airline industry
Transportation industry
Airport and airline food and beverage industry
Global senior executive management
Consulting and private equity
Compensation
Other international board experience

Vagn Sørensen is a corporate director. Mr. Sørensen is the Chairman of FLSmidth & Co. A/S, Scandic Hotels AB, Select Service Partner Plc U.K., TDC A/S and UC4 Software GmbH and the Vice Chairman of DFDS A/S. Mr. Sørensen is a director of Braganza AS, Lufthansa Cargo AG, Nordic Aviation Capital A/S and Royal Caribbean Cruises Ltd. Mr. Sorensen is also a Senior Industrial Advisor with EQT Partners, a private equity fund. Mr. Sørensen was previously the President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006 and held various senior commercial positions and served as Deputy Chief Executive Officer with SAS Scandinavian Airlines System.

Mr. Sørensen has served as the Chairman of the Association of European Airlines, member of the IATA Board of Governors and member of the Board of Vienna Stock Exchange.

Mr. Sørensen holds a Master of Science in Economics and Business Administration from Aarhus School of Business, University of Aarhus, Denmark.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:	
Member of the Board	14 of 14	31 of 31	100%	TDC A/S	April 2006
Human Resources and Compensation Committee (Chair)	7 of 7			DFDS A/S	April 2006
Audit, Finance and Risk Committee	4 of 4			FLSmidth & Co. A/S	April 2009
Pension Committee	6 of 6			Royal Caribbean Cruises Ltd.	July 2011
Nominating Committee	N/A				

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements(1)	Meets Requirements
May 17, 2013	19,300 Class A variable voting shares 76,065.22 deferred share units	$211,711(2)	$450,703(3)	$180,000	Yes
April 23, 2012	19,300 Class A variable voting shares 60,066.04 deferred share units 5,000 Warrants – Class A variable voting shares	$67,586(4)	$375,184 (5)	$120,000	Yes

Value of Total Compensation Received	
Year	$
2012	$150,000(6)
2011	$150,000

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Class A variable voting shares and deferred share units are calculated at a market value of $2.22 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class A variable voting shares).

(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17, 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

(4) Class A variable voting shares and deferred share units are calculated at a market value of $0.85 per share and unit (based on the April 23, 2012 Toronto Stock Exchange closing price of the Class A variable voting shares). Warrants are calculated at a market value of $0.025 per warrant (based on the April 23, 2012 Toronto Stock Exchange closing price of the warrants).

(5) This amount represents the greater of: (i) the market value of the shares and deferred share units as at April 23, 2012 (described above), and (ii) the purchase price of the shares and deferred share units. Warrants are not taken into account for the purposes of Air Canada's share ownership requirements.

(6) For further details on director remuneration, see "Remuneration of Directors".

ANNETTE VERSCHUREN, O.C.
Toronto, Ontario, Canada
Age: 56

Air Canada
Director since November 12, 2012

Independent

Areas of Expertise:
Executive leadership
Risk management
Marketing and customer service
Corporate governance
Policy advisor to governments
International business
Corporate and business development
Corporate social responsibility

Annette Verschuren is the Chair and Chief Executive Officer of NRstor Inc., a new venture focused on commercializing energy storage technologies. From 1996 to 2011, Ms. Verschuren was the President of The Home Depot Canada where she oversaw the company's growth from 19 to 180 Canadian stores and led its entry into China. Prior to joining The Home Depot, Ms. Verschuren was the President and co-owner of Michaels of Canada, a chain of arts and crafts stores. Previously, Ms. Verschuren was the Vice President, Corporate Development of Imasco Ltd. and the Executive Vice President of Canada Development Investment Corporation.

Ms. Verschuren is a director of Liberty Mutual Insurance Group and the North West Company Inc. She serves as Chancellor of Cape Breton University and is a board member of numerous non-profit organizations including the CAMH Foundation, the Conference Board of Canada and Habitat for Humanity's national leadership council. In 2011, Ms. Verschuren was made an Officer of the Order of Canada for her contributions to Canada's retail industry and as a champion of corporate social responsibility.

Ms. Verschuren holds honorary doctorate degrees from Mount Saint Vincent University, Dalhousie University and St. Francis Xavier University where she also earned a Bachelor of Business Administration.

Board/Committee Memberships at the Date Hereof:	2012 Attendance	Attendance (Total):		Public Board Membership:	
Member of the Board **Audit, Finance and Risk Committee** **Human Resources and Compensation Committee**	1 of 1 N/A N/A	1 of 1	100%	The North West Company Inc.	December 2011

Securities Held or Controlled:

As at	Total Securities	Total Market Value of Securities	Value of Securities for the Purpose of Minimum Shareholding Requirements	Minimum Shareholding Requirements[1]	Meets Requirements[2]
May 17, 2013	10,000 Class B voting shares 6,586.85 deferred share units	$36,657[3]	$38,912[4]	$180,000	No

Value of Total Compensation Received

Year	$
2012	$16,500 [5]
2011	N/A

(1) The Board has revised the director share ownership requirements effective July 1, 2013. See "Share Ownership Requirement for Directors."

(2) Ms. Verschuren has until November 12, 2018 to meet Air Canada's share ownership requirements.

(3) Class B voting shares and deferred share units are calculated at a market value of $2.21 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares).

(4) This amount represents the greater of: (i) the market value of the shares and deferred share units as at May 17, 2013 (described above), and (ii) the purchase price of the shares and deferred share units.

(5) For further details on director remuneration, see "Remuneration of Directors".

Trust Arrangement in connection with Pension MOUs

Air Canada maintains several defined benefit pension plans. In July 2009, the Federal Government of Canada adopted the Air Canada Pension Plan Funding Regulations, 2009 (the "**2009 Regulations**"). The 2009 Regulations deferred Air Canada's obligation to make past service contributions (i.e. special payments to amortize the plan deficits) to its ten domestic defined benefit registered pension plans in respect of the period beginning April 1, 2009 and ending December 31, 2010. Thereafter, in respect of the period from January 1, 2011 to December 31, 2013, the aggregate annual past service contribution shall equal the lesser of (i) $150 million, $175 million, and $225 million in respect of 2011, 2012, and 2013, respectively, and (ii) the maximum past service contribution permitted under the ITA.

The 2009 Regulations were adopted in coordination with pension funding agreements (the "**Pension MOUs**") reached with Air Canada's Canadian-based unions and a consultation process with its retirees and non-unionized workforce. Pursuant to the Pension MOUs, on October 26, 2009, Air Canada issued, to a trust (the "**Trust**"), 17,647,059 Class B voting shares. The net proceeds of any sales of such shares by the Trust are to be contributed to the pension plans.

For so long as the Trust continues to hold at least 2% of Air Canada's issued and outstanding shares, the trustee will have the right to designate one nominee to Air Canada's Board of Directors (who shall not be a member or officer of any of Air Canada's Canadian-based unions), subject to completion by Air Canada of its usual governance process for selection and confirmation of director nominees.

AIR CANADA

Remuneration of Directors

The Board's compensation is designed to attract and retain experienced directors, leading to the long-term success of the Corporation. This requires that directors be adequately and competitively compensated. Air Canada measures its director compensation practices against the market practices of large Canadian based companies including those in the S&P/TSX 60 Index.

Non-executive directors of Air Canada receive a retainer of $120,000 per year. The annual Board retainer fee is payable in cash or in deferred share units ("**DSUs**"). DSUs are notional units whose value is always equal to the value of the shares of Air Canada. Effective July 1, 2013, non-executive directors of Air Canada shall receive a minimum of 25% of their annual Board retainer fee in DSUs or in shares of the Corporation. The President and Chief Executive Officer of Air Canada receives no compensation as a director of Air Canada or of any of its subsidiaries. All of the current directors of the Corporation's subsidiaries are also executive officers of Air Canada and receive no compensation as directors of any subsidiary.

The Chairman of the Board receives an additional retainer of $205,000 per year and the Chairs of the Audit, Finance and Risk Committee, the Pension Committee, the Governance and Corporate Matters Committee, the Human Resources and Compensation Committee and the Nominating Committee, respectively, receive an additional retainer of $20,000, $20,000, $10,000, $10,000 and $10,000 per year. The members of the Audit, Finance and Risk Committee, the Pension Committee, the Governance and Corporate Matters Committee, the Human Resources and Compensation Committee and the Nominating Committee, respectively, receive an additional retainer of $10,000, $10,000, $5,000, $5,000 and $5,000 per year. Transportation privileges are also granted to directors of Air Canada in line with airline industry practice.

The following table shows the amounts earned by individual directors of Air Canada for the year ended December 31, 2012 in respect of memberships on the Board of the Corporation and its committees:

Name	Fees Earned			Share and option based awards ($)	Non-equity incentive plan compensation ($)	Pension value ($)	All other compensation ($)	Total ($)	Allocation of total fees	
	Board retainer ($)	Board Chair & Committee Chair retainer ($)	Committee member retainer ($)						In cash ($)	In DSUs ($)
Bernard Attali(1)	120,000	Nil	15,000	Nil	Nil	Nil	Nil	135,000	105,000	30,000
Michael M. Green	120,000	20,000	20,000	Nil	Nil	Nil	Nil	160,000	160,000	Nil
Jean Marc Huot	120,000	Nil	15,000	Nil	Nil	Nil	Nil	135,000	67,500	67,500
Pierre Marc Johnson(2)	120,000	20,000	10,000	Nil	Nil	Nil	Nil	150,000	127,500	22,500
Joseph B. Leonard	120,000	Nil	25,000	Nil	Nil	Nil	Nil	145,000	145,000	Nil
Arthur T. Porter(3)	60,000	Nil	7,088	Nil	Nil	Nil	Nil	67,088	33,544	33,544
David I. Richardson(4)	120,000	213,956	Nil	Nil	Nil	Nil	Nil	333,956	250,206	83,750
Roy J. Romanow	120,000	8,956	11,250	Nil	Nil	Nil	Nil	140,206	90,000	50,206
Calin Rovinescu(5)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Vagn Sørensen	120,000	10,000	20,000	Nil	Nil	Nil	Nil	150,000	130,000	20,000
Annette Verschuren(6)	16,500	Nil	Nil	Nil	Nil	Nil	Nil	16,500	16,500	Nil

(1) Mr. Attali is not standing for re-election and will cease to be a director of Air Canada on June 27, 2013.
(2) Mr. Johnson is not standing for re-election and will cease to be a director of Air Canada on June 27, 2013.
(3) Dr. Porter ceased to be a director of Air Canada on June 4, 2012.
(4) Chairman of the Board of Air Canada.
(5) President and Chief Executive Officer of Air Canada. Mr. Rovinescu receives no compensation in his capacity as a director of Air Canada or any of its subsidiaries.
(6) Ms. Verschuren was appointed to the Board on November 12, 2012.

Share Ownership Requirement for Directors

On March 21, 2013, the Board approved amendments to its share ownership guidelines effective July 1, 2013. Under the revised guidelines non-executive directors are required to own a minimum of securities of Air Canada representing an amount equivalent in value to one-and-a-half times their annual Board retainer, through shares and/or DSUs. The value of the securities is based on the greater of the market value of the securities and the purchase price of the securities. Such ownership must be achieved by October 1, 2014 or within six years of the date of the director's appointment, whichever occurs later. The President and Chief Executive Officer is required to own a minimum of securities of the Corporation representing an amount equivalent in value to one time the annual base salary of the President and Chief Executive Officer through shares and/or performance share units. The value of the securities is based on the sum of (a) the market value of the shares underlying the performance share units; and (b) the greater of: (i) the market value of the shares and (ii) the purchase price of the shares. Such ownership must be achieved within five years of the date of the President and Chief Executive Officer's appointment.

Name	Number of Shares Owned	Number of DSUs or PSUs Owned	Total Value of Shares, PSUs and DSUs for purposes of guidelines(1)	Value of Shares Required to Meet Guidelines	Latest Date to Meet Share Ownership Requirements	Value Held as Multiple of Annual Retainer or Base Salary
Thomas Birks(2)	405,300	17,610.76 DSUs	$951,363	$180,000	February 7, 2019	7.93 times
Michael M. Green	100,000	-	$221,000	$180,000	March 30, 2015	1.84 times
Jean Marc Huot	25,000	178,818.44 DSUs	$469,960	$180,000	May 8, 2015	3.92 times
Joseph B. Leonard	100,000	3,223.44 DSUs	$242,758	$180,000	October 1, 2014	2.02 times
David I. Richardson	30,000	83,750.01 DSUs	$445,838	$180,000	October 1, 2014	3.72 times
Roy J. Romanow	10,000	76,917.06 DSUs	$198,023	$180,000	February 9, 2016	1.65 times
Calin Rovinescu	336,532	2,273,944 PSUs	$5,946,805(3)	1 time base salary	April 1, 2014	4.25 times
Vagn Sørensen	19,300	76,065.22 DSUs	$450,703	$180,000	October 1, 2014	3.76 times
Annette Verschuren(4)	10,000	6,586.85 DSUs	$38,912	$180,000	November 12, 2018	0.32 times

(1) The amounts reported in this column, except as described below, represent the greater of: (i) the market value of the shares and/or DSUs (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class A variable voting shares ($2.22) or the Class B voting shares ($2.21), as applicable), and (ii) the purchase price of the securities.
(2) Mr. Birks was appointed to the Board on February 7, 2013.
(3) This amount represents the sum of (a) the market value of the shares underlying the performance share units as at May 17, 2013; and (b) the greater of: (i) the market value of the shares as at May 17, 2013 described above, and (ii) the purchase price of the shares.
(4) Ms. Verschuren was appointed to the Board on November 12, 2012.

Certain Proceedings

To the knowledge of Air Canada, none of the proposed nominees for election as directors of Air Canada: (a) are, as at the date hereof, or have been, within 10 years before the date of this circular, a director, chief executive officer or chief financial officer of any company that, (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days (an "**Order**") that was issued while the proposed nominee was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the proposed nominee ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; (b) are, as at the date of this circular, or have been within 10 years before the date of this circular, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (c) have, within the 10 years before the date of this circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed nominee, except that:

(i) Calin Rovinescu was an executive officer of Air Canada when it filed for protection under the *Companies Creditors Arrangement Act* (Canada) on April 1, 2003;

(ii) Michael M. Green was a director of Anchor Glass Container Corporation when it filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in August 2005; and

(iii) From March 27, 2009 to August 9, 2012, David I. Richardson served as a director and Chair of the board of directors of Nortel Networks Corporation and Nortel Networks Limited, which have been operating under creditor protection proceedings in Canada since January 14, 2009.

Retirement Policy for Directors

The policy of the Board, as reflected in the Corporation's "Charter of the Board of Directors", is that no person shall be appointed or elected as a director of the Corporation if the person exceeds 75 years of age. The policy allows for an exception where the Board determines it is in the interest of the Corporation to request a director to extend his/her term beyond the regular retirement age, provided however that such extension is requested in one-year increments.

STATEMENT OF GOVERNANCE PRACTICES

The Board and management believe that a strong, effective, independent board plays a crucial role in protecting the interests of stakeholders and maximizing the value they receive from their investment in the Corporation. The Board is committed to meeting high standards of corporate governance in all aspects of the Corporation's affairs.

To comply with the applicable corporate governance standards and achieve those best practices, the Corporation has adopted a Corporate Policy and Guidelines on Business Conduct, as further described below in "Air Canada Code of Business Conduct". A complete copy of this document can be obtained on SEDAR at www.sedar.com or on the Corporation's website at www.aircanada.com.

The Board has extensively reviewed the Corporation's governance practices and concludes that the Corporation complies with or exceeds the requirements of *National Instrument 58-101*, "Disclosure of Corporate Governance Practices". The Corporation regularly reviews its governance practices as regulatory changes come into effect and will continue to monitor these changes closely and consider amendments to its governance practices if need be.

Board of Directors

Director Independence

The Charter of the Board of Directors provides that the Board shall at all times be constituted of a majority of individuals who are independent. Based on the information received from each director nominee and having taken into account the independence criteria set forth below, the Board concluded that all director nominees standing for election to the Board, with the exception of the President and Chief Executive Officer of Air Canada, Calin Rovinescu, are independent.

Nine of ten director nominees are independent.

Nine of the ten director nominees standing for election to the Board, namely Thomas Birks, Christie J.B. Clark, Michael M. Green, Jean Marc Huot, Joseph B. Leonard, David I. Richardson, Roy J. Romanow, Vagn Sørensen and Annette Verschuren, are "independent" in that each of them has no material relationship with the Corporation and, in the reasonable opinion of the Board, are independent under the laws, regulations and listing requirements to which the Corporation is subject. The Board determined that Calin Rovinescu is not independent because of his position held as an officer of Air Canada. The following table indicates the status of each director nominee in terms of their independence.

	Status		
Name	**Independent**	**Not Independent**	**Reason for Non-Independence**
Thomas Birks	✓		
Christie J. B. Clark	✓		
Michael M. Green	✓		
Jean Marc Huot	✓		
Joseph B. Leonard	✓		
David I. Richardson	✓		
Roy J. Romanow	✓		
Calin Rovinescu		✓	Mr. Rovinescu is the President and Chief Executive Officer of Air Canada
Vagn Sørensen	✓		
Annette Verschuren	✓		

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Skills of Director Nominees

The following skills matrix sets forth the skills most commonly possessed by the director nominees relevant to their capacity as members of the Board of Air Canada:

Name	Business Management	Finance	Accounting	Legal	Strategy	Human Resources/ Compensation	Governance	Knowledge of Transportation/ Airline Industry	Public Policy
Thomas Birks	✓	✓			✓	✓	✓		
Christie J.B. Clark	✓	✓	✓		✓		✓		
Michael M. Green	✓	✓			✓	✓		✓	
Jean Marc Huot		✓		✓			✓		
Joseph B. Leonard		✓			✓	✓	✓	✓	
David I. Richardson	✓	✓	✓		✓		✓		
Roy J. Romanow				✓			✓		✓
Calin Rovinescu	✓	✓		✓	✓		✓	✓	
Vagn Sørensen	✓					✓		✓	
Annette Verschuren	✓				✓	✓	✓		✓

Directorships of Other Reporting Issuers

Director nominees Christie J.B. Clark, Joseph B. Leonard, Vagn Sørensen and Annette Verschuren are currently directors of several public entities. Christie J.B. Clark is a director of Brookfield Office Properties Inc., IGM Financial Inc. and Loblaw Companies Limited. Joseph B. Leonard is a director of Mueller Water Products, Inc. and Walter Energy, Inc. Vagn Sørensen is the chairman of FL Smidth & Co. A/S and TDC A/S, vice chairman of DFDS A/S and a director of Royal Caribbean Cruises Ltd. Annette Verschuren is a director of The North West Company Inc.

Please see "The Nominated Directors" in this circular for additional information relating to each director nominee standing for election, including other company boards on which they serve.

Chairman of the Board

The Chairman of the Board is appointed by resolution of the Board among the Board members. The Chairman of the Board is David I. Richardson who is an independent director of Air Canada. The responsibilities of the Chairman of the Board are set out in a position description, which is described below under "Statement of Governance Practices – Position Descriptions – Chairman".

Independent Directors' Meetings

Since February 2012, an *in camera* session, without the presence of management (except the Corporate Secretary) and under the chairmanship of the Chairman of the Board, was held before or after every meeting of the Board. During the year ended December 31, 2012, there were nine *in camera* sessions at which the sole non-independent director (Mr. Rovinescu, Air Canada's President and Chief Executive Officer) and management (except the Corporate Secretary) were excluded from attendance.

Attendance Record

The table below shows the record of attendance by directors at meetings of the Board and its committees, as well as the number of Board and Board committee meetings held during the 12-month period ended December 31, 2012.

	Number and % of Meetings Attended							
Name	**Board**	**Audit, Finance and Risk Committee**	**Governance and Corporate Matters Committee**	**Pension Committee**	**Human Resources and Compensation Committee**	**Nominating Committee**	**Committees (Total)**	**Overall Attendance**
Bernard Attali(1)	14/14 (100%)	-	5/5	-	7/7	6/6	18/18 (100%)	32/32 (100%)
Michael M. Green	12/14 (86%)	4/4 (Chair)	-	6/6	7/7	5/6	22/23 (96%)	34/37 (92%)
Jean Marc Huot	14/14 (100%)	-	5/5	6/6	-	-	11/11 (100%)	25/25 (100%)
Pierre Marc Johnson(2)	13/14 (93%)	-	5/5	6/6 (Chair)	6/7	-	17/18 (94%)	30/32 (94%)
Joseph B. Leonard	13/14 (93%)	4/4	-	6/6	6/7	-	16/17 (94%)	29/31 (94%)
Arthur T. Porter(3)	3/7 (43%)	0/2	-	-	-	-	0/2 (0%)	3/9 (33%)
David I. Richardson	14/14 (100%)	-	-	-	-	6/6 (Chair)	6/6 (100%)	20/20 (100%)
Roy J. Romanow	14/14 (100%)	4/4	5/5 (Chair)	-	-	-	9/9 (100%)	23/23 (100%)
Calin Rovinescu	14/14	-	-	-	-	-	-	14/14 (100%)
Vagn Sørensen	14/14 (100%)	4/4	-	6/6	7/7 (Chair)	-	17/17 (100%)	31/31 (100%)
Annette Verschuren(4)	1/1 (100%)	-	-	-	-	-	-	1/1 (100%)

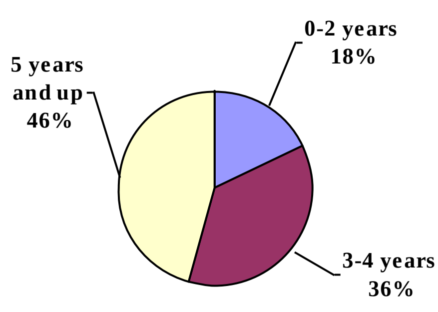
(1) Mr. Attali is not standing for re-election.
(2) Mr. Johnson is not standing for re-election.
(3) Dr. Porter ceased to be a director of Air Canada on June 4, 2012.
(4) Ms. Verschuren was appointed to the Board on November 12, 2012.

Board Size

The Board will be comprised of ten (10) directors in the event that all of the director nominees are elected. Please refer to "The Nominated Directors" in this circular for further details. The Board is of the view that this size and its composition are adequate and allow for the efficient functioning of the Board as a decision making body.

Board Tenure

The following chart shows the tenure (number of completed years of Board service) of Air Canada's Board.



Air Canada's average Board tenure is 4.5 years.

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Board Mandate

The Board has adopted a written charter which sets out, among other things, its roles and responsibilities. The Charter of the Board can be found as Schedule "A" to this circular.

Position Descriptions

President and Chief Executive Officer

The Board has adopted a position description for Calin Rovinescu, the President and Chief Executive Officer. As President and Chief Executive Officer ("**CEO**"), the CEO shall have full responsibility for the day-to-day operations of the Corporation's business in accordance with its strategic plan and operating and capital budgets as approved by the Board. The CEO is accountable to shareholders, through the Board, for the overall management of the Corporation, and for conformity with policies agreed upon by the Board. The approval of the Board (or appropriate committee) shall be required for all significant decisions outside of the ordinary course of the Corporation's business. More specifically, the primary responsibilities of the CEO include the following: (i) developing, for the Board's approval, a strategic direction and positioning to ensure the Corporation's success; (ii) ensuring that the day-to-day business affairs of the Corporation are appropriately managed by developing and implementing processes that will ensure the achievement of financial and operating goals and objectives; (iii) fostering a corporate culture that promotes customer focus and service; (iv) keeping the Board aware of the Corporation's performance and events affecting its business, including opportunities in the marketplace and adverse or positive developments; and (v) ensuring, in cooperation with the Board, that there is an effective succession plan in place for the CEO position.

Chairman

The Board has adopted a position description for David I. Richardson, the Chairman. As Chairman of the Board, the Chairman chairs Board meetings and establishes procedures to govern the Board's work. More specifically, as Chairman of the Board, the primary responsibilities of the Chairman include the following: (i) adopting procedures to enable the Board to conduct its work effectively and efficiently, including committee structures and composition, scheduling, and management of meetings; (ii) developing the agenda for Board meetings, Board procedures and the composition of Board committees; (iii) providing the proper flow of information to the Board; (iv) being satisfied that the Board has access to such members of senior management as may be required by the Board; and (v) chairing every meeting of the Board and encouraging free and open discussion at meetings of the Board.

Chair of Each Standing Committee

The Chairs of the Audit, Finance and Risk Committee, the Pension Committee, the Governance and Corporate Matters Committee, the Human Resources and Compensation Committee and the Nominating Committee are respectively, Michael M. Green, Pierre Marc Johnson, Roy J. Romanow, Vagn Sørensen and David I. Richardson.

Position descriptions have been adopted by the Board for the Chair of each of the Audit, Finance and Risk Committee, the Pension Committee, the Governance and Corporate Matters Committee, the Human Resources and Compensation Committee and the Nominating Committee. According to such position descriptions, the Chair of each committee shall, among other things: (i) be satisfied that the committee fulfills the objectives and responsibilities set out in its charter; (ii) be satisfied that enough time and attention is given to each aspect of the committee's responsibilities; (iii) be satisfied that members of the committee maintain the level of independence required by applicable legislation; (iv) review the annual assessment of the committee and take the appropriate measures to correct the weaknesses underlined by the assessment; (v) be satisfied that the other members of the committee understand the role and responsibilities of the committee; (vi) be satisfied that sufficient information is provided by management to enable the committee to exercise its duties; and (vii) carry out other duties as requested by the Board, depending on need and circumstances.

Orientation and Continuing Education

The Corporation has in place an orientation program for new directors. New directors are invited to attend orientation sessions with members of senior management of the Corporation as well as with the CEO to improve their understanding of the Corporation's business. Each new director is also asked to review the Charter of the Board, the Charter of each committee and the position descriptions of the President and CEO, the Chairman and the Chair of each committee in order to fully grasp the role he or she is expected to play as a director and a committee member. Extensive documentation on the Corporation is also provided to enable the directors to better understand the Corporation and his or her role and responsibilities.

As part of its mandate, the Governance and Corporate Matters Committee is also responsible for providing a continuous education program for directors of the Board. The continuous education program provides directors with opportunities to develop skills that are essential to their directorship at Air Canada and to ensure that they are up to date in their awareness of company and industry issues and their duties and responsibilities as directors. Extensive documentation and selected presentations are also provided to directors to ensure that their knowledge and understanding of the Corporation's business remains current. In the past year, the Board of Directors participated in sessions on: particular aspects of the aviation business and global development, safety management systems and corporate operations. The Board of Directors also participated in strategy sessions, receiving presentations from external consultants and management. Each session includes an element of general education as context for the discussions (e.g., the industry; competitors; trends; and risks/opportunities). Directors also have complete access to management to understand and keep up-to-date with Air Canada's business and for any other purposes that may help them fulfill their responsibilities.

The Corporation provides directors with regular reports on the operations and finances of Air Canada. Management periodically briefs the Board with up-to-date industry studies and benchmarking information. At each regular Board meeting, the directors are provided with updates and short summaries of relevant information on material developments that could affect Air Canada's business. Furthermore, aircraft and facility tours are available for directors so they can enhance their understanding of the operational aspects of Air Canada's business.

The Corporation encourages the attendance by directors of conferences, seminars or courses relevant to their directorship at Air Canada. The Corporation reimburses directors for expenses incurred by attending such events.

The following table provides details on certain director training initiatives undertaken in 2012.

Director Continuing Education 2012		
Topic	**Presentation By**	**Directors Attending**
Airline safety management systems	Captain David Legge, Senior Vice President, Operations, Air Canada	All directors
Global low cost carriers	Independent Management Consultant	All directors
Pension plans and long-term asset mix strategy	Jean Michel, President, Air Canada Pension Investments	Michael M. Green, Jean Marc Huot, Pierre Marc Johnson, Joseph B. Leonard, Roy J. Romanow, David I. Richardson, Calin Rovinescu, Vagn Sørensen
Corporate social responsibility	Priscille LeBlanc, Vice President, Corporate Communications, Air Canada	All directors
Corporate governance practices	Carolyn M. Hadrovic, Corporate Secretary, Air Canada	All directors
Trends in director compensation	Douglas Yep, Senior Director, Total Rewards and HR Shared Services, Air Canada	All directors

Air Canada Code of Business Conduct

The Corporation has adopted a Corporate Policy and Guidelines on Business Conduct (the "**Code**") which was most recently amended by the Board on May 2, 2013. The Code applies to all directors, officers and employees of Air Canada and its wholly-owned subsidiaries, to the extent that policies and guidelines have not been adopted separately by them. A copy of the Code can be obtained on SEDAR at www.sedar.com or on the Corporation's website at www.aircanada.com. The Code addresses, among other things, the following issues:

(a) conflicts of interest;

(b) use of company assets;

(c) confidential information;

(d) fair dealing with other people and organizations;

(e) compliance with laws, rules and regulations;

(f) employment policies;

(g) computer, e-mail and internet policies; and

(h) reporting suspected non-compliance.

The Board, with the assistance of the Governance and Corporate Matters Committee, has the responsibility for monitoring compliance with and interpreting the Code. The Code has been communicated or brought to the attention of all employees of Air Canada and its wholly-owned subsidiaries that have not adopted their own policies and guidelines. All new employees are required to complete an acknowledgment form whereby they confirm that they have read the Code and will follow its terms, and also undertake to promote the guidelines and principles of the Code and take all reasonable measures to ensure that the employees under their supervision fully comply with the Code. In addition, all directors of Air Canada and members of management are required to complete the acknowledgment form on an annual basis. The Code also includes a "whistle-blower policy" whereby employees can report violations of the Code. The Board has concluded that such measures are appropriate and sufficient. Since the adoption of the Code, Air Canada has not filed any material change report pertaining to any conduct of a director or executive officer that would constitute a departure from the Code.

The Code also provides that all employees, including executive officers, are required to disclose to the Corporation any and all business, commercial or financial interests or activities that may create a conflict of interest. As for directors, in addition to the relevant provisions of the *Canada Business Corporations Act*, the Charter of the Board provides that each director shall disclose all actual or potential conflicts of interest and refrain from voting on matters in which the director has a conflict of interest. The Charter also provides that a director shall excuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

Nomination of Directors

The Nominating Committee, composed entirely of independent directors, is responsible for considering and making recommendations on the desired size of the Board, the need for recruitment and the expected skill-set of new candidates. The Nominating Committee strives to ensure that the Board is populated by directors who have diverse backgrounds and who possess the ability to make valuable contributions to the Board.

The Nominating Committee determines the expected skill-set of new candidates by taking into account the existing strengths of the Board and the needs of the Corporation. The Nominating Committee identifies a list of potential Board candidates and then reviews the competencies and skill-set of each candidate. The Nominating Committee also considers potential conflicts of interest and interlocking directorships of potential candidates.

In addition, the Nominating Committee engages the services of private agencies to conduct broad searches of potential Board candidates. The candidates are then ranked and approached for their interest in serving on the Board. The Nominating Committee then recommends to the Board candidates for nomination as directors and approves the final choice of candidates for nomination and election by the shareholders.

The Nominating Committee also reviews the qualifications, skill-set and experience of the candidate nominated by the trustee appointed under the Pension MOUs reached between Air Canada and its Canadian-based unions, the whole as was further detailed at page 20 of this circular under the heading "Trust Arrangement in connection with Pension MOUs".

Board members must have a broad spectrum of skills, knowledge, educational backgrounds and experience in business, as well as an understanding of the industry and the geographical areas in which the Corporation operates and the ability to satisfactorily represent the Corporation domestically and internationally. For more information concerning the skills possessed by directors of the Corporation, please refer to the skills matrix contained under "Board of Directors – Skills of Directors".

Directors selected should be able to commit the requisite time for all of the Board's business. Board members are expected to possess the following characteristics and traits:

(a) demonstrate high ethical standards and integrity in their personal and professional dealings;

(b) act honestly and in good faith with a view to the best interest of the Corporation;

(c) devote sufficient time to the affairs of the Corporation and exercise care, diligence and skill in fulfilling their responsibilities both as Board members and as committee members;

(d) provide independent judgment on a broad range of issues;

(e) understand and challenge the key business plans and the strategic direction of the Corporation;

(f) raise questions and issues to facilitate active and effective participation in the deliberation of the Board and of each committee;

(g) make all reasonable efforts to attend all Board and committee meetings; and

(h) review the materials provided by management in advance of the Board and committee meetings.

Please consult the section titled "Committees" of this circular for a description of the responsibilities, powers and operations of the Nominating Committee.

Compensation

The Human Resources and Compensation Committee is composed entirely of independent directors. Please see the section titled "Air Canada's Executive Compensation Program – Compensation Discussion and Analysis" for the process and criteria used to determine the compensation of the officers of Air Canada.

The Human Resources and Compensation Committee has the authority to retain and does retain, from time to time, the services of executive compensation consultants to provide advice on executive compensation matters. The Human Resources and Compensation Committee also has the authority to determine and pay the fees of its consultants.

In 2010 and 2011, Hugessen Consulting was engaged by the Human Resources and Compensation Committee to review the President and Chief Executive Officer's compensation arrangements and to report thereon. As independent advisors to the Human Resources and Compensation Committee, Hugessen Consulting reported solely to the Committee, and did not provide any services to management and attested annually to the Committee that this was the case.

In 2012, Towers Watson was engaged by the Human Resources and Compensation Committee to perform various assessments on actual CEO compensation relative to the Corporation's comparator group and relative to its introduction of a non-binding advisory shareholder vote on executive compensation.

Air Canada also retains the services of Towers Watson to assist with preparing information on executive compensation and to provide benefit consulting services to the Corporation. The executive compensation consulting services provided by Towers Watson include:

- A review of Air Canada's executive compensation practices and program design;
- Updates on ongoing and emerging trends in executive compensation and governance best practices;
- Perspective on appropriate total compensation mix and levels, based on competitive practice and Air Canada's performance; and
- Review of materials in advance of committee meetings; identification of discussion points and issues for the committee's consideration when evaluating compensation design proposals.

The Human Resources and Compensation Committee's decisions with regard to compensation or the compensation programs for the President and Chief Executive Officer and other executive officers of the Corporation are its sole responsibility and may reflect factors and information other than information and recommendations provided by Hugessen Consulting or Towers Watson. Hugessen Consulting and Towers Watson were first engaged by Air Canada in 2009 and 1980, respectively.

The following table details the aggregate fees incurred by the Human Resources and Compensation Committee in consideration of the services provided by Hugessen Consulting and Towers Watson.

Type of Fee	**Billed in 2011**	**Billed in 2012**	**Percentage of Total Fees Billed in 2012**
Executive-Compensation-Related Fees	$51,625	$13,800	100%
All Other Fees	Nil	Nil	0%
Total Annual Fees	$51,625	$13,800	100%

Assessments

It is the role of the Chair of the Governance and Corporate Matters Committee to assess, on an annual basis, the effectiveness of the Board and the effectiveness of the committees. For this purpose, the Chair of the Governance and Corporate Matters Committee oversees the assessment process described below.

Each year directors are asked to complete a detailed evaluation survey on the effectiveness of the Board and its committees which (a) provides for quantitative ratings in key areas and (b) seeks subjective comment in each of those areas. The survey is administered by the Corporate Secretary and responses are reviewed by the Corporate Secretary and the Chair of the Governance and Corporate Matters Committee. The results of the survey are evaluated with the objective of identifying areas in which the Board and its committees may improve.

After the completion of Air Canada's annual assessment process, a summary report is prepared and is presented to the Board. If appropriate, the Board then considers procedural or substantive changes to increase the effectiveness of the Board and its committees. On a quarterly basis, the Chair of each committee reports to the Board on the activities of the committee.

Individual interviews with directors are also conducted by the Chairman of the Board to discuss the contribution of members of the Board.

Executive Succession Planning

The Board formally reviews and discusses executive succession planning with the President and Chief Executive Officer. More particularly, the Board reviews the succession plan status for all executive officers and assesses whether there is a readiness to fill potential vacancies, identifies the qualified individuals to fill such vacancies on both an immediate and longer-term basis and determines whether there are any gaps in readiness, as well as how the executive succession planning process can be improved. The Board also focuses specifically on the succession of the Chief Executive Officer as well as development considerations for each potential successor candidate and the performance of individual executives in their current roles.

The Board also meets with members of the executive management team through their participation in meetings and presentations to the Board, as well as occasionally through informal meetings throughout the year, which allows Board members to get to know members of the management team who are potential future leaders of the Corporation.

COMMITTEES

The Board has five standing committees:

- the Audit, Finance and Risk Committee;
- the Pension Committee;
- the Governance and Corporate Matters Committee;
- the Human Resources and Compensation Committee; and
- the Nominating Committee.

All committees of the Board are composed of independent directors. The roles and responsibilities of each committee are set out in formal written charters. These charters are reviewed annually to ensure that they reflect best practices as well as applicable regulatory requirements.

This section contains information about the members, responsibilities and activities of each committee.

Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board. The members of the Audit, Finance and Risk Committee shall have no relationships with management, the Corporation and its related entities that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit, Finance and Risk Committee member shall not receive, other than for service on the Board or the Audit, Finance and Risk Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related parties or subsidiaries. The members of the Audit, Finance and Risk Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit, Finance and Risk Committee and in particular each member of the Audit, Finance and Risk Committee shall be "financially literate" and at least one member of the Audit, Finance and Risk Committee shall be a "financial expert" as defined by relevant securities legislation or regulations.

The objectives of the Audit, Finance and Risk Committee include the following:

- To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.
- To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
- To assist the Board in its oversight of the independence, qualifications and appointment of the external auditor.
- To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
- To provide independent communication between the Board and the internal auditor and the external auditor.
- To facilitate in-depth and candid discussions between the Audit, Finance and Risk Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

The Audit, Finance and Risk Committee's responsibilities include the following:

- Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor.
- Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.
- Review with management, the external auditor and legal counsel, the Corporation's procedures to be satisfied that it complies with applicable laws and regulations.
- Meet with the Corporation's external auditor to review and approve their audit plan.
- Review and approve estimated audit and audit-related fees and expenses.
- Review and approve the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporation's external auditor prior to the commencement of such work.
- Review a report from the external auditor that in the external auditor's professional judgment it is independent of the Corporation.
- Evaluate the performance of the external auditor.
- Review the mandate of and the services provided by the internal audit department.
- Review significant emerging accounting and reporting issues.
- Establish policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal accounting controls and internal or external auditing matters.
- Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- Review and approve the Corporation's Public Disclosure Policy.
- Establish processes and procedures to monitor contingent liabilities of the Corporation and its subsidiaries.
- Review the corporate policies, procedures and reports regarding environmental matters.
- Identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board.
- Review and approve policies relating to the financial control, conduct, regulation and administration of subsidiary companies.
- Review, monitor and approve the Corporate Donations Policy.
- Review actual financial performance compared to budget.

The Audit, Finance and Risk Committee met four times during the period from January 1, 2012 to December 31, 2012.

The Audit, Finance and Risk Committee is currently composed of:

Members: Michael M. Green (Chair)
Thomas Birks
Joseph B. Leonard
Roy J. Romanow
Vagn Sørensen
Annette Verschuren

Pension Committee

The Pension Committee shall be comprised of three or more directors as determined by the Board. The primary objective of the Pension Committee is to assist the Board in fulfilling its responsibilities for the monitoring and oversight of the Corporation's retirement plans to ensure that pension liabilities are appropriately funded as required, pension assets are prudently invested, and retirement benefits administered in a proper and effective manner.

The Pension Committee's responsibilities include the following, subject to certain exceptions that apply to retirement plans in the United Kingdom and other foreign countries:

- Recommend to the Board all decisions to initiate, merge, split, terminate, or fundamentally change the nature of any pension plan or supplementary retirement plan.
- Approve the plan text of pension plans and any restatements or material amendments to pension plans, other than restatements or amendments required to maintain the registration of the plan under applicable laws.
- Recommend to the Board a governance structure for the retirement plans.
- Review the process, upon recommendation from senior management, for appointing or hiring the President of Air Canada Pension Investments.
- Approve on an annual basis the manner of funding of consent benefits, as provided under certain plan provisions, and the instructions to be provided to the actuary in order to prepare its actuarial valuation.
- Approve the appointment of the actuary for the pension plans.
- Approve the major actuarial assumptions for the valuation of the liabilities of the defined benefit pension plans.
- Approve the contributions to the pension funds of defined benefit pension plans, subject to actuarial valuation reports.
- Recommend to the Board a risk management framework for the retirement plans.
- Establish statements of investment principles and beliefs with respect to managing the defined benefit investments of the retirement plans.
- Approve the long-term asset mix policy for the defined benefit pension plans.
- Approve the broad nature of the investment program for the capital accumulation plans and establish the goals and objectives of such investment program.
- Recommend to the Board a funding policy which sets out guidelines with respect to the valuation and funding of the liabilities of a supplementary retirement plan.
- Approve any contributions to the supplementary retirement plan's trust fund and establish policies with respect to how the contributions to a supplementary retirement plan trust fund should be invested.
- Approve the appointment of the auditor as well as the audited annual financial statements for the retirement plans.

The Pension Committee met six times during the period from January 1, 2012 to December 31, 2012.

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The Pension Committee is currently composed of:

Members: Pierre Marc Johnson (Chair)
Thomas Birks
Michael M. Green
Jean Marc Huot
Joseph B. Leonard
Vagn Sørensen

Governance and Corporate Matters Committee

The Governance and Corporate Matters Committee shall be comprised of four or more directors as determined by the Board, all of whom shall comply with eligibility and qualification standards under applicable legislation in effect from time to time.

The primary objective of the Governance and Corporate Matters Committee is to assist the Board in fulfilling its responsibilities by being satisfied that corporate governance guidelines are adopted, disclosed and applied including director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, director orientation and continuing education and annual performance evaluation of the Board:

The Governance and Corporate Matters Committee's responsibilities include the following:

- Review and develop position descriptions for the Chairman, the Chair of each Committee and the President and CEO.
- Be satisfied that appropriate structures and procedures are in place so that the Board can function independently of management.
- Put in place an orientation and continuing education program for new directors on the Board.
- Satisfy itself of the Corporation's compliance with applicable legislation including directors' and officers' compliance.
- Review proposed amendments to the Corporation's by-laws.
- Periodically review and approve the Corporate Policy and Guidelines on Business Conduct.
- Make recommendations to the Board with respect to the monitoring, adoption and disclosure of corporate governance guidelines.
- Recommend the types, charters and composition of the Board committees.
- Recommend the nominees to the chairmanship of the Board committees.
- Review and make recommendations to the Board with respect to the adoption of a policy relating to the Corporation’s commitment to corporate social responsibility.
- Review such other corporate governance functions customarily carried out by such committees as well as such other matters which may be referred to it by the Board from time to time.

The Governance and Corporate Matters Committee met five times during the period from January 1, 2012 to December 31, 2012.

The Governance and Corporate Matters Committee is currently composed of:

Members: Roy J. Romanow (Chair)
Bernard Attali
Pierre Marc Johnson

Human Resources and Compensation Committee

The Human Resources and Compensation Committee shall be comprised of three or more directors as determined by the Board, all of whom shall be independent (as defined under applicable securities laws).

The primary purpose of the committee is to assist the Board in fulfilling its oversight responsibilities in the field of human resources and compensation including compensation of officers and compensation philosophy.

The responsibilities of the Human Resources and Compensation Committee include the following:

- Develop compensation philosophy and guidelines.
- Review and approve corporate goals, objectives and business performance measures relevant to the compensation of the CEO. The Chairman of the Board and the Chair of the Committee shall evaluate the CEO's performance in light of those goals, objectives and business performance measures, and based on this evaluation, the Committee shall make recommendations to the Board with respect to the CEO's compensation.
- Make recommendations to the Board with respect to non-CEO officers' (including chief executive officers of subsidiaries) compensation, incentive compensation and equity-based plans.
- Review and make recommendations to the Board with respect to incentive compensation plans and equity-based plans and any amendments thereto.
- Review and approve, on behalf of the Board, salary ranges for all positions including executive management.
- Generally oversee the administration of the long-term incentive plan of the Corporation.
- Review executive compensation disclosure before public dissemination, including the review of the annual report of executive management compensation for inclusion in the Corporation's management proxy circular, in accordance with applicable rules and regulations.

The Human Resources and Compensation Committee met seven times during the period from January 1, 2012 to December 31, 2012.

The Human Resources and Compensation Committee is currently composed of:

Members: Vagn Sørensen (Chair)
Bernard Attali
Michael M. Green
Pierre Marc Johnson
Joseph B. Leonard
Annette Verschuren

Nominating Committee

The Nominating Committee shall be comprised of three or more directors as determined by the Board, all of whom shall be independent (as defined under applicable securities laws).

The primary objective of the Nominating Committee is to assist the Board in fulfilling its responsibilities by identifying individuals qualified to become new Board members and recommending to the Board the new director nominees for each annual meeting of shareholders.

The responsibilities of the Nominating Committee include the following:

- Assist the Board in determining what competencies and skills the Board, as a whole, should possess and what competencies and skills each existing director possesses.
- Assist the Board in determining the appropriate size of the Board, with a view to facilitating effective decision-making.

- Develop and review criteria regarding personal qualification for Board membership, such as background, experience, technical skill, affiliations and personal characteristics, and develop a process for identifying and recommending candidates.
- Identify individuals qualified to become new Board members and recommend them to the Board.
- Recommend to the Board the slate of nominees for each annual meeting of shareholders.
- Recommend candidates to fill vacancies on the Board occurring between annual meetings of shareholders.
- Review and make recommendations relative to non-management nominees of the Corporation to the boards of subsidiaries of the Corporation or of companies in which the Corporation has an interest.

The Nominating Committee met six times during the period from January 1, 2012 to December 31, 2012.

The Nominating Committee is currently composed of:

Members: David I. Richardson (Chair)
Michael M. Green
Vagn Sørensen

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REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Introduction

The Board believes that one of its core responsibilities is to provide transparent disclosure of all aspects of the Corporation's executive compensation program. This report is intended to provide an overview of how we pay our executives and the important work relative to executive compensation that was completed over the course of fiscal 2012. A more detailed discussion of our executive compensation program is provided in the Compensation Discussion and Analysis that follows this report on page 45.

Last year, Air Canada introduced a bi-annual non-binding advisory shareholder vote on the Corporation's approach to executive compensation policies. Air Canada's advisory say on pay vote was overwhelmingly supported by our shareholders with the approval of 91.85% of those shareholders present at last year's annual and special meeting in person or by proxy. The next bi-annual say on pay vote is scheduled for next year's annual meeting of the shareholders of the Corporation. Air Canada's approach to executive compensation is outlined in the Report of the Human Resources and Compensation Committee and Air Canada's Executive Compensation Program sections contained on pages 39 to 62 of this circular.

Disclosure is presented in the following sections of the circular:

Report of the Human Resources and Compensation Committee (pages 39 to 44)

This section provides information on the composition and responsibilities of the committee, details on key activities undertaken by the committee in 2012, an overview of the committee's objectives and rationale for the compensation program, and a high level summary of 2012 performance and compensation decisions.

Air Canada's Executive Compensation Program – Components of Executive Compensation (pages 48 to 57) and – Compensation of the Named Executive Officers (pages 58 to 62)

This section provides shareholders with information on the principles considered when designing compensation programs and the key design characteristics of Air Canada's Executive Compensation Program and incentive plans.

This section also describes the link between actual pay and performance in 2012 for the named executive officers of Air Canada. Details are provided about the Corporation's performance, the performance of the named executive officers, and the impact of both the Corporation's performance and individual performance on the determination of compensation awards under Air Canada's Executive Compensation Program.

Summary Compensation Table (pages 63 to 72)

This section discloses the actual compensation awarded to the named executive officers of the Corporation for the previous three years. Also included in this section are details relating to stock options, performance share units, pension plans and termination and change of control benefits.

Committee Composition and Responsibilities

The primary purpose of the Human Resources and Compensation Committee is to assist the Board in fulfilling its oversight responsibilities in the field of human resources and compensation including compensation of officers and compensation philosophy. In keeping with best practices, the committee is composed entirely of independent directors who are knowledgeable about issues related to human resources and compensation, associated incentives and risk management. Based on their past experience, the members of the Human Resources and Compensation Committee acquired direct experience related to the management of executive compensation, making day-to-day decisions concerning executive pay, and designing short and long-term incentive plans with objectives tied to sustained shareholder value creation. To assist in executing its responsibilities, the committee hires an independent compensation advisor who reports solely to the committee and does not provide any services to management. Details on the role of the independent advisor are presented under the heading "Committees – Human Resources and Compensation Committee" in this circular.

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The table below sets out the members of the Human Resources and Compensation Committee in 2012 and the basis of their experience.

Committee Member	Member Since	Direct Experience	Basis of Experience
Vagn Sørensen (Chair)	December 14, 2006	Yes	Former President and CEO, Austrian Airlines Group; Director, Braganza AS, Royal Caribbean Cruises Ltd., Lufthansa Cargo AG, Nordic Aviation Capital A/S; Chairman, Select Service Partner Plc U.K., Scandic Hotels AB, FLSmidth & Co. A/S, TDC A/S, UC4 Software GmbH; Vice Chairman, DFDS A/S; Senior Industrial Advisor, EQT Partners; Former Chairman, British Midland Ltd.
Bernard Attali	May 8, 2009	Yes	Senior Advisor, TPG Capital; Former Director, ACE Aviation; Former Chairman and CEO, Air France; Former Vice Chairman, Deutsche Bank Europe Investment Banking
Michael M. Green	May 8, 2009	Yes	CEO and Managing Director, Tenex Capital Management; Former CEO Trispan Solutions, Naviant Technology; Former Managing Director, Cerberus Capital Management; Former Managing Partner, TenX Capital Partners
Joseph B. Leonard	August 7, 2008	Yes	Former Chairman and CEO, AirTran Holdings, Inc.; Former Interim Chief Executive Officer, Walter Energy Inc.; Former CEO AlliedSignal's Aerospace, Walter Energy, Inc.; Director, Mueller Water Products Inc., Walter Energy, Inc.
Pierre Marc Johnson	December 14, 2006	Yes	Former Premier of Québec; Director, Holcim Canada, Médicago Inc.; Former Director of ACE Aviation

2012 Committee Activities

Each fiscal year, the Human Resources and Compensation Committee reviews and evaluates the Corporation's overall executive compensation philosophy and programs, the comparator group used to benchmark executive compensation and executive compensation trends and issues. Activities of the Human Resources and Compensation Committee over the course of 2012 included the following:

- Following a review by the Human Resources and Compensation Committee of the Corporation's financial metrics, including a comparison to other airlines and a review of shareholder feedback, a new financial metric "Adjusted Net Income" was approved, effective as of the 2013 fiscal year, which alongside EBITDAR, will provide an increased focus on Air Canada's overall profitability in the determination of awards under the Short Term Incentive Plan. For additional details regarding the new financial metric "Adjusted Net Income", please refer to "Components of Executive Compensation – Annual Incentive Plan";

- Oversaw the engagement of three additional executive officers, Klaus Goersch, Executive Vice President & Chief Operating Officer, Derek Vanstone, Vice President, Corporate Strategy, Industry and Government Affairs and Michael Friisdahl, President and Chief Executive Officer, Air Canada Leisure Group;

- Approved the promotion of two additional executive officers, Zeina Gedeon, Vice President, E-commerce, Product Distribution & Sales Development and Lise-Marie Turpin, Vice President, Cargo;

- Oversaw the retirement of Duncan Dee from the position of Executive Vice President and Chief Operating Officer;

- Reviewed the President and Chief Executive Officer's performance, the recommendations for his performance-related compensation, his objectives for the upcoming year and the terms of his overall compensation relative to market;

- Reviewed and approved performance-linked compensation of each executive, including base salary increases, short-term incentive awards and long-term incentive grants;

- Reviewed with the President and Chief Executive Officer, proposed major changes in organization or personnel; and

- Reviewed with the President and Chief Executive Officer, the Corporation's executive and senior management resources and succession plans for each executive position.

Risk Oversight

The Human Resources and Compensation Committee reviews and approves the Corporation's compensation policies and practices, taking into account any risks associated therewith, to achieve long-term viability of the Corporation. Several factors are considered by the Human Resources and Compensation Committee when analysing executive pay, including: Air Canada's strategy and priorities; compensation philosophy and objectives; the competitive market; achievement of the Corporation's financial and operational objectives; shareholder value creation; individual performance; advice from the advisor to the Human Resources and Compensation Committee; and sound risk management practices.

As further described in this circular, the components of compensation are straightforward and include base salary, short-term incentive, long-term incentives, retirement benefits and perquisites.

While quantitative analysis and best practices are important factors that the Human Resources and Compensation Committee relies on in analysing executive pay, discretion, judgment and prior compensation experience are instrumental in delivering programs that are in the best interest of the Corporations' shareholders.

The Human Resources and Compensation Committee follows a rigorous process when establishing and setting objectives for different pay-at-risk programs. To receive an incentive at target, executives must meet objectives that are considered stretched and there is no payment allowed before the end of the performance period.

The Human Resources and Compensation Committee carefully analyses annual operational and strategic business plans to set objectives for executives and establish pay-at-risk programs. Compensation policies and practices are designed to promote financial performance year-over-year and a stable growth in shareholder return by mitigating inappropriate behaviours and excessive risk-taking only aimed at a short-term increase of the share price. As such, payouts under both the short and long-term incentive plans are based on executives achieving objectives that are considered stretched, and the Board of Directors retains discretion in its award of amounts to be paid thereunder.

Air Canada also has an executive compensation clawback policy, further described under the heading "Components of Executive Compensation - Executive Compensation Clawback". The executive compensation clawback policy addresses situations in which business activities are undertaken by executive officers that engaged in gross negligence, intentional misconduct or fraud that require the restatement of all or a portion of Air Canada's financial statements.

The Human Resources and Compensation Committee has not identified any risks arising from the Corporation's compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation. The risks and uncertainties that are likely to have a material adverse effect on the Corporation are disclosed quarterly in the Corporation's Management Discussion and Analysis of the financial condition and results of operations. No such risks relate to the Corporation's compensation policies and practices.

Air Canada's Corporate Policy and Guidelines on Business Conduct also prohibits employees of the Corporation from hedging their securities of Air Canada.

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Compensation objectives and Plan Design – Summary

The principal components of Air Canada's Executive Compensation Program (including their primary role and how the components are linked together), the form of compensation provided, eligible employees for each element of compensation and the relevant performance period for each element of compensation are presented in the table below. A more detailed explanation of each component is provided in the Compensation Discussion and Analysis which begins on page 45.

<u>**Current Compensation**</u>	<u>**Form**</u>	<u>**Eligibility**</u>	<u>**Performance Period**</u>
Base Salary • Reflects skills, competencies and experience • Influences short-term incentive, long-term incentive, pension and benefits • Established by Air Canada's Board based on the executive's skills, competencies and experience • Air Canada's policy is to provide base salaries at the market median (50th percentile) of the comparator group, subject to specific circumstances where base salaries may be set below or above this percentile (but no higher than the 75th percentile) depending on each executive's profile, experience and performance in his or her role	Cash	All salaried employees	Annual
Short-term Incentive – Annual Incentive Plan • Rewards executives based on corporate, department and individual performance • Reflects annual achievement of Air Canada's financial performance against a pre-established EBITDAR target, and effective in 2013, an Adjusted Net Income target • Air Canada's target bonus is, in the view of the Board, in-line with remuneration practices of the comparator group • The Board has broad discretion in its administration of the Annual Incentive Plan and the amount of awards to be paid thereunder	Cash	Eligible management and administrative and technical support non-unionized employees (approximately 2,700 individuals)	1 year
Long-term Incentive – Stock Option and Performance Share Units • Links interests of executives with interests of shareholders • The Long-Term Incentive Plan provides for an annual target grant of stock options and performance share units in the amounts described in the table in "Long-Term Incentives – Stock Options and Performance Share Units" • 50% of options vest over four years in an equal amount of 12.5% at the anniversary of each grant and the remaining 50% are performance-based, and may vest after four years, based on the Corporation's achievement of its operating margin target for the four-year period • The options to purchase Air Canada shares granted under the Long-Term Incentive Plan have an exercise price based on the market price of Air Canada's shares at the time of the option grant • Performance share units vest after a three year period, over 50% of which vest subject to the Corporation's achievement of its cumulative annual EBITDAR target over such three-year period and the remainder vest based on time • Participants receive on the redemption date in respect of all vested performance share units, a value equal to the market price of the Air Canada shares on such date, with payment being effected with Air Canada shares or cash at the discretion of the Corporation	Stock Options and Performance Share Units	All senior management and officers of Air Canada (approximately 180 individuals)	4 year vesting, 10 year option term 3 year vesting term for performance share units

Pension	Form	Eligibility	Measurement Period
Defined Benefit Pension Plan and Supplementary Retirement Plan • Provides for replacement income upon retirement, based on years of service with the Corporation • Aligned with the median of the Corporation's comparator group • Benefits are calculated multiplying (i) 2% of the final average salary during the executive's highest paid 36 successive months of company service, less 0.25% of the Canada/Quebec pension plan's average annual maximum pensionable earnings during that period, by (ii) the executive's years of service (maximum 35 years) • Named Executive Officers are generally eligible to retire at the earliest of: (i) 25 years of service, (ii) when their age plus years of service equals the sum of 80 or (iii) at age 65 **Defined Contribution Pension Plan and Supplementary Retirement Plan** • Provides for financial protection upon retirement • Aligned with the median of the Corporation's comparator group • Benefits include contribution by the Corporation equal to a percentage of the individual's salary	Cash	All officers of Air Canada hired prior to December 31, 2011 (21 individuals) All officers of Air Canada hired after October 1, 2012 (3 individuals)	Pensionable service period to a maximum of 35 years
Other Benefits	**Form**	**Eligibility**	**Applicable Period**
Group Benefits • Provides protection in case of sickness, disability or death	Cash, Insurance and Other Benefits	All employees	N/A
Employee share ownership plan • Encourages employees to make investments in Air Canada • Permits eligible employees of Air Canada to invest up to 6% of their salary for purchase of Air Canada shares with a contribution by Air Canada at 33.33% of the investments made by the employees	Cash	All employees where permitted	Annual
Perquisites • Provides tools to support the conduct of the business • Perquisites include leased automobiles, a medical top-up plan, health counseling and financial counseling	Cash and Other Benefits	All officers of Air Canada (24 individuals)	N/A

All proposed changes to any compensation component are first reviewed internally with the Chief Executive Officer, the Chief Financial Officer and the Senior Vice President, Employee Relations, followed by a review with the Human Resources and Compensation Committee prior to final submission to the Board of Directors.

Compensation Linked to 2012 Corporate Performance

In 2012, the Corporation produced EBITDAR and net profits which exceeded its budget and continued to deliver on its stated priorities of culture change, customer engagement, building an international powerhouse, and revenue enhancement and cost transformation. The Corporation reached operational milestones such as the finalization of collective agreements with its five major Canadian unions, improving its safety targets, announcing the launch of its new leisure airline that will operate under the brand name of Air Canada *rouge*™ and investing in wide-body aircraft. Air Canada exceeded its financial targets for 2012 by achieving an EBITDAR (excluding the impact of pension plan amendments) of $1.327 billion, 114.3% of the EBITDAR (excluding the impact of pension plan amendments) target of $1.161 billion, and by exceeding its liquidity target of $1.8 billion by more than 10%. The Corporation continued to strengthen its balance sheet and lower its overall risk profile by reducing net debt by $295 million during 2012 and negotiating changes to its defined benefit plans (subject to regulatory approval) which would, based on actuarial valuations as of January 1, 2012, result in a decline of approximately $1.1 billion to their solvency deficit, effective January 1, 2014. Additionally, all new employees of Air Canada are joining new defined contribution or hybrid defined contribution / defined benefit pension plans which will further reduce pension plan volatility risk in the long term. Lastly, Air Canada continued to succeed in its commitment to customer service by winning for a third consecutive year the influential SkyTrax World Airline Award as Best International Airline in North America, similar awards from Business Traveler and Global Traveler magazines, and most recently the Four Star status by SkyTrax (the only international network carrier in North America to achieve this ranking).

As a result of the Corporation meeting and exceeding its objectives for 2012, (i) several executive base salaries were reviewed and adjusted to reflect either increases in responsibilities or market levels, (ii) an award was approved under the Corporation's short-term incentive plan, as the Corporation exceeded its EBITDAR target for 2012 by more than 14%, and (iii) an annual grant of stock options and performance share units was awarded under the Corporation's long-term incentive plan.

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COMPENSATION DISCUSSION AND ANALYSIS

In the face of a very challenging economic and competitive environment within the domestic and international airline industry, Air Canada requires a strong and capable executive team, underscoring the need for an executive compensation program that will attract, retain and motivate the key people necessary to transform the Corporation and improve its performance with a view to enhancing shareholder value.

The Executive Compensation Program is reviewed annually to align it with the Corporation's business plan. The report below provides an overview of Air Canada's Executive Compensation Program for 2012.

Executive Compensation Program

Air Canada's Executive Compensation Program is designed to provide competitive total executive compensation consistent with market-based compensation practices to recruit and retain top talent. It is also designed to align the Corporation's business strategy, values and management interests with those of its shareholders. To achieve these objectives, the Corporation has established the following guiding principles as the target objectives for its Executive Compensation Program:

- Base salaries competitive in markets in which Air Canada competes for talent and skills;
- Incentive programs linked to Air Canada's annual and long-term financial performance so as to align executive and shareholders' interests; and
- Total compensation benchmarked to reward its Chief Executive Officer and other executives at the market median (50^{th} percentile) of Air Canada's comparator group for positions with similar responsibilities and scope. However, in specific circumstances, total compensation may be set below or above this percentile (but no higher than the 75^{th} percentile) depending on each executive's profile, experience and performance in his or her role.

In 2013, Air Canada entered into an agreement with the Government of Canada, arranging for special payments under Air Canada's defined benefit plans applicable to the period between 2014 and 2020 inclusively, expiring January 30, 2021. According to the terms of the agreement, subject to the maximum past service contribution permitted under the *Income Tax Act* for the plan year, it is expected that, under the new regulations, Air Canada will be required to make payments of at least $150 million annually with an average of $200 million per year, to contribute an aggregate minimum of $1.4 billion over seven years in solvency deficit payments, in addition to its pension current service payments. Additionally, the Corporation has agreed, pursuant to the agreement, to certain executive compensation limitations applicable to its 24 executive officers employed as at January 1, 2013. These limitations apply to compensation payable in relation to the 2014 to 2020 calendar years. In particular, in respect of the plan years during which the new regulations apply to special payments, Air Canada agreed to the following restrictions:

- Subject to increases in the Consumer Price Index for Canada, the Corporation may not increase the total base annual salary compensation for the 24 specified executive officers beyond the amount provided for in the agreement with the Government of Canada in any one calendar year.
- The Corporation may not approve or pay to the 24 specified executive officers beyond the amount provided for in the agreement with the Government of Canada under the Annual Incentive Plan in any one calendar year, subject to increases in the Consumer Price Index for Canada, and conditional on the Corporation making the special payments to the pension plans described above.
- The Corporation may not grant any equity-based compensation (including options, PSUs, and shares) to any of the 24 specified executive officers in respect of the performance-based component of the Corporation's Long Term Incentive Plan, conditional on the Corporation making specific special payments

to the pension plans. No such limitations exist with respect to the time-based component of the Corporation's Long Term Incentive Plan.

- The Corporation may not provide any equity-based compensation (including options, PSUs, and shares) to any of the 24 specified executive officers at terms that are more beneficial than the terms of the Corporation's Long Term Incentive Plan as of January 1, 2013.

- Air Canada may not pay to any of the 24 specified executive officers any signing, retention or other special bonus other than pursuant to the Annual Incentive Plan or a retention bonus that would have been agreed to on or before February 21, 2013.

The Comparator Group (Benchmark Companies)

Compensation and performance under Air Canada's Executive Compensation Program are benchmarked against a comparator group of companies. An annual comparative analysis of compensation practices is conducted by an independent third party consulting firm and this analysis, for the current period, consisted of a comparator group of 25 companies comprised of large U.S. and Canadian airlines, Canadian companies in the transportation or aviation related industry, Canadian companies with annual revenues exceeding $5 billion, Canadian companies with an extensive customer service component, Canadian companies operating in a highly technological environment and Canadian companies with a large asset base.

Using a point factor system, the comparator group, detailed on the following page, was selected, and will be validated annually, by the Board of Directors.

Air Canada's base salaries, target bonus, target grant of stock options and/or performance share units and group health, other insurance benefits and executive pension plan are each, in the view of the Board, in-line with remuneration practices of the comparator group.

The table below describes the companies which have been identified in accordance with the above criteria and included in Air Canada's comparator group, as well as each organization's level of alignment to Air Canada's peer profile requirements in the list below. The comparator group for the President and Chief Executive Officer excludes the four financial institutions named below.

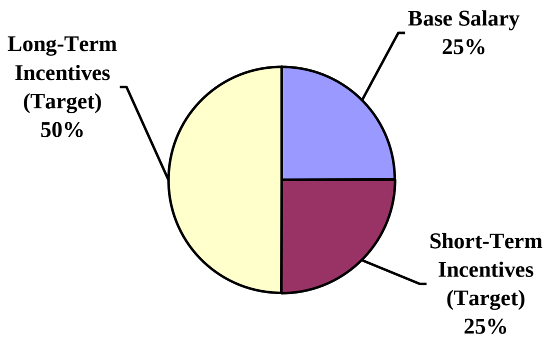
Company	Relevant Criteria					
	Large Airline	**Transportation Sector or Aviation Related**	**Revenues Exceeding $5 Billion**	**Extensive Customer Service**	**Highly Technological Environment**	**Large Asset Base**
Agrium Inc.			✓			✓
American Airlines Inc.	✓		✓	✓	✓	✓
Bank of Montreal			✓	✓	✓	
BCE Inc.			✓	✓	✓	✓
Bombardier Inc.		✓	✓		✓	✓
Blackberry (RIM)			✓		✓	
CAE Inc.		✓			✓	✓
Canadian National Railway Company		✓	✓			
Canadian Pacific Railway Limited		✓				✓
Celestica Inc.			✓		✓	
Delta Airlines Inc. / Northwest Airlines Corp	✓		✓	✓	✓	✓
Domtar Corp.			✓			✓
Enbridge Inc.			✓			✓
EnCana Corp			✓			✓
Maple Leaf Foods Inc.			✓			✓
Rogers Communications Inc.			✓	✓	✓	✓
Royal Bank of Canada			✓	✓	✓	
SunLife Financial Inc.			✓	✓	✓	
Telus Corporation			✓	✓	✓	✓
Toronto-Dominion Bank			✓	✓	✓	
Transat AT Inc.	✓			✓	✓	✓
TransCanada Corp			✓		✓	✓
United Airlines Inc. / Continental Airlines Inc.	✓		✓	✓	✓	✓
US Airways Inc.	✓		✓	✓	✓	✓
Westjet Airlines Ltd.	✓			✓	✓	✓

AIR CANADA

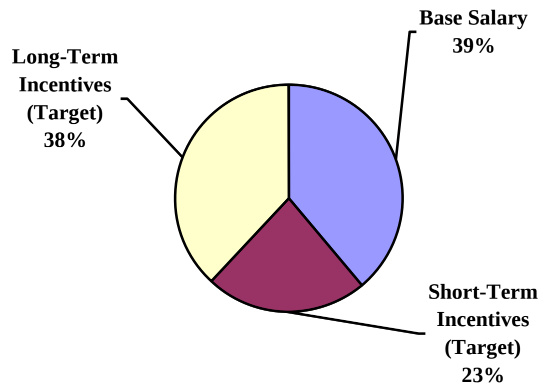
COMPONENTS OF EXECUTIVE COMPENSATION

The following charts set forth the relative weight of 2012 compensation attributable to base salary, short-term incentive targets(1) and long-term incentive targets for Air Canada's (1) Chief Executive Officer, (2) Executive Vice Presidents, (3) Senior Vice Presidents and (4) Vice Presidents.

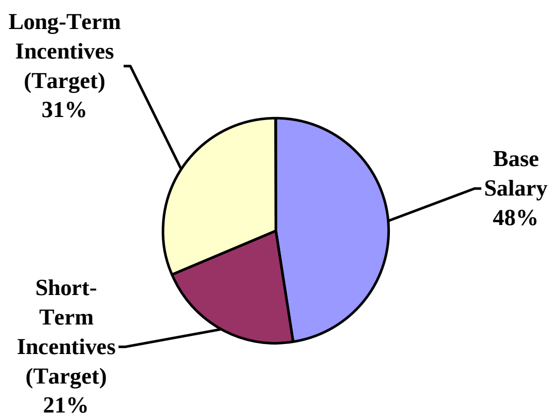
Compensation of Chief Executive Officer



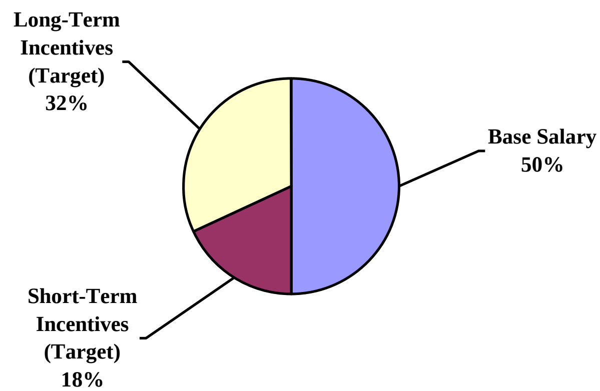
Compensation of Executive Vice Presidents



Compensation of Senior Vice Presidents



Compensation of Vice Presidents



(1) The midpoint for each component of the Annual Incentive Plan having a target bonus range is used for the purposes of the charts.

Base Salary

Competitive base salaries are established by Air Canada's Board of Directors based on the executive's skills, competencies and experience. When reviewing base salaries, the Board of Directors also considers the range of salaries of other persons within the officer group, as well as the salaries offered for positions with similar responsibilities and scope in Air Canada's comparator group.

As concerns base salary, Air Canada's policy is to provide compensation at the market median (50^{th} percentile) of the comparator group. However, in specific circumstances, base salaries may be set below or above this percentile (but no higher than the 75^{th} percentile) depending on each executive's profile, experience and performance in his or her role.

Short-Term Incentives – Air Canada Annual Incentive

Annual Incentive Plan

Air Canada's Annual Incentive Plan is designed to pay a cash award to eligible management and administrative and technical support non-unionized employees, based on the Corporation's achievement of its EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence, and aircraft rent) target, while incorporating the Board of Directors' authority to recognize and adjust actual EBITDAR results for variances when warranted.

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and depreciation, amortization and obsolescence as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. For more details on Air Canada's EBITDAR, please refer to the "Management's Discussion and Analysis" section of Air Canada's 2012 annual report and Air Canada's Management's Discussion and Analysis for the three-month period ended March 31, 2013.

With the intention of encouraging the development of a corporate culture focused more on transformation and performance, Air Canada's Annual Incentive Plan incorporates, in addition to the corporate (consolidated) EBITDAR objective, (i) department-specific objectives, and (ii) a target bonus range (as of a percentage of salary) in order to reward individual performance. The trigger for the payment of any award under the Annual Incentive Plan is based on a minimum achievement of 90% of the target EBITDAR and 50% of such award rewards the achievement of the corporate EBITDAR objective, while the remaining 50% rewards the achievement of department-specific objectives and individual performance. The Annual Incentive Plan provides the CEO with the discretion to award high performing individuals at a target level which is market competitive

Air Canada's target bonus is, in the view of the Board, in-line with remuneration practices of the comparator group. Yearly target bonuses typically range as follows:

Executive Level	Target Bonus (as a % of base salary)
Chief Executive Officer	100%
Executive Vice President	50%-70%
Senior Vice President	35%-55%
Vice President	30%-40%

and the Annual Incentive Plan typically rewards participants as follows:

	Achievement of EBITDAR against target EBITDAR	Percentage of the Annual Incentive Plan Target Bonus Payable(1)
Minimum	≤90%	0%
	95%	50%
Target Bonus	100%	100%
	105%	150%
Maximum	≥110%	200%

(1) The Annual Incentive Plan award is calculated on a graduated basis between the reference points above. For example, if 102% of the targeted EBITDAR is achieved, the percentage of the annual incentive plan target bonus payable is 120%.

The Board has broad discretion in its administration of the Annual Incentive Plan and the amount of awards to be paid thereunder.

The Corporation's 2012 EBITDAR (excluding the impact of pension plan amendments) target was set at $1.161 billion. The Corporation achieved 114.3% of this target, as EBITDAR (excluding the impact of pension plan amendments) for 2012 amounted to $1.327 billion. In accordance with the Annual Incentive Plan, the Board of Directors approved awards to plan participants under the plan based on achievement of corporate, department or individual objectives.

Following a review by the Human Resources and Compensation Committee of the Corporation's financial metrics, including a comparison to other airlines and a review of shareholder feedback, a new financial metric, "Adjusted Net Income", was approved, effective as of the 2013 fiscal year, which alongside EBITDAR, will provide an increased focus on Air Canada's overall profitability. Accordingly and incorporating the Board of Directors' authority to recognize and adjust actual Adjusted Net Income results for variances when warranted, the portion of the Annual Incentive Plan which rewards executives of the Corporation based on the achievement of corporate financial performance will be based on the achievement of an Adjusted Net Income target, while the portion of the Annual Incentive Plan which rewards executives of the Corporation based on the achievement of department-specific objectives and individual performance will include a trigger based on the achievement of a corporate (consolidated) EBITDAR target. Adjusted Net Income represents the consolidated net income (or loss, if applicable) of Air Canada attributable to the shareholders of Air Canada as reported under GAAP and adjusted to remove the effects of (to the extent included in consolidated net income (or loss, if applicable)) foreign currency conversion, net financing income (or expense, if applicable) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value and unusual and other items. For more details on Air Canada's "Adjusted Net Income", please refer to the "Management's Discussion and Analysis" section of Air Canada's 2012 annual report and Air Canada's Management's Discussion and Analysis for the three-month period ended March 31, 2013.

Long-Term Incentives – Stock Options and Performance Share Units

Air Canada's Long-Term Incentive Plan is intended to attract, retain and motivate management in key positions at Air Canada and align their interests with those of its shareholders. The Human Resources and Compensation Committee determines which employees are eligible to receive stock options or performance share units, with consideration given to: (i) the value of each eligible employee's present and potential future contribution to the Corporation's success, and (ii) any past grants to the employee in question.

The Long-Term Incentive Plan provides for the grant of options and performance share units to all senior management and officers of Air Canada. Options and performance share units held by any person under the Long-Term Incentive Plan, including any insider of the Corporation, may not at any time exceed 5% of the aggregate number of shares of the Corporation outstanding from time to time. Additionally, the aggregate number of shares: (i) issued to insiders of Air Canada under the Long-Term Incentive Plan or any other share compensation arrangement within any one-year period, and (ii) issuable to insiders of Air Canada at any time under the Long-Term Incentive Plan or any other share compensation arrangement, shall, in each case, not exceed 10% of the issued and outstanding shares of the Corporation.

19,470,294 shares (which represented 7% of the issued and outstanding shares of Air Canada on May 17, 2013) are currently authorized for issuance under the Long-Term Incentive Plan in the form of either stock options or performance share units. Currently, there is an aggregate of 11,578,157 options and 8,772,124 performance share units outstanding under the Long-Term Incentive Plan. This represents, in the aggregate, a maximum of 4% of the Corporation's issued and outstanding shares as of May 17, 2013. 11,578,157 options are exercisable for underlying Air Canada shares. No performance share units are currently exercisable for underlying Air Canada shares issuable from treasury. 8,772,124 performance share units outstanding under the Long-Term Incentive Plan are exercisable for Air Canada shares purchased on the secondary market or for cash, at the discretion of the Corporation.

Air Canada's target grant of stock options and/or performance share units is in line with remuneration practices of the comparator group. Subject to the limit of the number of shares that remain available under the Long-Term

Incentive Plan at the relevant time, the plan provides for an annual target grant of stock options and/or performance share units to all eligible senior management and officers.

With the intention of promoting the above-described compensation objectives, Air Canada's formula respecting target grants of stock options and performance share units: (i) provides for a mix between stock option and performance share unit grants; (ii) includes a time-based vesting component to performance share units; and (iii) provides the CEO with the discretion to award high performing individuals at a target level which is market competitive. The plan provides minimum target grants as follows:

Executive Level	Target Stock Option Grant (% of base salary)	Target Performance Share Unit Grant based on Performance (% of base salary)	Target Performance Share Unit Grant based on Time (% of base salary)
Chief Executive Officer	175%	100%	55%
Executive Vice President	90%	40%	30%
Senior Vice President	60%	30%	20%
Vice President	55%	30%	20%

Air Canada Stock Options

The options to purchase Air Canada shares granted under the Long-Term Incentive Plan have a maximum term of 10 years. In the event the expiration date for an option falls within a "black-out period" (being a period during which the optionee cannot trade securities of the Corporation pursuant to its corporate policy respecting restrictions on employee trading) or within 9 business days following the expiration of a black-out period, such expiration date is extended until the 10th business day after the end of the black-out period.

The options to purchase Air Canada shares granted under the Long-Term Incentive Plan have an exercise price based on the market price of Air Canada's shares at the time of the option grant. For these purposes, the market price of Air Canada's shares at the time of the option grant (the "**Market Price**"), except in certain exceptional circumstances, equals the "volume-weighted average trading price" of the shares on the TSX for the 5 trading days immediately preceding the grant date (calculated by dividing the total value by the total volume of shares traded during such period).

Unless a particular employment agreement otherwise provides, the vesting of options is as follows: (i) 50% of options granted under the Long-Term Incentive Plan vest over four years in an equal amount of 12.5% at the anniversary of each grant, and (ii) the remaining 50% are performance-based, and may vest after four years, as detailed in the table below, based on the Corporation's achievement of its annual operating margin target for the four-year period.

Achievement of Annual Target Operating Margin over the Four- Year Period	Performance-based Stock Options Vested
≤85%	0%
90%	33%
95%	66%
≥100%	100%

The performance-based stock options vest on a graduated basis between the reference points above. For example, if the Corporation's operating margin over the four-year period equals 92.5% of the target operating margin, 50% of the performance-based stock options will vest and the remainder of the performance-based stock options will lapse and be null at such time, unless the Board of Directors determines otherwise.

If an optionee's employment is terminated without cause or the optionee resigns, the vested portion of any options will, in general, remain exercisable for 30 days. In the event an optionee is terminated for cause, then the options lapse forthwith. In the event of the death of an optionee, his/her vested options at the time of death must be exercised by his/her heirs within 1 year of the optionee's death or prior to the expiration of the original term of such options, whichever occurs earlier. In the event of the injury or disability of an optionee, any options may be exercised by the optionee as the rights to exercise such options accrue; however such options shall only be exercisable within 3 years after the cessation of employment or prior to the expiration of the original term of the option, whichever occurs earlier. In the event of the retirement of an optionee, any options may be exercised by the optionee as the rights to exercise such options accrue; however such options shall only be exercisable within 3 years after the retirement of the optionee or prior to the expiration of the original term of the option, whichever occurs earlier. In the event an optionee takes a voluntary leave of absence, any options may be exercised by the optionee as the rights to exercise such options accrue; however such options shall only be exercisable within 1 year after the commencement of such leave of absence or prior to the expiration of the original term of the option, whichever occurs earlier.

Each option under the Long-Term Incentive Plan is personal to the optionee and may not be assigned or transferred, except by will or by the laws of succession of the domicile of a deceased optionee.

Air Canada may amend the Long-Term Incentive Plan (or any option or performance share unit granted thereunder) at any time without the consent of the optionees or participants, provided that such amendment shall:

(i) not adversely alter or impair any option or performance share unit previously granted;

(ii) be subject to any regulatory approvals including, where required, the approval of the TSX; and

(iii) be subject to shareholder approval where required by law or the requirements of the TSX, provided that shareholder approval shall not be required for: (a) amendments of a "housekeeping nature", (b) a change to the vesting provisions of any option or performance share unit, (c) the introduction of a cashless exercise feature payable in securities, (d) the addition of a form of financial assistance, and (e) the addition of a deferred or restricted share unit or any other provision which results in optionees or participants receiving securities while no cash consideration is received by the Corporation.

Notwithstanding the foregoing, Air Canada must obtain shareholder approval in order to enact any of the following amendments to the Long-Term Incentive Plan:

(i) any change to the maximum number of shares issuable from treasury under the Long-Term Incentive Plan, including an increase to the fixed maximum number of shares or a change from a fixed maximum number of shares to a fixed maximum percentage;

(ii) any amendment which reduces the exercise price of any option previously granted or any cancellation of an option and its substitution by a new option with a reduced price or any cancellation of a performance share unit and its substitution by a new performance share unit;

(iii) any amendment that extends the term of options or performance share units beyond their original expiry;

(iv) any amendment which would permit any option or performance share unit to be transferable or assignable by any optionee or participant other than for normal estate settlement purposes;

(v) any amendment which would permit a change to the eligible participants, including a change which would have the potential of broadening or increasing participation by insiders, including non-employee directors, in the Long-Term Incentive Plan;

(vi) any amendment which increases the maximum number of shares that may be issued in a one-year period to insiders of the Corporation and associates of such insiders or any one insider of the Corporation and associates of such insider under the Long-Term Incentive Plan or any other compensation arrangements described in the Long-Term Incentive Plan; and

(vii) amendments to the amendment provisions of the Long-Term Incentive Plan.

The Long-Term Incentive Plan also provides that the Board may advance the date on which any option may be exercised or any performance share unit may be payable or, subject to applicable regulatory provisions, and except in respect of options or performance share units that are held by an insider of the Corporation, extend the expiration date of any option or performance share unit provided that the period during which an option is exercisable or performance share unit is outstanding does not exceed 10 years in the case of options, and 3 years in the case of performance share units from the date such option or performance share unit is granted.

In the event of a "change of control" (as defined in the Long-Term Incentive Plan) of the Corporation, any unvested options shall become exercisable and any unvested performance share units shall become payable immediately prior to the date of the change of control with respect to all of the shares subject thereto and all options must be exercised prior to their original expiry term.

Air Canada Performance Share Units

The performance share units granted under the Long-Term Incentive Plan are notional share units which are exchangeable, on a one-to-one basis, for, as determined by the Board of Directors, Air Canada shares or the cash equivalent. As such, the value of the performance share units tracks the value of Air Canada shares. Performance share units have a maximum term of three years. Except as otherwise may be determined by the Board of Directors, the vesting of performance share units is normally based on the Corporation achieving its cumulative annual EBITDAR target over a three-year period.

Achievement of cumulative annual EBITDAR target over a Three-Year Period	Performance Share Units Vested
≤85%	0%
90%	33%
95%	66%
≥100%	100%

The performance share units vest on a graduated basis between the reference points above. For example, if the Corporation's EBITDAR over the three-year period equals 92.5% of the EBITDAR target, 50% of the units will vest and the remainder of the performance share units will lapse and be null at such time, unless the Board of Directors determines otherwise.

At the end of the three-year term, all vested performance share units are, at the discretion of the Corporation, redeemed for Air Canada shares (either issued from treasury or purchased on the secondary market at the discretion of the Corporation) or for their cash equivalent based on the Market Price (as such term is defined at page 51 of this circular) of Air Canada shares on the redemption date.

Participants receive, therefore, on the redemption date in respect of all vested performance share units, a value equal to the Market Price of the Air Canada shares on such date, with payment being effected with Air Canada shares or cash at the discretion of the Corporation.

During the three-year term, the Corporation, as determined by the Board, may pay to the participant in cash, at the same time that dividends are paid to holders of shares of the Corporation or, subject to the satisfaction of the applicable vesting conditions, on the last day of the three-year term, the aggregate amount which the participant would have received as dividends if the participant had held a number of shares of the Corporation equal to the number of performance share units credited to the participant's account.

In the event a participant's employment is terminated for cause or the participant resigns from his/her employment, then all performance share units credited to such participant that have not vested shall be forfeited and cancelled and the participant's rights to shares (or equivalent cash) that relate to such participant's unvested performance share units shall be forfeited and cancelled.

Except as otherwise may be determined by the Board, upon a participant's employment being terminated for reasons other than for cause, or upon a participant's retirement, voluntary leave of absence or the participant's employment being terminated by reason of injury, disability or death, the participant's participation in the Long-Term Incentive

Plan with respect to performance share units shall be terminated immediately, provided that all unvested performance share units in the participant's account as of such date that relate to a three-year performance period then in progress shall remain in effect until the end of such three-year performance period. If, at the end of the three-year performance period, the vesting conditions are not met, all unvested performance share units credited to such participant's account shall be forfeited and cancelled. If, at the end of the three-year performance period the vesting conditions are met, the participant (or his/her heirs, as the case may be) shall be entitled to receive that number of shares (or equivalent cash at the discretion of the Corporation) equal to the number of performance share units outstanding in the participant's account in respect of such three-year performance period multiplied by a fraction, the numerator of which shall be the number of completed months of service of the participant during the relevant period prior to his/her date of termination, date of leave of absence or retirement and the denominator of which shall be 36 months.

Each performance share unit under the Long-Term Incentive Plan is personal to the participant and may not be assigned or transferred, except by will or by the laws of succession of the domicile of a deceased participant.

Employment Conditions

Unless otherwise provided for in an individual's employment agreement with the Corporation and except as otherwise may be determined by the Board, the following table summarizes the treatment of a participant's stock options and performance share units upon a participant's retirement, resignation, termination without cause or for cause, death, injury or disability or voluntary leave of absence.

Event	Vesting of Stock Options and Exercise Limitations	Vesting of Performance Share Units ("PSUs") and Payment Limitations
Retirement	Rights to vesting continue to accrue. All vested options must be exercised by the earlier of: (i) the third anniversary date of the retirement and (ii) the scheduled expiry date of the options	Prorated number of vested PSUs at the end of their term based on: (i) the total number of completed months of active service during PSU term, divided by (ii) the total number of months in PSU term
Resignation	No further options vest. All vested options must be exercised within 30 days from the date of the resignation	Forfeiture of unvested PSUs
Termination without cause	No further options vest. All vested options must be exercised within 30 days from the date of the termination for reasons other than cause	Prorated number of vested PSUs at the end of their term based on: (i) the total number of completed months of active service during PSU term, divided by (ii) the total number of months in PSU term
Termination for cause	Forfeiture of all unexercised options	Forfeiture of all unvested PSUs
Death	All vested options at the time of death must be exercised by his/her heirs by the earlier of: (i) one year of his/her death and (ii) the scheduled expiry date of the options	Prorated number of vested PSUs at the end of their term based on: (i) the total number of completed months of active service during PSU term, divided by (ii) the total number of months in PSU term
Injury or disability	Rights to vesting continue to accrue. All vested options must be exercised by the earlier of: (i) three years after the cessation of employment and (ii) the scheduled expiry date of the options	Prorated number of vested PSUs at the end of their term based on: (i) the total number of completed months of active service during PSU term, divided by (ii) the total number of months in PSU term
Voluntary leave of absence	Rights to vesting continue to accrue. All vested options must be exercised by the earlier of: (i) one year after the commencement of the leave of absence and (ii) the scheduled expiry date of the options	Prorated number of vested PSUs at the end of their term based on: (i) the total number of completed months of active service during PSU term, divided by (ii) the total number of months in PSU term

Annual Grants of Options and Performance Share Units

The following table summarizes the total number of options granted during each of the last five calendar years:

Year	Number of Options Granted	Number of Participants
2012	2,922,043	76
2011	3,439,471	71
2010	50,000	2
2009	2,330,000	65
2008	11,000	1

The following table summarizes the total potential dilution (total number of options outstanding divided by the total number of shares outstanding) represented by the options granted during each of the last five calendar years:

Year	Total Number of Options Outstanding as of December 31	Dilution
2012	8,410,403	3.0%
2011	6,411,206	2.3%
2010	3,287,931	1.2%
2009	3,963,474	1.4%
2008	1,701,447	1.7%

The following table summarizes the total number of performance share units granted during each of the last five calendar years:

Year	Number of PSUs Granted	Number of Participants
2012	2,712,230	166
2011	3,310,900	145
2010	2,532,337	164
2009	2,500	1
2008	1,134,183	169

The following table summarizes the total potential dilution (total number of dilutive performance share units outstanding divided by the total number of shares outstanding) represented by the performance share units granted during each of the last five calendar years:

Year	Total Number of PSUs Outstanding as of December 31	Dilution
2012	7,255,711	Nil(1)
2011	6,197,511	Nil(2)
2010	3,589,449	0.0009%(3)
2009	1,653,064	0.2%(4)
2008	1,680,159	0.57%(5)

(1) The zero dilution percentage is due to the fact that all 7,255,711 performance share units will either be redeemed for Air Canada shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

(2) The zero dilution percentage is due to the fact that all 6,197,511 performance share units will either be redeemed for Air Canada shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

(3) The dilution percentage does not include shares underlying 3,586,949 performance share units, as these performance share units will either be redeemed for Air Canada shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

(4) The dilution percentage does not include shares underlying 1,091,218 performance share units, as these performance share units would have been either redeemed for Air Canada shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

(5) The dilution percentage does not include shares underlying 1,111,183 performance share units, as these performance share units would have been either redeemed for Air Canada shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

Equity Compensation Plan Information

The following table details the number of securities to be issued upon the exercise of options and the redemption of PSUs outstanding under Air Canada's Long-Term Incentive Plan, as well as the weighted-average exercise price of outstanding options and the number of securities remaining available for future issuance under Air Canada's equity compensation plans.

Plan category	Number of securities to be issued upon the exercise of outstanding options and redemption of PSUs(1)(2)(3)	Weighted-average exercise price of outstanding options(1)	Number of securities remaining available for future issuance under equity compensation plans(1)
Equity compensation plans approved by security-holders(1)	8,410,403	$2.68	11,059,891

(1) As at December 31, 2012.

(2) Does not include shares underlying 7,255,711 performance share units granted on April 8, 2011 and April 2, 2012 as these performance share units will either be redeemed for Air Canada shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

(3) Does not include the 1,000,000 Air Canada shares underlying the options granted to Mr. Rovinescu pursuant to the terms of his 2009 Employment Agreement in connection with his recruitment and commencement of employment in 2009.

Executive Compensation Clawback

On March 30, 2011, the Board of Directors adopted an executive clawback compensation policy concerning awards made after December 31, 2010 under Air Canada's annual and long-term incentive plans. Under this policy, which applies to all executives, the Board of Directors may, in its sole discretion, to the full extent permitted by governing laws and to the extent it determines that it is in the best interests of Air Canada to do so, require reimbursement of all or a portion of annual or long term incentive compensation received by an executive. The Board of Directors may seek reimbursement of full or partial compensation from an executive or former executive officer in situations where:

a) the amount of a bonus or incentive compensation was calculated based upon, or contingent on, the achievement of certain financial results that were subsequently the subject of or affected by a restatement of all or a portion of Air Canada's financial statements;

b) the executive officer engaged in gross negligence, intentional misconduct or fraud that caused or partially caused the need for the restatement; and

c) the amount of the bonus or incentive compensation that would have been awarded to or the profit realized by the executive officer had the financial results been properly reported would have been lower than the amount actually awarded or received.

Pension and Benefits

Air Canada's group health, other insurance benefits and executive pension plan are, in the view of the Human Resources and Compensation Committee, aligned with the median of the Corporation's comparator group.

The Corporation offers retirement benefits to its Named Executive Officers including a Supplementary Retirement Plan (the "**SERP**"). The main provisions of the SERP are described in more detail in the section "Retirement Plan Benefits". The purpose of the SERP is to:

- complement Air Canada's retirement plan to provide Named Executive Officers with an appropriate replacement income upon retirement; and

- provide benefits over and above those provided by Air Canada's primary registered retirement plan.

Employee Share Ownership Plan

An ongoing share purchase plan was established by Air Canada (the "**Employee Share Ownership Plan**") concurrent with the completion of its November 2006 initial public offering. The Employee Share Ownership Plan permits eligible employees of Air Canada to invest up to 6% of their salary for purchase of Air Canada shares with a contribution by Air Canada at 33.33% of the investments made by the employees. The funds contributed by participants and Air Canada are used to purchase Air Canada shares on the secondary market on behalf of such participants.

Perquisites

Perquisites are, in the view of the Human Resources and Compensation Committee, aligned with the median of Air Canada's comparator group. Perquisites include leased automobiles, a medical top-up plan, health counseling and financial counseling.

COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

Compensation of the President and Chief Executive Officer

Mr. Calin Rovinescu was appointed President and Chief Executive Officer on April 1, 2009. Over the 18 months preceding his appointment, Air Canada's operations were impacted by many factors, including an unprecedented spike in the price of fuel, adverse fluctuations in foreign exchange and the onset of a severe global recession. Air Canada, as well as the airline industry as a whole, continued to operate under challenging circumstances. In Air Canada's case, these challenges included limited access to capital, deteriorating liquidity, revenue and yield, a significant pension fund deficit and the expiry of all of its collective agreements in the summer of 2009. In this context, the Board recruited Mr. Rovinescu to rejoin Air Canada as its President and Chief Executive Officer based on his leadership skills and broad experience in corporate strategy, finance and law.

The recruitment of top corporate executives, including the CEO, is very competitive. Mr. Rovinescu's compensation arrangements pursuant to his 2009 employment agreement (the "**2009 Employment Agreement**") were structured so as to induce him to forego his then existing employment, as well as his interest in the investment bank that he was a co-founder of and other business interests and opportunities, and to incentivize him to remain with the Corporation over a period of time. In completing the 2009 Employment Agreement, the Board of Directors was advised by an independent third-party consulting firm as to the terms of his compensation and how these arrangements compared to other CEO compensation arrangements.

Pursuant to the 2009 Employment Agreement, Mr. Rovinescu was entitled to a one-time retention payment of $5 million, upon the third anniversary of his employment, to forego his then existing employment and business opportunities and to incentivize him to remain with the Corporation. On March 31, 2012, two thirds of such amount was paid to Mr. Rovinescu and the balance was contributed to an Employee Benefit Plan. The full amount of the retention payment is included in the "Summary Compensation Table" at page 63 of this circular. Excluding such retention payment, Mr. Rovinescu's total compensation for 2012 was $4,525,261.

Mr. Rovinescu's base salary for the year ended December 31, 2012 was unchanged from 2011 and 2010. Mr. Rovinescu's 2009 Employment Agreement also provides that in the event the aggregate number of issued and outstanding Class A variable voting shares and Class B voting shares of the Corporation increases during his employment, Mr. Rovinescu's options will be increased so that they continue to represent 1% of the aggregate number of issued and outstanding shares or, in certain instances, that he will be provided with economically equivalent compensation as determined by the Board of Directors.

Annual target grants of stock options and/or performance share units to the President and Chief Executive Officer pursuant to the Long Term Incentive Plan are described at pages 50 to 54 of this circular.

Mr. Rovinescu's pension benefits, including his pension entitlements in the event he is terminated, are described at pages 70 to 72 of this circular.

In April 2011, the Board also introduced a further Long-Term Incentive Plan arrangement for the CEO, subject to annual review by the Board, which rewards Mr. Rovinescu 25,000 additional performance share units if the Corporation maintains a 90-day moving average share price of $4.00 and an additional 25,000 performance share units for each dollar increment in excess of $4.00.

2012 Key Accomplishments

The Human Resources and Compensation Committee evaluated Mr. Rovinescu's performance for 2012 based on the achievement of the evolution and execution of Air Canada's strategy and key priorities and objectives, including the following key financial and non-financial accomplishments for 2012:

- Achieved an EBTIDAR (excluding the impact of pension plan amendments) of $1.327 billion, 114.3% of its target;
- Reached liquidity levels exceeding $2 billion, exceeding the 2012 target;
- Completed arbitration and collective bargaining with its five major Canadian unions;
- Successfully announced the launch of Air Canada *rouge*™ as its new leisure airline, and hired a Chief Executive Officer for Air Canada *rouge*™ with a leisure travel background;
- Progressed on mitigating pension risk by amending pension plans (subject to regulatory approval) which would reduce solvency deficits by approximately $1.1 billion (based on 2012 valuations) and by achieving top quartile performance in pension investment returns;
- Further developed international routes and connecting traffic through the Corporation's Canadian hubs, in accordance with the Corporation's strategy;
- Achieved or exceeded cost transformation targets; and
- Continued execution of customer service commitment, with recognition for a third consecutive year as Best International Airline in North America in the SkyTrax World Airline Awards, similar awards from Business Traveler and Global Traveler magazines, and recognition as North America's only international carrier to be awarded the Four Star status by SkyTrax.

Mr. Rovinescu's 2009 Employment Agreement provides that, in the event he is terminated without cause, he is entitled to receive a lump sum severance payment equal to two times his overall cash compensation (comprised of annual salary and 100% target bonus). In addition, if terminated without cause, Mr. Rovinescu is also entitled to the continuation of certain benefits and perquisites until the earlier of the end of 24 months or his re-employment with any other employer that provides equivalent benefits. Additionally, all unexercised options granted, as well as any of the performance share units granted, shall immediately vest upon such termination without cause and, in the case of the options, must be exercised by the earlier of three years from the termination date or the scheduled expiry of the options. The above payments and conditions are subject to Mr. Rovinescu's compliance with the non-competition provisions of his 2009 Employment Agreement which have a duration of 18 months.

The table below shows the estimated amount that would become payable to Mr. Rovinescu in the event of the termination of his employment by Air Canada without cause, as if it had occurred on the last business day of 2012:

	CALIN ROVINESCU – IF TERMINATED WITHOUT CAUSE			
Name	**Cash Portion**	**Value of Exercisable/Vested Options and PSUs(1)**	**Other Benefits (2)**	**Total**
Calin Rovinescu	$4,400,000	2,967,089	$85,412	$7,452,501

(1) Based on the December 31, 2012 closing price of Air Canada's Class B voting shares ($1.75).
(2) This amount represents the estimated cost of the continuation of group health, other insurance benefits and perquisites during the severance period, as well as the December 31, 2012 termination value of his pension entitlements.

In the event Mr. Rovinescu voluntarily terminates his employment with Air Canada or is terminated by Air Canada with cause, Mr. Rovinescu will generally be entitled to any salary, expense reimbursement and other benefits that were earned by him prior to the termination date and that remain unpaid as of the termination date. Additionally, all unvested stock options will expire on his last day of active employment and any remaining vested options will remain exercisable for a period of thirty (30) days from the date of termination.

In the event of the termination of Mr. Rovinescu's employment as a result of death or disability, Mr. Rovinescu or his estate, as the case may be, will generally be entitled to any unpaid salary and pro-rata target bonus for that year that was earned prior to the termination date, as well as expense reimbursement and other benefits that were earned prior to the termination date and that remain unpaid as of such date. All unvested stock options will, upon death, expire on the last day of active employment, and any remaining vested options must be exercised at the earlier of 1 year from the date of death or the scheduled option expiry, and, upon disability, all unvested stock options shall immediately vest, and must be exercised at the earlier of 3 years after disability or the scheduled option expiry.

In the event that Mr. Rovinescu voluntarily terminates his employment with Air Canada or is terminated by Air Canada with cause, all unvested performance share units granted shall be forfeited and cancelled on Mr. Rovinescu's last day of active employment. All unvested performance share units granted will, upon the death of Mr. Rovinescu, expire on the last day of active employment. In the event of the termination of Mr. Rovinescu's employment as a result of disability or in the event that Mr. Rovinescu is terminated by Air Canada without cause, all unvested performance share units granted shall be immediately vested on such termination date and shall be paid as soon as practicable to Mr. Rovinescu.

Compensation of the Executive Vice President and Chief Financial Officer

As per the terms of his employment agreement, the base salary of Mr. Michael Rousseau, as Executive Vice President and Chief Financial Officer for the year ended December 31, 2012, was $518,000. Any future salary progression will be based on personal performance in the position. As was detailed at page 49 of this circular, for the 2012 calendar year, Mr. Rousseau's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of EBITDAR against its business plan, was a range of 50%-70% of basic annual salary with a maximum bonus of 100%-140% of basic annual salary.

Annual target grants of stock options and/or performance share units to the Executive Vice President and Chief Financial Officer are described at pages 50 to 54 of this circular.

Mr. Rousseau's pension benefits are described at pages 70 to 72 of this circular. Pursuant to his employment agreement, Mr. Rousseau was credited with an additional five years of pensionable service in 2012 upon his completion of five years of service with Air Canada.

Mr. Rousseau's employment agreement also provides that, in the event he is terminated without cause or if he terminates his employment for "good reason", he is entitled to receive a severance payment that is equal to two years of his then current annual base salary, as well as the continuation of certain benefits and perquisites until the earlier of the end of the severance period or his re-employment with any other employer. In such instance, the agreement also provides that Mr. Rousseau's stock options will immediately vest and will be exercisable within 30 days from the termination date, and all granted performance share units shall vest upon the end of each grant's 3 year vesting period, based on the Corporation's financial performance and such units shall be prorated based on his actual service in the 3 year vesting period. The above payments and conditions are subject to Mr. Rousseau's compliance during the severance period with the non-competition provisions of his employment agreement.

The table below shows the estimated amount that would become payable to Mr. Rousseau in the event of the termination of his employment by Air Canada without cause or if he terminates his employment for "good reason", as if it had occurred on the last business day of 2012:

Name	MICHAEL ROUSSEAU – IF TERMINATED WITHOUT CAUSE			
	Cash Portion (1)	Value of Exercisable/Vested Options and PSUs(2)	Other Benefits (3)	Total
Michael Rousseau	$1,036,000	$559,645	$67,418	$1,663,064

(1) Based on Mr. Rousseau's salary of $518,000 for the year ended December 31, 2012.
(2) Based on the December 31, 2012 closing price of Air Canada's Class B voting shares ($1.75).
(3) This amount represents the estimated cost of the continuation of group health, other insurance benefits and perquisites during the severance period.

Compensation of the Executive Vice President and Chief Commercial Officer

As per the terms of his employment agreement, the base salary of Mr. Benjamin Smith, as Executive Vice President and Chief Commercial Officer for the year ended December 31, 2012, was $460,000. Any future salary progression will be based on personal performance in the position. As was detailed at page 49 of this circular, for the 2012 calendar year, Mr. Smith's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of EBITDAR against its business plan, was a range of 50%-70% of basic annual salary with a maximum bonus of 100%-140% of basic annual salary.

Annual target grants of stock options and/or performance share units to the Executive Vice President and Chief Commercial Officer are described at pages 50 to 54 of this circular. Mr. Smith's pension benefits are described at pages 70 to 72 of this circular. Pursuant to his employment agreement, Mr. Smith was credited with an additional three years of pensionable service in 2012 upon his completion of ten years of service with Air Canada.

Mr. Smith's employment agreement provides that, in the event he is terminated without cause or if he terminates his employment for "good reason", he is entitled to receive a severance payment that is equal to two years of his then current annual base salary, as well as the continuation of certain perquisites until the earlier of the end of the severance period or his re-employment with any other employer.

The table below shows the estimated amount that would become payable to Mr. Smith in the event of the termination of his employment by Air Canada without cause or if he terminates his employment for "good reason", as if it had occurred on the last business day of 2012:

Name	BENJAMIN SMITH – IF TERMINATED WITHOUT CAUSE			
	Cash Portion (1)	Value of Exercisable/Vested Options and PSUs (2)	Other Benefits (3)	Total
Benjamin Smith	$920,000	$346,659	$49,400	$1,316,059

(1) Based on Mr. Smith's salary of $460,000 for the year ended December 31, 2012.
(2) Based on the December 31, 2012 closing price of Air Canada's Class B voting shares ($1.75).
(3) This amount represents the estimated cost of the continuation of group health, other insurance benefits and perquisites during the severance period.

Compensation of the Senior Vice President and Chief Legal Officer

On May 1, 2013, Mr. Shapiro, formerly the Vice President and General Counsel of the Corporation, was appointed Senior Vice President and Chief Legal Officer of the Corporation. As Vice President and General Counsel, Mr. Shapiro's base salary for the year ended December 31, 2012, was $356,000. Any future salary progression will be based on personal performance in the position. Mr. Shapiro's compensation package is based on the Corporation's compensation policies as they apply at the level of Senior Vice President. As was detailed at page 49 of this circular, for the 2012 calendar year, Mr. Shapiro's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of EBITDAR against its business plan, was a range of 35%-55% of basic annual salary with a maximum bonus of 70%-110% of basic annual salary.

Annual target grants of stock options and/or performance share units are described at pages 50 to 54 of this circular. Mr. Shapiro's pension benefits are described at pages 70 to 72 of this circular.

Compensation of the Senior Vice President, Operations

As Senior Vice President, Operations, Mr. Legge's base salary for the year ended December 31, 2012, was $405,000. Mr. Legge retired from his employment with the Corporation on January 1, 2013. Upon Mr. Legge's retirement, he was entitled to receive his salary, bonus under the Corporation's Annual Incentive Plan for the period worked, expense reimbursements and other benefits earned by him prior to his retirement, and no other amounts were paid or owed to Mr. Legge because of his retirement. As was detailed at page 49 of this circular, for the 2012 calendar year, Mr. Legge's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of EBITDAR against its business plan, was a range of 35%-55% of basic annual salary with a maximum bonus of 70%-110% of basic annual salary.

Annual target grants of stock options and/or performance share units to the Senior Vice President, Operations are described at pages 50 to 54 of this circular. Mr. Legge's pension benefits are described at pages 70 to 72 of this circular.

Compensation of the former Executive Vice President and Chief Operating Officer

Mr. Duncan Dee was Executive Vice President and Chief Operating Officer of Air Canada until his retirement on October 1, 2012. His base salary earned between January 1, 2012 until September 30, 2012 was $375,000. Upon Mr. Dee's retirement, he was entitled to receive his salary, bonus under the Corporation's Annual Incentive Plan for the period worked, expense reimbursements and other benefits earned by him prior to his retirement, and no other amounts were paid or owed to Mr. Dee because of his retirement.

Share Ownership Requirements for Executive Officers

On November 3, 2010, the Board adopted share ownership guidelines according to which each Executive Vice President is required to own a minimum of 50,000 shares of Air Canada. Such ownership of shares must be achieved by November 2, 2015. On March 29, 2012, the Board approved amendments to the share ownership guidelines for the President and Chief Executive Officer who is required to own a minimum of securities of the Corporation representing an amount equivalent in value to one time the annual base salary of the President and Chief Executive Officer through shares and/or performance share units. The value of the securities is based on the sum of (a) the market value of the shares underlying the performance share units; and (b) the greater of: (i) the market value of the shares and (ii) the purchase price of the shares. Such ownership must be achieved within five years of the date of the President and Chief Executive Officer's appointment.

Name	Total Value of Securities or Number of Shares Owned	Value of Securities or Number of Shares Required to Meet Guidelines	Latest Date to Meet Share Ownership Requirements
Calin Rovinescu – President and Chief Executive Officer	$5,946,805[(1)]	One time base salary	N/A
Michael Rousseau – Executive Vice President and Chief Financial Officer	71,058 shares	50,000 shares	N/A
Benjamin Smith – Executive Vice President and Chief Commercial Officer	64,449 shares	50,000 shares	N/A
Klaus Goersch – Executive Vice President and Chief Operating Officer	50,000 shares	50,000 shares	N/A

(1) This amount represents the sum of (a) the market value of the shares underlying the performance share units (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class B voting shares ($2.21)); and (b) the greater of: (i) the market value of the shares as at May 17, 2013 described above, and (ii) the purchase price of the shares. Options are not taken into account for the purposes of Air Canada's share ownership requirements.

SUMMARY COMPENSATION TABLE

The following table provides a summary of the compensation earned for the years ended December 31, 2012, 2011 and 2010 by each of Calin Rovinescu, Air Canada's President and Chief Executive Officer, Michael Rousseau, Air Canada's Executive Vice President and Chief Financial Officer and the three next most highly compensated executive officers of Air Canada at the end of the 2012 year, and Duncan Dee, Air Canada's former Executive Vice President and Chief Operating Officer (collectively, the "**Named Executive Officers**"), for services rendered in all capacities to Air Canada.

Name and principal position	Year	Salary ($)	Share-based awards ($)[1]	Option-based awards ($)[2]	Non-equity incentive plan compensation Annual incentive plans ($)	Pension value ($)	All other compensation ($)[3]	Total compensation ($)
Calin Rovinescu	2012	1,400,000[4]	558,462	367,199	1,900,000[5]	299,600	5,000,000[6]	9,525,261
President and Chief Executive Officer	2011	1,400,000	1,210,143	743,384	325,000[7]	320,500	Nil	3,999,027
	2010	1,400,000	1,392,195[8]	Nil	1,601,125[9]	156,400	Nil	4,549,720
Michael Rousseau	2012	518,000	82,880	59,286	622,000[10]	196,400	Nil	1,478,566
Executive Vice President and Chief Financial Officer	2011	518,000	406,575	274,341	300,000[11]	182,200	Nil	1,681,116
	2010	518,000	28,487	Nil	519,125[12]	156,400	Nil	1,222,012
Benjamin Smith	2012	460,000	73,600	52,648	552,000[13]	67,200	Nil	1,205,448
Executive Vice President and Chief Commercial Officer	2011	451,250	335,661	223,315	250,000[14]	111,600	Nil	1,371,826
	2010	425,000	23,373	Nil	426,125[15]	76,000	Nil	950,498
David Shapiro[16]	2012	356,000	39,982	24,899	281,000[17]	41,700	Nil	743,581
Senior Vice President and Chief Legal Officer	2011	356,000	130,186	86,454	75,000[18]	43,100	Nil	690,740
	2010	356,000	19,578	Nil	250,325[19]	227,900	Nil	852,678
David Legge[20]	2012	405,000	45,485	30,902	250,000[21]	Nil	Nil	731,387
Senior Vice President, Operations	2011	405,000	148,122	107,319	92,000[22]	401,300	Nil	1,153,741
	2010	346,879	17,874	Nil	325,125[23]	288,600	Nil	978,478
Duncan Dee[24]	2012	375,000	80,000	57,226	400,000[25]	64,600	Nil	976,826
Executive Vice President and Chief Operating Officer	2011	500,000	364,829	242,734	450,000[26]	65,400	Nil	1,622,963
	2010	500,000	27,497	Nil	501,125[27]	77,700	Nil	1,106,322

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(1) The grant date fair value of the annual grant of Performance Share Units (PSUs) awarded in 2012 under the Corporation's Long-Term Incentive Plan (LTIP), as reported in this table, reflects a payout factor of 55% for the PSUs based on performance and 100% for the PSUs based on time. The payout factor used is consistent with empirical testing of performance plan payouts, including the performance payout factor analysis provided to the Corporation by Towers Watson which was based on the compilation of actual payouts for similar plans in the market. The payout factor was applied to the value of the award which was calculated using a share price at the time of the grant of $0.96. The share price at the time of the grant is equal to the volume weighted average of the trading price per Class B voting share of Air Canada for the five consecutive trading days ending on the trading day prior to the date of the grant. The grant date fair value of the performance share units was $558,462 for Mr. Rovinescu, $82,880 for Mr. Rousseau, $73,600 for Mr. Smith, $39,982 for Mr. Shaprio, $45,485 for Mr. Legge and $80,000 for Mr. Dee. These performance share units have a term of three years and those which are performance based may vest upon the Corporation achieving its cumulative EBITDAR target over such three-year period. See "Air Canada Performance Share Units" on page 67 of this circular for more details.

The accounting fair value of these Performance Share Units was $653,624 for Mr. Rovinescu, $92,670 for Mr. Rousseau, $82,294 for Mr. Smith, $45,492 for Mr. Shapiro, $51,753 for Mr. Legge and $89,450 for Mr. Dee. The difference between the accounting fair value and the grant date fair value of the PSUs as presented in this column is $95,162 for Mr. Rovinescu, $9,790 for Mr. Rousseau, $8,694 for Mr. Smith, $5,510 for Mr. Shapiro, $6,268 for Mr. Legge and $9,450 for Mr. Dee. The difference between the accounting fair value and the grant date fair value of the performance share units as presented in this column is due to a forfeiture rate of 83.0607% applied for accounting purposes versus the payout factor of 55% and 100% applied for purposes of determining the grant date fair value.

(2) The grant date fair value for options awarded in 2012 by the Corporation as reported in this table was calculated using the binomial lattice model, being the model used by the Corporation in the review of its compensation practices with respect to target grants of incentive awards under the Long-Term Incentive Plan (refer to the heading "Long-Term Incentives – Stock Options and Performance Share Units" at page 50 of this circular for more detail).

The grant date fair value for the options granted in 2012, using the binomial lattice model, was based on the following factor, key assumptions and plan provisions:

i. Binomial factor: 41.3298%
ii. Volatility: 69.13%
iii. Dividend yield: 0%
iv. Expected life: 5.125 years
v. Term: 7 years
vi. Vesting: 50% time based (25% per year); 50% performance-based (after 4 years)

The accounting fair value of these options was: $404,898 for Mr. Rovinescu, $65,372 for Mr. Rousseau, $58,054 for Mr. Smith, $27,456 for Mr. Shapiro, $41,765 for Mr. Legge and $63,101 for Mr. Dee. The difference between the accounting fair value and the grant date fair value of the options as presented in this column is: $37,699 for Mr. Rovinescu, $6,086 for Mr. Rousseau, $5,406 for Mr. Smith, $2,557 for Mr. Shapiro, $10,863 for Mr. Legge, and $5,875 for Mr. Dee. The difference between the accounting fair value and the grant date fair value of the options as presented in this column is due to the choice of models used (Black-Scholes model for accounting purposes versus the binomial lattice model) and the use of different factors and assumptions.

(3) In 2012, perquisites and other personal benefits did not equal $50,000 or more and did not equal 10% or more of the amount of total salary for the Named Executive Officers.

<u>Calin Rovinescu</u>

(4) Mr. Rovinescu's base salary for 2012 was unchanged from 2010 and 2011. As described under the heading "Remuneration of Directors" at page 21 of this circular, Mr. Rovinescu did not receive any compensation for serving as a director of Air Canada in 2010, 2011 or 2012.

(5) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(6) Pursuant to the 2009 Employment Agreement, Mr. Rovinescu was entitled to a one-time retention payment of $5 million, upon the third anniversary of his employment, to forego his then existing employment and business opportunities and to incentivize him to remain with the Corporation. On March 31, 2012, two thirds of such amount was paid to Mr. Rovinescu and the balance was contributed to an Employee Benefit Plan. Excluding such retention payment, Mr. Rovinescu's total compensation for 2012 was $4,525,261.

(7) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(8) Mr. Rovinescu was granted 1,037,077 performance share units on February 9, 2010, as economically equivalent compensation, pursuant to the terms of his 2009 Employment Agreement. Such award of performance share units had a grant date fair value of $1,348,200. The grant date fair value of the award was calculated using a share price at the time of the grant of $1.30. The share price at the time of the grant is equal to the volume weighted average of the trading price per Class B voting share of Air Canada for the five consecutive trading days ending on the trading day prior to the date of the grant. The accounting fair value of these performance share units was the same as the grant date fair value. 33.33% of the 1,037,077 performance share units vested on each of February 9, 2011, February 9, 2012 and February 9, 2013.

(9) For the year ended December 31, 2010, (i) $1,600,000 was paid to Mr. Rovinescu pursuant to the terms of the Annual Incentive Plan, and (ii) $1,125 was paid to Mr. Rovinescu pursuant to the terms of the Sharing our Success Plan.

Michael Rousseau

(10) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(11) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(12) For the year ended December 31, 2010, (i) $518,000 was paid to Mr. Rousseau pursuant to the terms of the Annual Incentive Plan, and (ii) $1,125 was paid to Mr. Rousseau pursuant to the terms of the Sharing our Success Plan.

Benjamin Smith

(13) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(14) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(15) For the year ended December 31, 2010, (i) $425,000 was paid to Mr. Smith pursuant to the terms of the Annual Incentive Plan, and (ii) $1,125 was paid to Mr. Smith pursuant to the terms of the Sharing our Success Plan.

David Shapiro

(16) On May 1, 2013, Mr. Shapiro, formerly the Vice President and General Counsel of the Corporation, was appointed Senior Vice President and Chief Legal Officer of the Corporation.

(17) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(18) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(19) For the year ended December 31, 2010, (i) $249,200 was paid to Mr. Shapiro pursuant to the terms of the Annual Incentive Plan, and (ii) $1,125 was paid to Mr. Shapiro pursuant to the terms of the Sharing our Success Plan.

David Legge

(20) Mr. Legge retired from his employment as Senior Vice President, Operations of Air Canada on January 1, 2013.

(21) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(22) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(23) For the year ended December 31, 2010, (i) $324,000 was paid to Mr. Legge pursuant to the terms of the Annual Incentive Plan, and (ii) $1,125 was paid to Mr. Legge pursuant to the terms of the Sharing our Success Plan.

Duncan Dee

(24) Mr. Dee retired from his employment as Executive Vice President and Chief Operating Officer of Air Canada on October 1, 2012.

(25) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(26) Amounts paid pursuant to the terms of the Annual Incentive Plan.

(27) For the year ended December 31, 2010, (i) $500,000 was paid to Mr. Dee pursuant to the terms of the Annual Incentive Plan, and (ii) $1,125 was paid to Mr. Dee pursuant to the terms of the Sharing our Success Plan.

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Long-Term Incentive Plan Awards

The following table details all unexercised options held by the Named Executive Officers as at December 31, 2012. By virtue of these options and subject to the applicable vesting restrictions under the Air Canada Long-Term Incentive Plan, the Named Executive Officers have the right to acquire Class B voting shares.

AIR CANADA STOCK OPTIONS

Name	Option-based awards			
	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)[1]
Calin Rovinescu	1,000,000	0.97	May 7, 2016	780,000
	719,700	2.34	April 8, 2018	Nil
	925,481	0.96	April 2, 2019	731,130
Michael Rousseau	82,500	14.90	Oct 10, 2014	Nil
	200,000	1.59	Jul 31, 2016	32,000
	265,600	2.34	April 8, 2018	Nil
	149,423	0.96	April 2, 2019	118,044
Benjamin Smith	17,357	21.00	Nov 24, 2013	Nil
	55,000	15.85	May 10, 2014	Nil
	150,000	1.59	Jul 31, 2016	24,000
	216,200	2.34	April 8, 2018	Nil
	132,692	0.96	April 2, 2019	104,827
David Shapiro	16,715	21.00	Nov 24, 2013	Nil
	50,000	1.59	Jul 31, 2016	8,000
	83,700	2.34	April 8, 2018	Nil
	62,756	0.96	April 2, 2019	49,577
David Legge[2]	16,072	21.00	Nov 24, 2013	Nil
	75,000	1.59	Jul 31, 2016	12,000
	103,900	2.34	April 8, 2018	Nil
	77,885	0.96	April 2, 2019	61,529
Duncan Dee[3]	55,000	11.08	Aug 17, 2014	Nil

(1) Based on the closing price of the Class B voting shares ($1.75) on December 31, 2012.

(2) Mr. Legge retired from his employment as Senior Vice President, Operations of Air Canada on January 1, 2013.

(3) Mr. Dee retired from his employment as Executive Vice President and Chief Operating Officer of Air Canada on October 1, 2012.

AIR CANADA PERFORMANCE SHARE UNITS

The table below details the number and market value of unvested performance share units held by the Named Executive Officers as at December 31, 2012.

Name	Share-based awards			
	Number of shares or units of shares that have not vested (#)	Performance Cycle	Market or payout value of share-based awards that have not vested ($)(1)	Market or payout value of vested share-based awards not paid out or distributed ($)
Calin Rovinescu	345,693(2) 470,100 258,600 528,846 290,866	Feb 9, 2010 to Feb 9, 2013 Jan 1, 2011 to Dec 31, 2013 April 8, 2011 to April 8, 2014 Jan 1, 2012 to Dec 31, 2014 April 2, 2012 to April 2, 2015	604,963 822,675 452,550 925,481 509,016	Nil
Michael Rousseau	155,000 88,500 66,410 49,808	Jan 1, 2011 to Dec 31, 2013 April 8, 2011 to April 8, 2014 Jan 1, 2012 to Dec 31, 2014 April 2, 2012 to April 2, 2015	271,250 154,875 116,218 87,164	Nil
Benjamin Smith	117,900 78,600 58,974 44,231	Jan 1, 2011 to Dec 31, 2013 April 8, 2011 to April 8, 2014 Jan 1, 2012 to Dec 31, 2014 April 2, 2012 to April 2, 2015	206,325 137,550 103,205 77,404	Nil
David Shapiro	45,700 30,500 34,231 22,821	Jan 1, 2011 to Dec 31, 2013 April 8, 2011 to April 8, 2014 Jan 1, 2012 to Dec 31, 2014 April 2, 2012 to April 2, 2015	79,975 53,375 59,904 39,937	Nil
David Legge(3)	52,000 34,700 38,942 25,962	Jan 1, 2011 to Dec 31, 2013 April 8, 2011 to April 8, 2014 Jan 1, 2012 to Dec 31, 2014 April 2, 2012 to April 2, 2015	91,000 60,725 68,149 45,434	Nil
Duncan Dee(4)	Nil	Nil	Nil	Nil

(1) Based on the closing price of Class B voting shares ($1.75) on December 31, 2012.

(2) Such shares represent the remaining underlying shares of the 1,037,077 performance share units granted pursuant to the anti-dilution clause of Mr. Rovinescu's 2009 Employment Agreement, as further detailed under the heading "Compensation of the Named Executive Officers– Compensation of the President and Chief Executive Officer".

(3) Mr. Legge retired from his employment as Senior Vice President, Operations of Air Canada on January 1, 2013.

(4) Mr. Dee retired from his employment as Executive Vice President and Chief Operating Officer of Air Canada on October 1, 2012.

Performance Share Unit Redemptions

532,136 performance share units of the Named Executive Officers, granted in 2010, vested in 2012 as the Corporation's 3-year annual EBITDAR target was achieved.

Incentive plan awards – value vested or earned during the year

As concerns option-based awards, the table below provides information on the value that would have been realized if the Named Executive Officer exercised the awards that vested during the year ended December 31, 2012 on the vesting date of such awards. As concerns non-equity plan compensation, the table below summarizes the aggregate amount of such compensation received by each Named Executive Officer during the year ended December 31, 2012. For details with respect to the amounts set out in the "Non-equity incentive plan compensation" column below, please refer to the corresponding column of the "Summary Compensation Table" at page 63 of this circular.

Option-based awards						Non-equity incentive plan compensation
Name	Options Vested	Exercise Price ($)	Vesting Date	Market (closing) Price of Shares on the Date of Vesting ($)	Value Vested during the Year[(1)] ($)	Value Earned during the Year[(2)] ($)
Calin Rovinescu	250,000 89,963	0.97 2.34	May 7, 2012 April 8, 2012	0.94 0.87	Nil	1,900,000
Michael Rousseau	25,000 33,200	1.59 2.34	July 31, 2012 April 8, 2012	1.14 0.87	Nil	622,000
Benjamin Smith	18,750 27,025	1.59 2.34	July 31, 2012 April 8, 2012	1.14 0.87	Nil	552,000
David Shapiro	6,250 10,463	1.59 2.34	July 31, 2012 April 8, 2012	1.14 0.87	Nil	281,000
David Legge[(3)]	9,375 12,988	1.59 2.34	July 31, 2012 April 8, 2012	1.14 0.87	Nil	250,000
Duncan Dee[(4)]	Nil	Nil	-	Nil	Nil	400,000

(1) Calculated as the difference between the market (closing) price of the shares on the date of vesting and the exercise price payable in order to exercise the options.

(2) Represents amounts paid pursuant to the Annual Incentive Plan in 2012, and corresponds to the amounts disclosed in the Summary Compensation Table on page 63 of this circular under the heading "Annual Incentive Plans".

(3) Mr. Legge retired from his employment as Senior Vice President, Operations of Air Canada on January 1, 2013.

(4) Mr. Dee retired from his employment as Executive Vice President and Chief Operating Officer of Air Canada on October 1, 2012.

Performance Share Units – value vested or earned during the year

The performance share units of the Named Executive Officers that vested in 2012 are disclosed in the table below.

Share-based awards				
Name	Performance Share Units Vested	Vesting Date	Fair Market Value of Shares on the Date of Vesting ($)	Value vested during the Year[(1)] ($)
Calin Rovinescu	345,692 61,532	February 9, 2012 December 31, 2012	1.32 1.76	456,313 108,296
Michael Rousseau	39,842	December 31, 2012	1.76	70,122
Benjamin Smith	32,689	December 31, 2012	1.76	57,533
David Shapiro	27,382	December 31, 2012	1.76	48,192
David Legge[(2)]	24,998	December 31, 2012	1.76	43,996
Duncan Dee[(3)]	Nil	-	Nil	Nil

(1) The vesting of Mr. Rovinescu's performance share units was in the form of 61,532 shares and the balance in cash; the vesting of the performance share units of the other NEOs, other than Mr. Legge, was in shares.

(2) Mr. Legge retired from his employment as Senior Vice President, Operations of Air Canada on January 1, 2013.

(3) Mr. Dee retired from his employment as Executive Vice President and Chief Operating Officer of Air Canada on October 1, 2012.

Retirement Plan Benefits

Air Canada provides its Named Executive Officers with a non-contributory, final average earnings defined benefit registered pension plan (the "**Pension Plan**") and a SERP integrated with the Canada / Québec pension plans. The defined benefit SERP is a partially funded supplemental arrangement that provides retirement income beyond the limitations of the Pension Plan.

Benefits under the Pension Plan and SERP are calculated by multiplying (i) 2% of the final average annual salary (excluding bonuses, honoraria and special allowances) during the executive's highest paid 36 successive months of company service less an amount equal to 0.25% times the Canada / Quebec pension plan's average annual yearly maximum pensionable earnings during the same 36-month period used to determine the executive's average annual salary by (ii) the executive's years of service (maximum 35 years).

All recent collective agreements with the Corporation's five major Canadian unions provide for changes to the pension plans effective January 1, 2014, mainly with respect to the early retirement conditions. In addition, members of unionized groups are now hired under new pension arrangements. Changes have also been made to pension arrangements of management employees, including the Named Executive Officers. Changes to pension plans are subject to approval by the Office of the Superintendent of Financial Institutions. Unless specified otherwise, under the current terms, executive officers are eligible to retire at the earliest of: (i) 25 years of service, (ii) when their age plus years of service equals the sum of 80 (collectively referred to as "points") or (iii) at age 65. If an executive officer is eligible to retire based on the foregoing criteria, his or her retirement benefits will not be reduced if he or she retires at or after age 55 if such retirement occurs before 2014. If an executive officer retires after 2013, he or she will be eligible to an unreduced pension if the following three conditions are met: (i) the executive is at least 55 years old, (ii) the executive has at least 80 points and (iii) the executive officer has obtained the consent of Air Canada as administrator of the pension plan. However, executive officers who will reach the criteria of age 55 and 80 points by the end of 2013 will remain eligible to an unreduced pension. Eligibility to an unreduced pension for such employees only will not be subject to the consent of Air Canada. Under the terms of federal pension legislation, should any member leave employment at least 10 years prior to the date they become eligible for an unreduced pension without the consent of the administrator, he or she is entitled to elect a lump sum payment from the Pension Plan in lieu of an immediate or deferred pension. Such eligibility is determined without regard to additional years of pensionable service which are credited in the SERP. In accordance with the terms of the SERP, the payment option that an executive elects in the Pension Plan is also applicable to the SERP.

In 2012, the Corporation established a non-contributory defined contribution pension plan for new executive officers. At Air Canada's discretion, executives hired in 2012, but before October 1, 2012, were provided a choice to participate in the defined benefit pension plan or the defined contribution pension plan; executives hired on or after October 1, 2012 automatically participate in the new defined contribution pension plan. Under the plan, the Corporation contributes a percentage of the individual's salary into a registered defined contribution pension plan up to the maximum permissible under the *Income Tax Act* (Canada). A SERP will be established in 2013 for contributions in excess of the maximum permitted by the *Income Tax Act* (Canada).

The following table provides information on the pension benefits of each Named Executive Officer calculated as of December 31, 2012.

PENSION BENEFITS

Name	Number of years of credited service (#) (1)	Annual benefits payable ($)		Accrued obligation at start of year ($) (4)	Compensatory Change ($) (5)	Non-Compensatory Change ($) (6)	Accrued obligation at year end ($) (7)
		At year end (2)	At age 65 (3)				
Calin Rovinescu (2 separate periods of employment combined)(8)	20.6400	241,300	391,500	3,653,400	299,600	640,500	4,593,500
Michael Rousseau	10.2500	104,900	260,200	921,900	196,400	168,000	1,286,300
Benjamin Smith	15.0833	132,500	307,500	1,024,300	67,200	416,600	1,508,100
David Shapiro	15.4167	107,900	204,700	1,165,900	41,700	309,300	1,516,900
David Legge(9)	35.0000	265,700	265,700	3,452,100	0	1,030,700	4,482,800
Duncan Dee(10)	3.5833	35,400	35,400	238,000	64,600	-25,200	277,400

(1) This column reflects the number of years of credited service for each Named Executive Officer as of the year ended December 31, 2012, including, as the case may be, any additional pensionable service credited pursuant to the Named Executive Officer's individual employment agreement. In respect of Mr. Rovinescu, this column includes years of credited pensionable service in respect of his previous period of employment with the Corporation. In respect of his current period of employment, Mr. Rovinescu had 3.75 years of credited pensionable service as of December 31, 2012.

As per their respective individual employment agreements, two of the above Named Executive Officers were credited for additional years of pensionable service under the SERP beyond the credited service they would have otherwise normally accumulated, namely:

A. Mr. Rousseau was credited with an additional 5 years of pensionable service on October 22, 2012 upon his completion of 5 years of service with Air Canada.

B. Mr. Smith was credited with an additional 3 years of pensionable service on March 1, 2012 upon his completion of 10 years of service with Air Canada.

(2) Annual unreduced pension benefits are based on the average annual salary during the Named Executive Officer's highest paid 36 successive months of company service and the credited service as of December 31, 2012. The payment of such unreduced pension benefit cannot commence earlier than the Named Executive Officer's unreduced early retirement date.

(3) Projected annual pension benefits that would be payable to the Named Executive Officer as of age 65, based on his average annual salary during his highest paid 36 successive months of company service as of December 31, 2012 and his credited service being projected to age 65 (subject to a maximum of 35 years).

(4) The accrued obligation at the beginning of the year represents the value of pension benefits for company service rendered prior to that date, using the same assumptions that were used for 2011 year-end financial statement reporting purposes. These assumptions include future earnings projections at the rate of 2.5% per annum until retirement, as well as assumptions regarding retirement, termination and death. Benefits are valued using a discount rate of 5.2%, which reflects corporate AA bond yields at the beginning of the year as was adopted for 2011 year-end disclosure. The service prorate method was applied, meaning that the benefit obligation, including the liability pursuant to additional credited service under individual employment agreements entered into prior to 2012, is spread equally over the Named Executive Officer's projected career with Air Canada, regardless of when the credited service is granted, except such projected career is limited to 35 years of pensionable service.

(5) The compensatory change represents the value of pension benefits accrued in the most recently completed financial year due to the accumulation of company service and changes in salary or the terms of the plan. It includes service costs, differences between actual and estimated earnings and any plan changes that have retroactive impact. The amounts disclosed with respect to changes in salary reflect 2012 year-end assumptions.

(6) The non-compensatory change in the accrued obligation for the Corporation's most recently completed financial year includes all items that are not compensatory, such as changes in assumptions and interest on the accrued obligation at the start of the year.

(7) The accrued obligation at the end of the Corporation's most recently completed financial year represents the value of pension benefits for company service rendered prior to December 31, 2012 and is based on 2012 year-end assumptions. The 2012 year-end assumptions are the same as for 2011, except a discount rate of 4.3% was used, which reflects corporate AA bond yields at the end of the year, and salary increases of 2% for 2013, 3% for 2014 and 2015, and 2.5% thereafter (plus merit scales) were used. Future earnings projections are applied to 2012 earnings.

(8) Mr. Rovinescu was entitled to an annual benefit payable of $168,600 in relation to his previous period of employment with the Corporation. Effective November 1, 2009, all pension payments in relation to his previous employment with Air Canada were voluntarily suspended. Benefits related to his previous employments will continue to accrue and will become payable to Mr. Rovinescu upon his departure / retirement from Air Canada, together with the pension that will accrue from his current period of employment.

(9) Mr. Legge retired from his employment as Senior Vice President, Operations of Air Canada on January 1, 2013. Mr. Legge had accumulated 30.67 years of service in the pilots pension arrangements prior to his transfer to executive pension arrangements on March 1, 2006. For each year of service Mr. Legge rendered as an executive, five years of his pilots service were recognized in the executive pension arrangements. As of April 2012, all of Mr. Legge's service had been recognized in the executive arrangements. Upon Mr. Legge's retirement, he was entitled to receive his salary, expense reimbursements and other benefits earned by him prior to his retirement, and no other amounts were made or owed to Mr. Legge because of his retirement.

(10) Mr. Dee retired from his employment as Executive Vice President and Chief Operating Officer of Air Canada on October 1, 2012. The accrued obligation at year-end represents his lump sum value as at September 30, 2012, increased with interest until December 31, 2012.

TERMINATION AND CHANGE OF CONTROL BENEFITS

The obligations of the Corporation vis-à-vis its Named Executive Officers in the event of termination were described above under the heading "Compensation of the Named Executive Officers" at page 58 and following of this circular.

Air Canada is currently a party to change of control agreements with each of Messrs. Rovinescu, Rousseau and Smith. Under these agreements, a "Change of Control" is generally defined as follows:

> (i) any event or series of related events as a result of or following which any person or two or more persons acting jointly or in concert, beneficially owns or exercises control or direction, directly or indirectly, over thirty-five (35%) percent or more of all issued and outstanding voting securities carrying thirty-five (35%) percent or more of the votes attached to all voting securities then outstanding; (ii) any event as a result of or following which any person or two or more persons acting jointly or in concert, beneficially owns or exercises control or direction over voting securities carrying twenty-five (25%) percent or more of the votes attached to all voting securities then outstanding followed by a change in the composition of the Board such that, at any time within two years following thereafter, individuals who were members of the Board immediately prior to such event cease to constitute a majority of the Board; (iii) a change in the composition of the Board, which occurs at a single meeting of the shareholders or upon the execution of a shareholders' resolution, such that individuals who are members of the Board immediately prior to such meeting or resolution cease to constitute a majority of the Board without the Board, as constituted immediately prior to such meeting or resolution, approving of such change; or (iv) any event or series of related events as a result of or following which the beneficial ownership or control or direction over the assets of Air Canada has decreased by an amount of not less than forty (40%) percent of the assets of Air Canada (on a consolidated basis), as shown on a consolidated balance sheet for Air Canada at the end of the last completed quarter (prior to the event or the first of the series of related events) of the then current financial year or as at the end of the last completed financial year if the event or the first of the series of related events occurs during the first quarter of a financial year.

Notwithstanding the foregoing, the term "Change of Control" as defined in the agreement expressly excludes:

> (i) any event in which all the holders of the outstanding equity securities and voting securities with identical attributes in the same relative amounts in a company which acquires all of the equity securities and voting securities and the composition of the board of directors of such company is identical to the composition of the board of directors of Air Canada at the time of such event and further provided that the executive holds the same position with the same title and responsibilities at such company; or (ii) any event forming part of the Plan of Arrangement of ACE Aviation Holdings Inc. as described in its press release dated December 10, 2008 and the material change report dated December 19, 2008 (Form 51-102F3) as filed with the Ontario Securities Commission.

In order for the benefits under the change of control agreements to become payable to Messrs. Rovinescu, Rousseau or Smith, following the occurrence of a Change of Control (as summarized above), there must, within the subsequent 24 month period, be an involuntary termination (as defined in the agreements) of the respective executive's employment. In the event an involuntary termination of the respective executive's employment occurs within the subsequent 24 month period, the specified amounts would become payable under the agreement to such executive.

In the case of Mr. Rovinescu, the agreement provides that Mr. Rovinescu would become entitled to the payments and benefits to which he is entitled under the terms of his 2009 Employment Agreement in the event of a termination without cause (such payments and benefits having been summarized at pages 59 and 60 of this circular). In the case of Messrs. Rousseau and Smith, the agreements provide for payment of two years of base salary and two years of their respective average bonuses for the last two completed years. Additionally, the agreements generally provide for the continuation of insurance benefits, the continuation of pensionable service, the acceleration of established retirement arrangements and the immediate vesting of all stock options and performance share units.

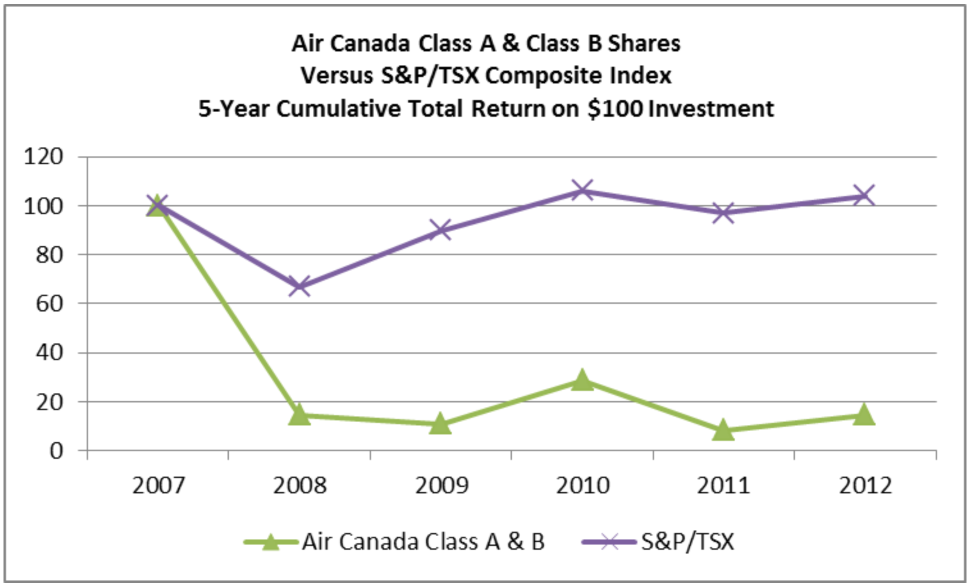
Air Canada and Mr. Rovinescu entered into an additional agreement whereby following a "Hostile Change of Control", Mr. Rovinescu has the right at any time within 2 years thereafter, to require the Board of Directors to terminate his employment and any such termination shall be considered to be (and have the same effect as) a termination without cause under the terms of his 2009 Employment Agreement (the payments and benefits to which he would then be entitled having been summarized at pages 59 and 60 of this circular). Under this agreement, a "Hostile Change of Control" is defined as follows:

> a "Change of Control" (as was defined above) that results from the take-up of securities under a "take-over bid" (as such term is defined in Québec *Regulation 62-104 respecting take-over bids and issuer bids* ("62-104")) that is not exempt from the formal bid requirements set out in Part 2 of 62-104 including any acquisition of securities under a statutory right of compulsory acquisition or any second step business combination within the meaning of Québec *Regulation 61-101 respecting protection of minority security holders in special transactions*, in each case within 120 days following the completion of such take-over bid, and such take-over bid: (i) was not solicited, initiated, approved or recommended by the Board of Directors of Air Canada (a "Hostile Bid"), (ii) was solicited, initiated, approved or recommended by the Board of Directors of Air Canada in response to or as an alternative to a Hostile Bid, or (iii) was initially a Hostile Bid but was ultimately approved or recommended by the Board of Directors of Air Canada based on one or more modifications or variations to the take-over bid whether at the request or suggestion of the Board of Directors of Air Canada or otherwise.

PERFORMANCE GRAPH

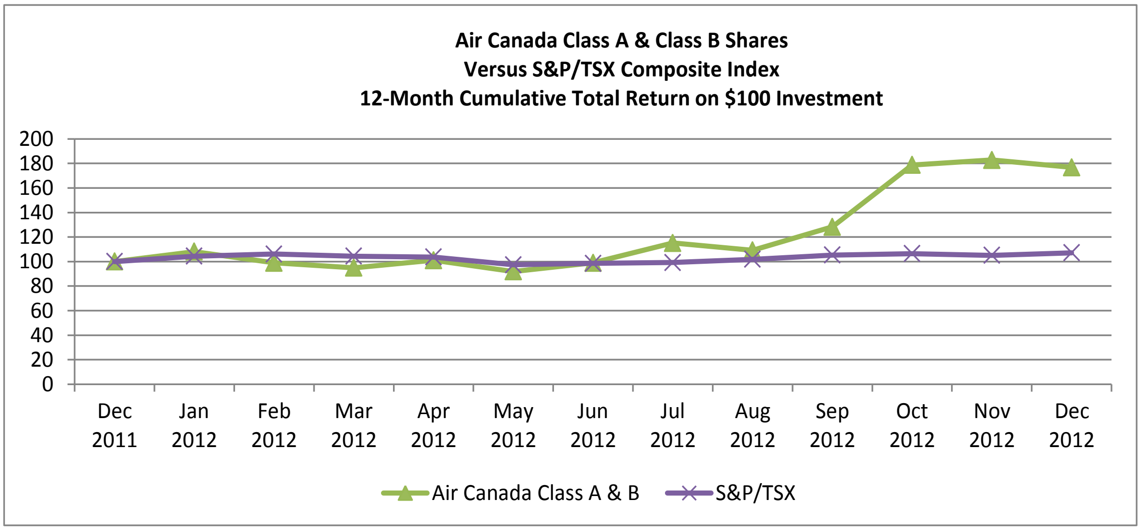
Five Year Total Shareholder Return Comparison

The following performance graph compares the total cumulative return of a $100 investment in the Class A variable voting shares and Class B voting shares of the Corporation made on January 1, 2008 with the cumulative return on the S&P/TSX Composite Index for the period beginning on January 1, 2008 and ended December 31, 2012. The Class A variable voting shares and the Class B voting shares started trading on the TSX on November 24, 2006.



Historically, airlines have experienced volatility in their share prices due to the significant challenges faced by the industry in general. Since November 2006, Air Canada's performance and the price of its shares has been impacted by many factors, including an unprecedented spike in the price of fuel, adverse fluctuations in foreign exchange, the impact of a large pension deficit resulting from low interest rates and the effects of a severe global recession, which affected the entire airline industry worldwide.

The price of Air Canada's Class A variable voting shares and Class B voting shares rose approximately 73% and 77%, respectively, from December 31, 2011 to December 31, 2012. The following performance graph compares the total cumulative return of a $100 investment in the Class A variable voting shares and Class B voting shares of the Corporation made on December 31, 2011 with the cumulative return on the S&P/TSX Composite Index for the period beginning on December 31, 2011 and ended December 31, 2012.



The Corporation's executive compensation program, which includes base salary and short-term and long-term incentive programs, are designed to align Air Canada's financial and market performance with the value its Named Executive Officers receive from these performance-based programs. Compensation of Air Canada's Named Executive Officers has remained fairly constant relative to the Corporation's EBITDAR and a large portion of compensation is in the form of long-term incentives, as described on page 48 of this circular ("Components of Executive Compensation"). Realized payouts related to Long Term Incentive Plan awards are directly affected by share price, both negatively and positively, evidenced by the forfeiture of performance-based stock options and performance-based share units granted between 2006 and 2008, and conversely, in-the-money options and vesting of stock options and performance share units granted in and after 2009.

Cost of Management Ratio

The following table shows the total aggregate compensation awarded to the Named Executive Officers for the last three years, expressed as a percentage of EBITDAR. The total aggregate compensation is the sum of the annual total compensation values reported in the Summary Compensation Table for the 2010, 2011 and 2012 years.

	2010	**2011**	**2012**
Total aggregate NEO compensation ($ millions)(1)(2)	8.05	8.82	8.29(3)
EBITDAR ($ millions)	1,386	1,242	1,327
As a percentage of EBITDAR	0.58%	0.71%	0.62%

(1) Named Executive Officers by year include:
2012 – Calin Rovinescu, Michael Rousseau, Benjamin Smith, David Shapiro, David Legge and Duncan Dee.
2011 – Calin Rovinescu, Michael Rousseau, Duncan Dee, Benjamin Smith and David Legge.
2010 – Calin Rovinescu, Michael Rousseau, Duncan Dee, Benjamin Smith and David Legge.

(2) Total amount of compensation excludes pension value paid to the Named Executive Officers.

(3) Total amount of compensation for 2012 excludes the $5 million retention payment made to Calin Rovinescu pursuant to the 2009 Employment Agreement.

OTHER IMPORTANT INFORMATION

Directors' and Officers' Liability Insurance

Air Canada maintains directors' and officers' liability insurance for the benefit of the directors and officers of Air Canada and its subsidiaries. The current policy is effective from October 1, 2012 to October 1, 2013 and protects the directors and officers from allegations of alleged "wrongful acts" in the conduct of their activities as directors and officers. The aggregate premium for this period of insurance is US$1,367,207. The directors are indemnified by Air Canada from and against any losses or damages they may suffer in their capacity as directors, to the fullest extent permitted by, but subject to the limitations of, applicable law.

Indebtedness of directors and officers

As at May 21, 2013, none of the directors or executive officers of Air Canada nor any associate of such director or executive officer are indebted to Air Canada or any of its subsidiaries. Additionally, Air Canada has not provided any guarantee, support agreement, letter of credit or similar arrangement or undertaking in respect of any indebtedness of any such person to any other person or entity.

Interest of Informed Persons in Material Transactions

To the best of the Corporation's knowledge, no director, senior officer or other insider, as applicable, of the Corporation, nor any associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction since the commencement of the Corporation's last financial year or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its subsidiaries.

Mail service interruption

If there is a mail service interruption prior to the meeting, in order to return a completed proxy to CST, it is recommended that the shareholder deposit the completed form of proxy, in the envelope provided, at any of the following principal offices of CST:

Alberta

600 The Dome Tower
6th Floor
333 – 7th Avenue S.W.
Calgary, Alberta

British Columbia

1066 West Hastings St.
The Oceanic Plaza
Suite 1600
Vancouver, British Columbia

Nova Scotia

1660 Hollis Street
Centennial Building
Suite 406
Halifax, Nova Scotia

Ontario

320 Bay Street
B1 Level
Toronto, Ontario

Québec

2001 University Street
Suite 1600
Montreal, Québec

Shareholder proposals for our 2014 annual meeting

We will include proposals from shareholders that comply with applicable laws in next year's management proxy circular for our 2014 annual shareholder meeting. Please send your proposal to the Corporate Secretary of Air Canada at P.O. Box 14,000, Station Airport, Dorval, Québec, H4Y 1H4 by February 20, 2014.

AIR CANADA

HOW TO REQUEST MORE INFORMATION

Documents you can request

Financial information with respect to Air Canada is provided in its comparative financial statements and Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) for the year ended December 31, 2012 and for the three-month period ended March 31, 2013. You can ask us for a copy of the following documents at no charge:

- Air Canada's annual report for the year ended December 31, 2012, which includes our consolidated financial statements together with the accompanying auditors' report;
- our MD&A related to such annual consolidated financial statements;
- any interim financial statements that were filed after the consolidated financial statements for the year ended December 31, 2012, including those for the three-month period ended March 31, 2013;
- our MD&A related to such interim financial statements, including our MD&A for the three-month period ended March 31, 2013; and
- our Annual Information Form for the year ended December 31, 2012.

Please write to Shareholder Relations of Air Canada at Air Canada Centre, P.O. Box 14000, Station Airport, Dorval, Québec, H4Y 1H4.

These documents and additional information will also be available on our website at www.aircanada.com and on SEDAR at www.sedar.com. All of our news releases are also available on our website.

Receiving information electronically

You can choose to receive electronically all of our corporate documents, such as this circular and our annual report. We will send you an e-mail telling you when they are available on our website. If you do not sign up for this service, we will continue to send you these documents by mail.

How to sign up – registered shareholders

You are a registered shareholder if your name appears on your share certificate.

If you are not sure whether you are a registered shareholder, please contact CST at 1-800-387-0825.

To sign up go to the website www.canstockta.com/electronicdelivery and follow the instructions.

How to sign up – non-registered shareholders

You are a non-registered shareholder if your bank, trust company, securities broker or other financial institution (your nominee) holds your shares for you.

If you are not sure whether you are a non-registered shareholder, please contact CST at 1-800-387-0825.

To sign up, go to the website www.investordelivery.com and follow the instructions.

How to sign up – employees holding shares under the Employee Share Ownership Plan or the Employee Recognition Share Award Plan of Air Canada

If you are not sure whether you are an employee holding your shares through Computershare, please contact Computershare at 1-877-982-8766.

To sign up, go to the website www.computershare.com/employee/ca and follow the instructions.

SCHEDULE "A"

AIR CANADA

CHARTER OF THE BOARD OF DIRECTORS

I. PURPOSE

This charter describes the role of the board of directors (the "Board") of Air Canada (the "Corporation"). This charter is subject to the provisions of the Corporation's articles of incorporation and by-laws and to applicable laws. This charter is not intended to limit, enlarge or change in any way the responsibilities of the Board as determined by such articles, by-laws and applicable laws. Directors are elected annually by the shareholders of the Corporation and together with those appointed to fill vacancies or appointed as additional directors throughout the year, collectively constitute the Board.

II. ROLE

The Board is responsible for the stewardship of the Corporation and its business and is accountable to shareholders for the performance of the Corporation.

The Board establishes the overall policies for the Corporation, monitors and evaluates the Corporation's strategic direction, and retains plenary power for those functions not specifically delegated by it to its Committees or to management. Accordingly, in addition to the duties of directors of a Canadian corporation as prescribed by applicable laws, the mandate of the Board is to supervise the management of the business and affairs of the Corporation with a view to evaluate, on an ongoing basis, whether the Corporation's resources are being managed in a manner consistent with ethical considerations and stakeholder's interests and in order to enhance shareholder value. In discharging their duties, directors must act honestly and in good faith, with a view to the best interests of the Corporation. Directors must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

III. COMPOSITION

Selection

The Board shall be comprised of that number of directors as shall be determined from time to time by the Board upon recommendation of the Nominating Committee of the Board.

The Nominating Committee of the Board maintains an overview of the desired size of the Board, the need for recruitment and the expected skill-set of new candidates. The Nominating Committee reviews and recommends to the Board candidates for nomination as directors. The Board approves the final choice of candidates for nomination and election by the shareholders.

Board members must have an appropriate mix of skills, knowledge and experience in business and an understanding of the industry and the geographical areas in which the Corporation operates. Directors selected should be able to commit the requisite time for all of the Board's business.

Chairman

A Chairman of the Board shall be appointed by the Board.

Independence

A majority of the Board shall be composed of directors who must be determined to have no material relationship with the Corporation and who, in the reasonable opinion of the Board, must be unrelated and independent under the laws, regulations and listing requirements to which the Corporation is subject.

Criteria for Board Membership

Board members are expected to possess the following characteristics and traits:

(a) demonstrate high ethical standards and integrity in their personal and professional dealings;

(b) act honestly and in good faith with a view to the best interests of the Corporation;

(c) devote sufficient time to the affairs of the Corporation and exercise care, diligence and skill in fulfilling their responsibilities both as Board members and as Committee members;

(d) provide independent judgment on a broad range of issues;

(e) understand and challenge the key business plans and the strategic direction of the Corporation;

(f) raise questions and issues to facilitate active and effective participation in the deliberation of the Board and of each Committee;

(g) make all reasonable efforts to attend all Board and Committee meetings;

(h) review the materials provided by management in advance of the Board and Committee meetings.

Retirement Age for Directors

The policy of the Board is that no person shall be appointed or elected as a director if the person exceeds 75 years of age. The policy allows for an exception where the Board determines it is in the interest of the Corporation to request a director to extend his or her term beyond the regular retirement age, provided however that such extension is requested in one-year increments.

IV. COMPENSATION

The Board has determined that the directors should be compensated in a form and amount which is appropriate and which is customary for comparable corporations, having regard for such matters as time commitment, responsibility and trends in director compensation.

V. RESPONSIBILITIES

Without limiting the Board's governance obligations, general Board responsibilities shall include the following:

(a) discussing and developing the Corporation's approach to corporate governance, with the involvement of the Governance and Corporate Matters Committee;

(b) reviewing and approving management's strategic and business plans on an annual basis, including developing an in-depth knowledge of the business being served, understanding and questioning the plans' assumptions, and reaching an independent judgment as to the probability that the plans can be realized;

(c) monitoring corporate performance against the strategic and business plans, including overseeing operating results on a regular basis to evaluate whether the business is being properly managed;

(d) appointing the Corporation's Chief Executive Officer, satisfying itself that a succession plan is in place and developing his or her position description with the recommendation of the Governance and Corporate Matters Committee;

(e) reviewing, through the Human Resources and Compensation Committee, the compensation of the Chief Executive Officer;

(f) identifying the principal risks of the Corporation and satisfying itself that the appropriate systems are implemented to manage these risks;

(g) satisfying itself that appropriate structures and procedures are in place so that the Board and its Committees can function independently of management;

(h) satisfying itself with respect to the proper and efficient functioning of its Committees;

(i) providing a source of advice and counsel to management;

(j) reviewing and approving key policies developed by management;

(k) reviewing, approving and as required, overseeing compliance with the Corporation's disclosure policy by directors, officers and other management personnel and employees;

(l) overseeing the Corporation's disclosure controls and procedures;

(m) monitoring, through the Audit, Finance and Risk Committee, the Corporation's internal controls and information systems;

(n) reviewing management's organization plans and reporting structure, succession plans for executive management and contingency plans in the event of disability of key executives;

(o) satisfying itself that members of management possess the ability required for their roles, are adequately trained and monitored and that planning for their succession is ongoing;

(p) satisfying itself that the Chief Executive Officer and the other members of management have the integrity required for their roles and the capability to promote a culture of integrity and accountability within the Corporation;

(q) conducting, through the Governance and Corporate Matters Committee, an annual assessment of the Board and the Committees and of individual members of the Board;

(r) selecting, upon the recommendation of the Nominating Committee, nominees for election as directors;

(s) selecting a Chairman of the Board;

(t) reviewing with the Governance and Corporate Matters Committee that the Board as a whole, the Committees of the Board and the directors are capable of carrying out and do carry out their roles effectively; and

(u) in respect of the retirement plans, ensuring that the plans are consistent with the goals and objectives of the Corporation, and that the plans are effectively governed and appropriately funded.

VI. MEETINGS

The Board will meet at least quarterly, with additional meetings scheduled as required. Each director has a responsibility to attend and participate in meetings of the Board. The Chairman will prepare and distribute the meeting agenda and minutes to the Board.

Information and materials that are important to the Board's understanding of the agenda items and related topics will be distributed in advance of a meeting. The Corporation will deliver information on the business, operations and finances of the Corporation, to the Board on an as-required basis.

On the occasion of each Board meeting, non-management directors will consider if an "in-camera" meeting under the chairmanship of the Chairman would be appropriate. Additional meetings may be held at the request of any director with notice to all members of the Board. The Chairman will forward to the President and Chief Executive Officer any questions, comments or suggestions of the directors.

VII. DECISIONS REQUIRING PRIOR BOARD APPROVAL

In addition to those specific matters requiring prior Board approval pursuant to the Corporation's by-laws or applicable laws, the Board will be responsible for approving the following:

(a) interim and annual financial statements, provided that the Board may delegate to the Audit, Finance and Risk Committee the responsibility to review such financial statements and make its recommendations to the Board;

(b) strategic plans, business plans and capital expenditure budgets;

(c) raising of debt or equity capital and other major financial activities;

(d) hiring, compensation and succession for the Chief Executive Officer and other executives;

(e) major organizational restructurings, including spin-offs;

(f) material acquisitions and divestitures;

(g) major corporate policies; and

(h) in respect of the retirement plans, the Board shall be responsible for the following:

(I) Plan Design

The Board shall approve all decisions to initiate, merge, split, terminate, and/or otherwise fundamentally change the nature of the pension arrangement for all retirement plans, with the exception of small foreign plans established outside the United States and the United Kingdom where the expected impact of such decisions on the Corporation is not material.

(II) Governance

The Board shall approve a governance structure for the retirement plans which sets out the major decision-making bodies and their key decision-making and reporting responsibilities.

(III) Valuation and Funding

The Board shall review the contributions to the pension funds of the defined benefit pension plans as approved by the Pension Committee.

(IV) Supplemental Executive Retirement Plans

(i) *Initiation, Change and Termination* – The Board shall approve all decisions to initiate, terminate, and/or otherwise change the terms of any supplementary retirement plans established for executive management of the Corporation.

(ii) *Funding and Contributions* – The Board shall approve any decision on whether or not to fund or otherwise secure the liabilities of a supplementary retirement plan and how those liabilities should be funded or secured. If the liabilities are to be funded, the Board shall approve a funding policy which sets out guidelines with respect to the valuation and funding of the plan's liabilities. The Board shall also review the contributions to the plan's trust fund as approved by the Pension Committee.

VIII. BOARD COMMITTEES

There are five Committees of the Board: the Audit, Finance and Risk Committee, the Governance and Corporate Matters Committee, the Nominating Committee, the Human Resources and Compensation Committee, and the Pension Committee. The roles and responsibilities of each Committee are described in the respective Committee charters.

Members of the Audit, Finance and Risk Committee, the Human Resources and Compensation Committee, and the Nominating Committee shall be independent as required under the charter of each Committee and the laws, regulations and listing requirements to which the Corporation is subject.

IX. COMMUNICATION WITH THE BOARD

Shareholders and other constituencies may communicate with the Board and individual board members by contacting Shareholder Relations.

X. ADVISORS

The Board has determined that any director who wishes to engage a non-management advisor to assist on matters involving the director's responsibilities as a director at the expense of the Corporation should have its request reviewed by, and obtain the authorization of, the Chairman of the Board.

XI. OTHER MATTERS

The Board expects directors as well as officers and employees of the Corporation to act ethically at all times and to acknowledge their adherence to the policies comprising the Corporate Policy and Guidelines on Business Conduct (the "Code"). The Board, with the assistance of the Governance and Corporate Matters Committee, is responsible for monitoring compliance with the Code.

Directors shall disclose all actual or potential conflicts of interest and refrain from voting on matters in which the director has a conflict of interest. In addition, a director shall excuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

February 8, 2012