



**NOTICE OF
2014 ANNUAL AND SPECIAL MEETING
OF SHAREHOLDERS
AND MANAGEMENT PROXY CIRCULAR**

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Letter from the Chairman and the President and Chief Executive Officer

March 27, 2014

Dear Shareholder:

You are cordially invited to attend our annual and special meeting of shareholders of Air Canada. It will be held on Thursday, May 15th, 2014 at 11:00 a.m. (local time), at the International Civil Aviation Organization (ICAO) Conference Centre, 999 University Street, Montreal, Québec.

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 executives, our corporate governance practices and our executive compensation philosophy, policies and programs. Special items to be addressed at the meeting include the adoption of an advance notice by-law, the renewal of Air Canada's shareholder rights plan, an amendment to increase the number of shares that are reserved and authorized for issuance under Air Canada's Long-Term Incentive Plan and our bi-annual shareholder advisory vote on our approach to executive compensation policies.

During the meeting, we will present management's report for 2013 and discuss our corporate priorities for 2014. In the past year, we made important progress in executing on our strategy toward the goal of sustainable, long-term profitability, recognized by the investment community with a tripling of our share price in 2013. 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*[™]. Recognizing that an engaged workforce is essential to the sustainability of any company where high standards of customer service are a priority, we continue to build on our existing programs and rewards to attract, engage and retain the right talent. These efforts were recognized by many awards and accolades throughout the year, including being named Best Airline in North America for the fourth consecutive year as well as one of Canada's Top 100 Employers. Ultimately, our strategies are designed to provide increased benefits and value for all our stakeholders.

We look forward to seeing you at our annual and special 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,

A handwritten signature in black ink, appearing to read "D. Richardson", written over a horizontal line.

David I. Richardson
Chairman

A handwritten signature in black ink, appearing to read "Calin Rovinescu", written over a horizontal line.

Calin Rovinescu
President and Chief Executive Officer

NOTICE OF 2014 ANNUAL AND SPECIAL SHAREHOLDER MEETING

When

May 15, 2014 at 11:00 a.m. (local time)

Where

International Civil Aviation Organization (ICAO)
Conference Centre
999 University Street
Montreal, Québec

Webcast

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

Business of the 2014 Annual and Special Shareholder Meeting

Seven 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, 2013, 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;
4. adoption of an ordinary resolution, a copy of which is reproduced at Schedule "A" of the accompanying management proxy circular, ratifying the renewal of the shareholder rights plan originally adopted by the Board of Directors on March 30, 2011, as amended on June 4, 2012, and which was amended and restated by the Board of Directors on March 27, 2014;
5. adoption of an ordinary resolution, a copy of which is reproduced at Schedule "D" of accompanying management proxy circular, approving, ratifying and confirming the by-law relating to advance notice of nominations of directors of the Corporation (By-Law No. 2), approved by the Board of Directors on March 27, 2014;
6. adoption of an ordinary resolution, a copy of which is reproduced at Schedule "E" of the accompanying management proxy circular, approving an increase of the number of shares reserved and authorized for issuance under the Corporation's Long-Term Incentive Plan;
7. consideration and the approval, in an advisory, non-binding capacity, of a resolution, a copy of which is reproduced at Schedule "F" of the accompanying management proxy circular, in respect of Air Canada's approach to executive compensation; and
8. 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 and special shareholder meeting or any adjournment thereof if you were a shareholder on March 24, 2014.

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
March 27, 2014

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 and special shareholder meeting to be held on May 15, 2014 (the "**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, the renewal of the Corporation's shareholder rights plan, the ratification of the Corporation's by-law relating to advance notice of nominations of directors of the Corporation, the replenishment of the share reserve and the increase in the number of shares that are authorized for issuance under the Corporation's Long-Term Incentive Plan, the non-binding advisory vote on the Corporation's executive compensation practices 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 executives, the terms of the shareholder rights plan, the advance notice by-law, the replenishment of the share reserve and the increase in the number of shares that are authorized for issuance under the Long-Term Incentive Plan, the non-binding advisory vote on the Corporation's executive compensation practices and other matters. The information in this document is current as at March 27, 2014 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, 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 along with this circular. The Corporation has elected to pay for the delivery of the proxy-related materials to non-registered shareholders who are "non-objecting beneficial holders" and "objecting beneficial holders" that have 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.

Air Canada has retained Kingsdale Shareholder Services to solicit proxies from shareholders and has agreed to pay a fee of \$25,000 for proxy solicitation services plus additional fees for other services provided. If you have any questions with regard to the procedures for voting or completing your proxy form or voting instruction form, please contact Kingsdale Shareholder Services, toll-free in North America at 1-855-682-4783 or collect call outside North America at 416-867-2272, or by email at contactus@kingsdaleshareholder.com.

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 and special shareholder meeting, as well as to each director and to the auditors.



Carolyn M. Hadrovic
Corporate Secretary

Montreal, Québec
March 27, 2014

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 CST Trust Company ("**CST**") 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 May 13, 2014. A list of addresses for the principal offices of CST is set forth on page 81 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 May 12, 2014.

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 May 12, 2014.**

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 May 12, 2014.

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 May 12, 2014.**

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, and "For" or "Against" with respect to the ratification of the renewal of the Corporation's shareholder rights plan, the ratification of the advance notice by-law, approval of the increase in the number of shares reserved and authorized for issuance under the Long-Term Incentive Plan and the approval of an advisory, non-binding resolution in respect of Air Canada's approach to executive compensation. If you are a non-registered shareholder voting your shares, or an employee voting your Employee Shares, 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, FOR appointing PricewaterhouseCoopers LLP as auditors of the Corporation, FOR ratifying the renewal of shareholder rights plan of the Corporation originally approved by the Board of Directors on March 30, 2011, as amended on June 4, 2012, and which was amended and restated by the Board of Directors on March 27, 2014, FOR ratifying the advance notice by-law, FOR approving an increase of the number of shares reserved and authorized for issuance under the Long-Term Incentive Plan and FOR approving an advisory, non-binding resolution in respect of Air Canada's approach to executive compensation.**

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.

If you do not specify how you want your shares voted, the management proxy nominees named as proxyholders 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.

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, your proxyholder will vote your shares as he or she sees fit on each item scheduled to come before the meeting and 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, the appointment of auditors, the ratification of the renewal of the Corporation's shareholder rights plan, the ratification of the advance notice by-law, the increase in the number of shares reserved and authorized for issuance under the Corporation's Long-Term Incentive Plan and the approval of an advisory non-binding resolution on executive compensation 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 March 27, 2014, there were 247,071,520 Class B voting shares and 38,808,819 Class A variable voting shares outstanding. Shareholders of record on March 24, 2014 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 March 27, 2014, to the knowledge of the officers or directors of the Corporation, the following entity beneficially owns or exercises 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	18.49% of all outstanding Class B voting shares

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

BUSINESS OF THE MEETING

Seven 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, 2013, 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;
4. adoption of an ordinary resolution, a copy of which is reproduced at Schedule "A" of this circular, ratifying the renewal of the Corporation's shareholder rights plan originally adopted by the Board of Directors on March 30, 2011, as amended on June 4, 2012, and which was amended and restated by the Board of Directors on March 27, 2014, the whole as described in this circular;
5. adoption of an ordinary resolution, a copy of which is reproduced at Schedule "D" of this circular, approving, ratifying and confirming the Corporation's by-law relating to advance notice of nominations of directors of the Corporation (By-Law No. 2), approved by the Board of Directors on March 27, 2014;
6. adoption of an ordinary resolution, a copy of which is reproduced at Schedule "E" of this circular, approving an increase of the number of shares reserved and authorized for issuance under the Corporation's Long-Term Incentive Plan;
7. consideration and the approval, in an advisory, non-binding capacity, of a resolution, a copy of which is reproduced at Schedule "F" of this circular, in respect of Air Canada's approach to executive compensation; and
8. 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, 2013, 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

Nine (9) directors are to be elected to the Board. Please see the section under the heading "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.

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 management proxy nominees named as proxyholders in the 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. At the Corporation's annual meeting of shareholders held on June 27, 2013, 94.65% of Air Canada's shareholders voted in favour of the appointment of PricewaterhouseCoopers LLP as auditors of the Corporation, and 5.35% of shareholders voted to withhold their votes.

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, 2013 and December 31, 2012 to PricewaterhouseCoopers LLP and its affiliates are \$2,981,707 and \$2,725,564 respectively, as detailed in the following table:

	Year ended December 31, 2013 (\$)	Year ended December 31, 2012 (\$)
Audit fees	1,777,208	1,769,465
Audit-related fees	606,332	612,639
Tax fees	61,530	131,558
All other fees	536,637	211,902
Total fees	2,981,707	2,725,564

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, if any. In 2013, two offering documents were concluded, which related to enhanced equipment trust certificates to finance aircraft and the private offerings of new senior notes and a new credit facility. No such offerings were completed in 2012.

More information on Air Canada's Audit, Finance and Risk Committee is contained in Air Canada's Annual Information Form to be filed by Air Canada on March 28, 2014 and which will be 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 management proxy nominees named as proxyholders in the 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. Renewal of the shareholder rights plan

Objectives and Background of the Shareholder Rights Plan

At the meeting, shareholders will be asked to approve the ordinary resolution, a copy of which is reproduced at Schedule "A" to this circular, ratifying the renewal of the shareholder rights plan (the "**Existing Plan**") originally adopted by the Board of Directors on March 30, 2011, as amended on June 4, 2012. The Existing Plan was ratified by the shareholders of the Corporation at its annual and special shareholders meeting held on May 5, 2011, and was further amended following the receipt of requisite shareholder approval at its annual and special shareholder meeting held on June 4, 2012.

The Existing Plan is scheduled to expire at the close of business on the date immediately following the meeting. On March 27, 2014, the Board of Directors approved an amendment and restatement of the Existing Plan (the "**Rights Plan**"), renewing the Existing Plan for a three-year period. The Rights Plan will come into force immediately following the meeting, provided that the Rights Plan ratification resolution is approved by a majority of the votes cast by the shareholders of Air Canada, in person or by proxy, at the meeting. Once ratified, the Rights Plan will expire at the close of business on the date immediately following the Corporation's annual meeting of shareholders to be held in 2017, unless earlier terminated in accordance with the Rights Plan. A summary of the principal terms of the Rights Plan is included as Schedule "B" to this circular.

The Rights Plan is designed to provide the Corporation's shareholders and the Board of Directors additional time to assess an unsolicited take-over bid for the Corporation and, where appropriate, to give the Board of Directors additional time to pursue alternatives for maximizing shareholder value. It also encourages fair treatment of all shareholders by providing them with an equal opportunity to participate in a take-over bid.

In recommending the ratification of the Rights Plan, it is not the intention of the Board of Directors to preclude a bid for control of the Corporation. The Rights Plan provides various mechanisms whereby shareholders may tender their shares to a take-over bid as long as the bid meets the "Permitted Bid" criteria. Furthermore, even in the context of a take-over bid that would not meet the Permitted Bid criteria, the Board of Directors would still have a duty to consider any take-over bid for the Corporation and consider whether or not it should waive the application of the Rights Plan in respect of such bid. In discharging such duty, the Board of Directors must act honestly and in good faith with a view to the best interests of the Corporation and its shareholders.

The Rights Plan is therefore designed to encourage a potential acquirer who makes a take-over bid to proceed either by way of a Permitted Bid (as defined in Schedule "B" to this circular), which requires a take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board of Directors. If a take-over bid fails to meet these minimum standards and the Rights Plan is not waived by the Board, the Rights Plan provides that holders of rights issued under the Rights Plan, other than the acquirer and certain persons related to the acquirer, will be able to purchase, respectively, additional Class B voting shares or Class A variable voting shares, as applicable, at a significant discount to market price, thus exposing the acquirer to substantial dilution of its holdings.

The Rights Plan is not being adopted in response to any proposal to acquire control of the Corporation, nor is the Board of Directors currently aware of any pending or threatened take-over bid for the Corporation.

In adopting the Rights Plan, the Board of Directors considered the existing legislative framework governing take-over bids in Canada. The Board of Directors believes that such legislation may not provide sufficient time to permit shareholders to consider a take-over bid and make a reasoned and unhurried decision with respect to the take-over bid or, where appropriate, give the Board of Directors sufficient time to develop alternatives for maximizing shareholder value. Shareholders may also feel compelled to tender their shares to a take-over bid, even if they consider such bid to be inadequate, out of a concern that failing to do so may result in a shareholder being left with

illiquid or minority discounted shares in the Corporation. This is particularly so in the case of a partial bid for less than all of the Class B voting shares and Class A variable voting shares. Finally, while existing securities legislation has addressed many concerns related to unequal treatment of shareholders, there remains the possibility that control of a company may be acquired pursuant to private agreements in which a small group of shareholders disposes of shares at a premium to market price, which premium is not shared with the other shareholders.

The Rights Plan does not preclude any shareholder from using the proxy mechanism of the *Canada Business Corporations Act*, the Corporation's governing corporate statute, to promote a change in the Corporation's management or in the Board of Directors, and it will have no effect on the rights of shareholders to requisition a meeting of shareholders in accordance with the provisions of applicable legislation.

In recent years, unsolicited bids have been made for a number of Canadian public companies, many of which had a shareholder rights plan in force at the time of the unsolicited bid. The Board of Directors believes that this demonstrates that the existence of a shareholder rights plan does not in itself prevent the launch of an unsolicited bid.

The Rights Plan is not expected to interfere with the Corporation's day-to-day operations. The issuance of rights under the Rights Plan will not in any way alter the financial condition of the Corporation, impede its business plans, or alter its financial statements. In addition, the Rights Plan is initially not dilutive. However, if a Flip-in Event (as defined in Schedule "B" to this circular) occurs and the rights separate from the shares as described in Schedule "B" to this circular, financial metrics reported on a per-share basis may be affected. In addition, holders of rights not exercising their rights after a Flip-in Event may suffer substantial dilution.

The Board recommends that the shareholders vote in favour of the resolution set out in Schedule "A" of this circular.

Canadian Federal Income Tax Consequences

The Corporation will not be required to include any amount in computing the Corporation's income for the purposes of the *Income Tax Act* (Canada) (the "ITA") as a result of the issuance of the rights.

Generally, under the ITA, the value of a right, if any, to acquire additional shares of a company is not a taxable benefit includable in income and is not subject to non-resident withholding tax if an identical right is conferred on all shareholders. While such rights are conferred on all shareholders, they may become void in the hands of certain shareholders upon the occurrence of certain triggering events. Whether the issuance of the rights is a taxable event is not therefore free of doubt. In any event, no amount in respect of the value of the rights is required to be included in computing income, or subject to withholding tax, if the rights do not have any value at the date of issue. The Corporation considers that the rights have negligible value when issued, there being only a remote possibility that the rights will ever be exercised. If the rights have no value, the issue of the rights will not give rise to a taxable benefit and will not be subject to non-resident withholding tax.

The foregoing does not address the Canadian income tax consequences of other events such as the separation of the rights from the shares, the occurrence of a Flip-in Event or the redemption of rights. The holder of rights may have income or be subject to withholding tax under the ITA if the rights become exercisable or are exercised or are otherwise disposed of.

This statement is of a general nature only and is not intended to constitute nor should it be construed to constitute legal or tax advice to any particular holder of shares. Such shareholders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their rights, taking into account their own particular circumstances and any applicable federal, provincial, territorial or foreign legislation.

If you do not specify how you want your shares voted, the management proxy nominees named as proxyholders in the form of proxy or voting instruction form will cast the votes represented by proxy at the meeting FOR the ratification of the Rights Plan.

5. Ratification of Advance Notice By-Law

On March 27, 2014, the Board adopted By-Law No. 2 relating to advance notice requirements for director elections (the "**Advance Notice By-Law**"), which requires advance notice to the Corporation in circumstances where nominations of persons for election as a director of the Corporation are made by shareholders other than pursuant to: (i) a requisition of a meeting made pursuant to the provisions of the CBCA; or (ii) a shareholder proposal made pursuant to the provisions of the CBCA.

The purpose of the Advance Notice By-Law is to treat all shareholders fairly by ensuring that all shareholders, including those participating in a meeting by proxy rather than in person, receive adequate notice of the nominations to be considered at a meeting and sufficient information to evaluate the proposed nominees' qualifications and suitability as directors, which allows shareholders to exercise their voting rights in an informed manner.

Among other things, the Advance Notice By-Law fixes a deadline by which shareholders must submit a notice of director nominations to the Corporation prior to any annual or special meeting of shareholders where directors are to be elected and sets forth the information that a shareholder must include in the notice for it to be valid.

In the case of an annual meeting of shareholders, notice to the Corporation must be given no less than 30 nor more than 65 days prior to the date of the annual meeting provided, however, that in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be given no later than the close of business on the 10th day following such public announcement.

In the case of a special meeting of shareholders (which is not also an annual meeting), notice to the Corporation must be given no later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

The Advance Notice By-Law is effective since its adoption by the Board on March 27, 2014. Pursuant to the provisions of the CBCA, the Advance Notice By-Law will cease to be effective unless approved, ratified and confirmed by a resolution adopted by a majority of the votes cast by shareholders at the meeting by proxy or in person. The full text of the Advance Notice By-Law is set forth in Schedule "C" to this circular.

The Board recommends that the shareholders vote in favour of the approval of the resolution set out in Schedule "D" of this circular.

If you do not specify how you want your shares voted, the management proxy nominees named as proxyholders in the form of proxy or voting instruction form will cast the votes represented by proxy at the meeting FOR the ratification of the Advance Notice By-Law.

6. Long-Term Incentive Plan replenishment and amendment

Concurrent with its initial public offering, Air Canada established the Long-Term Incentive Plan pursuant to which the Corporation may grant stock options or share units respectively exercisable or redeemable for Class A variable voting shares or Class B voting shares of the Corporation, as the case may be. For more information on Air Canada's Long-Term Incentive Plan, please refer to page 53 of this circular under the heading "Long-Term Incentives – Stock Options and Share Units".

The Long-Term Incentive Plan was previously amended, which amendment was approved by the shareholders of the Corporation, on May 27, 2010 in order to increase the maximum number of shares under reserve and issuable, following the exercise of stock options and/or the redemption of share units granted thereunder, to 19,470,294 shares, representing 7% of the outstanding shares of the Corporation outstanding on such date. Since the amendment to the Long-Term Incentive Plan, 1,281,037 shares have been issued pursuant to the exercise of options issued thereunder, thereby reducing the number of shares available for issuance by an equivalent amount. Currently, there is an aggregate of 9,847,321 options outstanding under the Long-Term Incentive Plan. Accordingly, at this time, there are enough shares remaining to allow Air Canada to grant an aggregate of 8,341,936 additional options.

As the Long-Term Incentive Plan is used by Air Canada to attract, retain and motivate employees in key positions, and to align their interests with those of its shareholders, the Board of Directors has determined that it would be appropriate to maintain the share reserve at a level that continues to represent 7% of the issued and outstanding

shares of Air Canada. We are doing so by replenishing the share reserve by an amount of 1,281,037 shares (representing the same number of options exercised under the Corporation's Long-Term Incentive Plan), as well as increasing the number of shares authorized for issuance under the Long-Term Incentive Plan by an amount of 541,329 shares so that the Corporation will have the necessary latitude to grant incentive awards over the next several years. If approved at the meeting, the amendment to the Long-Term Incentive Plan will increase the maximum number of shares under reserve and issuable, following the exercise of stock options and/or the redemption of share units granted thereunder, to 20,011,623, which will continue to represent 7% of the currently issued and outstanding shares of the Corporation, the same level as was the case when the Corporation's Long-Term Incentive Plan was amended in 2010, and of which 10,164,302 shares will remain available for the grant of options or share units by the Corporation.

The approval of Air Canada's shareholders is required in order to amend the Long-Term Incentive Plan to increase the maximum number of shares issuable, following the exercise of stock options and/or the redemption of share units granted thereunder, to 20,011,623.

Attached as Schedule "E" is the ordinary resolution which will be tabled at the meeting and which, if approved and adopted at the meeting, will increase the number of shares that are reserved and authorized for issuance under Air Canada's Long-Term Incentive Plan. To be adopted, the ordinary resolution needs to be approved by a majority of the votes cast at the meeting by proxy or in person. The Board of Directors recommends that shareholders vote in favour of this resolution.

If you do not specify how you want your shares voted, the management proxy nominees named as proxyholders will cast the votes represented by proxy at the meeting FOR the passing of the ordinary resolution set out as Schedule "E" hereto authorizing the increase in the number of shares that are reserved and authorized for issuance under Air Canada's Long-Term Incentive Plan to 20,011,623.

7. Approval of the advisory resolution on executive compensation

The Corporation's bi-annual Say on Pay Advisory Vote Policy gives shareholders a formal opportunity to provide their views on the Corporation's approach to executive compensation. At this year's meeting, the Corporation will present a non-binding advisory vote on executive compensation as part of the Corporation's process of shareholder engagement. Air Canada's previous advisory say on pay vote held in 2012 was supported with the approval of 91.85% of those shareholders present at our 2012 annual and special meeting voting in person or by proxy. The Corporation is committed to demonstrating leadership in evolving governance issues including executive compensation as well as providing shareholders with clear, comprehensive and transparent disclosure relating to executive compensation and to receive feedback from shareholders on this matter.

The Board believes that shareholders should have the opportunity to fully understand the objectives and principles underlying executive compensation decisions made by the Board. Our executive compensation philosophy, policies and programs are intended to align the interests of our executive team with those of our shareholders. This compensation approach allows us to attract, motivate and retain executives who will be strongly incented to continue with the transformation of the Corporation to create value for our shareholders, in the future, on a sustainable basis. For further information concerning Air Canada's approach to executive compensation and its engagement with its shareholders, please refer to the sections under the headings "Statement of Governance Practices – Compensation" and "Air Canada's Executive Compensation Program".

The Board recommends that the shareholders vote in favour of the approval of the following resolution in the form recommended by the Canadian Coalition for Good Governance, the text of which is also attached as Schedule "F" of this circular:

"BE IT RESOLVED THAT, on an advisory basis and not to diminish the role and responsibilities of the Board of Directors, that the shareholders accept the approach to executive compensation disclosed in the Corporation's management proxy circular delivered in advance of the 2014 annual and special meeting of shareholders."

As this is an advisory vote, the results will not be binding upon the Board. However, the members of the Board and the Human Resources and Compensation Committee will review and analyze the results of the vote and, as

appropriate, take into account such results when reviewing, in the future, executive compensation philosophy, policies, programs or arrangements.

If you do not specify how you want your shares voted, the persons named as proxyholders in the form of proxy or voting instruction form will cast the votes represented by proxy at the meeting FOR the advisory, non-binding resolution in respect of Air Canada's approach to executive compensation.

8. 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

Air Canada's articles permit the Corporation to have between 7 and 21 directors, with the actual number of directors determined by the Board of Directors. The Board has resolved to have nine (9) directors effective upon the election of the directors at the meeting. Directors are elected each year at the annual meeting of shareholders, except that the Board can appoint directors in certain circumstances between annual meetings. Directors elected at the meeting will 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, their areas of expertise and their voting results at the 2013 annual meeting of shareholders held on June 27, 2013. Also indicated is the number of securities beneficially owned, or over which control was exercised, directly or indirectly, as of March 27, 2014, the total market value of such securities and whether each director meets the Corporation's minimum shareholding requirements.

	CHRISTIE J.B. CLARK Toronto, Ontario, Canada Age: 60 Air Canada Director since June 27, 2013		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 and a trustee of Choice Properties Real Estate Investment Trust. 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.		
	Independent Areas of Expertise: Business Management Strategy Finance Governance Accounting		Mr. Clark is also Chair of the board of the Canadian Partnership Against Cancer Corporation, Chair of the Finance Committee of Alpine Canada and a member of the Advisory Council of Queen's University School of Business.		
Voting Result at 2013 Annual Meeting For: 94.00% Withheld: 6.00%		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 Professional Accountant.			
Board/Committee Memberships at the Date Hereof:		2013 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board Audit, Finance and Risk Committee (Chair) Nominating Committee		4 of 4 2 of 2 1 of 1	7 of 7	100%	Loblaw Companies Limited Brookfield Office Properties Inc. IGM Financial Inc. Choice Properties Real Estate Investment Trust October 2011 May 2012 May 2012 June 2013
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⁾
March 27, 2014	43,000 Class B voting shares ⁽³⁾	\$230,050 ⁽⁴⁾	\$270,900 ⁽⁵⁾	\$450,000	No
May 17, 2013	Nil	Nil	Nil	\$180,000	N/A
Value of Total Compensation Received					
Year	\$				
2013	80,000 ⁽⁶⁾				
2012	N/A				


(1) The Board has revised the director share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors".
(2) Mr. Clark will have until June 27, 2018 to meet Air Canada's share ownership requirements.
(3) Mr. Clark holds his equity interest in the Corporation indirectly through his spouse as permitted under the Corporation's share ownership requirements.
(4) Class B voting shares are calculated at a market value of \$5.35 per share (based on the March 27, 2014 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 March 27, 2014 (described above), and (ii) the purchase price of the shares.
(6) For further details on director remuneration, see "Remuneration of Directors".

	<p>JEAN MARC HUOT Montreal, Québec, Canada Age: 52</p> <p>Air Canada Director since May 8, 2009</p> <p>Independent</p> <p>Areas of Expertise: Legal Corporate Finance Corporate Governance Strategy Mergers and Acquisitions</p> <p>Voting Results at 2013 Annual Meeting For: 94.00% Withheld: 6.00%</p>	<p>Jean Marc Huot is a partner with the Canadian law firm Stikeman Elliott LLP. His practice is focused primarily in the areas of corporate finance, mergers and acquisitions, corporate governance and securities law matters. From 2001 to 2011, Mr. Huot was a member of the Advisory Committee of the <i>Autorité des Marchés Financiers</i> and, from 1998 to 2014, co-chair of Stikeman Elliott LLP's national Securities Law Group.</p> <p>Mr. Huot holds a Bachelor of Arts and a Bachelor of Law from Laval University.</p>
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Board/Committee Memberships at the Date Hereof:	2013 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board Pension Committee	10 of 10 6 of 6	16 of 16	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
March 27, 2014	31,098 Class B voting shares 181,401.08 deferred share units	\$1,136,870 ⁽²⁾	\$1,141,801 ⁽³⁾	\$450,000	Yes
May 17, 2013	25,000 Class B voting shares 178,818.44 deferred share units	\$450,439 ⁽⁴⁾	\$469,960 ⁽⁵⁾	\$180,000	Yes

Value of Total Compensation Received		<p>(1) The Board has revised the director share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors".</p> <p>(2) Class B voting shares and deferred share units are calculated at a market value of \$5.35 per share and unit (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class B voting shares).</p> <p>(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at March 27, 2014 (described above), and (ii) the purchase price of the shares and deferred share units.</p> <p>(4) 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).</p> <p>(5) 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.</p> <p>(6) For further details on director remuneration, see "Remuneration of Directors".</p>
Year	\$	
2013	140,000 ⁽⁶⁾	
2012	135,000	


	<p>JOSEPH B. LEONARD Minneapolis, Minnesota, USA Age: 70</p> <p>Air Canada Director since May 21, 2008</p> <p>Independent</p> <p>Areas of Expertise: Executive leadership Airline industry Aerospace industry Strategy Mergers and acquisitions Corporate finance Human resource practices Corporate governance Government and regulatory affairs</p> <p>Voting Results at 2013 Annual Meeting For: 90.51% Withheld: 9.49%</p>	<p>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.</p> <p>Mr. Leonard holds a Bachelor of Science in Aerospace Engineering from Auburn University Montgomery.</p>
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Board/Committee Memberships at the Date Hereof:	2013 Attendance	Attendance (Total):		Public Board Membership:	
Member of the Board Pension Committee Human Resources and Compensation Committee Nominating Committee	9 of 10 6 of 6 5 of 5 1 of 1	21 of 22	95%	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
March 27, 2014	108,214 Class A variable voting shares 4,640.00 deferred share units	\$600,383 ⁽²⁾	\$607,768 ⁽³⁾	\$450,000	Yes
May 17, 2013	100,000 Class A variable voting shares 3,223.44 deferred share units	\$229,156 ⁽⁴⁾	\$242,758 ⁽⁵⁾	\$180,000	Yes

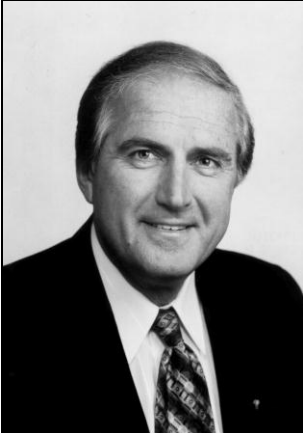
Value of Total Compensation Received		(1) The Board has revised the director share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors". (2) Class A variable voting shares and deferred share units are calculated at a market value of \$5.32 per share and unit (based on the March 27, 2014 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 March 27, 2014 (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 \$2.22 per share and unit (based on the May 17, 2013 Toronto Stock Exchange closing price of the Class A variable voting shares). (5) 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. (6) For further details on director remuneration, see "Remuneration of Directors".
Year	\$	
2013	150,000 ⁽⁶⁾	
2012	145,000	

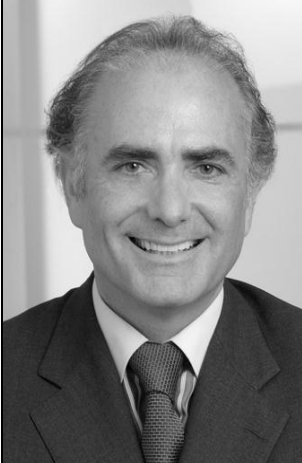
	<p>DAVID I. RICHARDSON Grafton, Ontario, Canada Age: 72</p> <p>Air Canada Director since November 15, 2006⁽¹⁾ and Chairman since January 1, 2008</p> <p>Independent</p> <p>Areas of Expertise: Accounting Finance Mergers and acquisitions Banking Credit restructuring Investments Business management Governance Strategy</p> <p>Voting Result at 2013 Annual Meeting For: 93.31% Withheld: 6.69%</p>	<p>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.</p> <p>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.).</p> <p>Mr. Richardson holds a Bachelor of Commerce from the University of Toronto and is a member and a Fellow of the Institute of Chartered Professional Accountants of Ontario.</p>
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Board/Committee Memberships at the Date Hereof:	2013 Attendance	Attendance (Total):		Public Board Membership:
Chairman of the Board Nominating Committee (Chair) Governance and Corporate Matters Committee	10 of 10 4 of 4 3 of 3	17 of 17	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 ⁽²⁾	Meets Requirements
March 27, 2014	30,000 Class B voting shares 90,666.33 deferred share units	\$645,565 ⁽³⁾	\$783,281 ⁽⁴⁾	\$450,000	Yes
May 17, 2013	30,000 Class B voting shares 83,750.01 deferred share units	\$251,388 ⁽⁵⁾	\$445,838 ⁽⁶⁾	\$180,000	Yes

Value of Total Compensation Received		<p>(1) Prior to completion of the initial public offering of Air Canada on November 17, 2006, Mr. Richardson was reconfirmed as a director of Air Canada on November 15, 2006. He was initially appointed a director of Air Canada on September 30, 2004 and continued to hold such position up to and since the completion of Air Canada's initial public offering.</p> <p>(2) The Board has revised the director share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors".</p> <p>(3) Class B voting shares and deferred share units are calculated at a market value of \$5.35 per share and unit (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class B voting shares).</p> <p>(4) This amount represents the greater of: (i) the market value of the shares and deferred share units as at March 27, 2014 (described above), and (ii) the purchase price of the shares and deferred share units.</p> <p>(5) 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).</p> <p>(6) 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.</p> <p>(7) For further details on director remuneration, see "Remuneration of Directors".</p>
Year	\$	
2013	343,750 ⁽⁷⁾	
2012	333,956	

	<p>ROY J. ROMANOW, P.C., O.C., S.O.M., Q.C. Saskatoon, Saskatchewan, Canada Age: 74</p> <p>Air Canada Director since February 9, 2010</p> <p>Independent</p> <p>Areas of Expertise: Public policy Legal Governance Government and regulatory affairs</p> <p>Voting Result at 2013 Annual Meeting For: 99.09% Withheld: 0.91%</p>		<p>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.</p> <p>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.</p>			
	<p>Board/Committee Memberships at the Date Hereof:</p> <p>Member of the Board Governance and Corporate Matters Committee (Chair) Pension Committee</p>		<p>2013 Attendance</p> <p>10 of 10 5 of 5 2 of 2</p>	<p>Attendance (Total):</p> <p>17 of 17 100%</p>		<p>Public Board Membership:</p> <p>None.</p>
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	
March 27, 2014	13,350 Class B voting shares 86,521.74 deferred share units	\$534,314 ⁽²⁾	\$540,565 ⁽³⁾	\$450,000	Yes	
May 17, 2013	10,000 Class B voting shares 76,917.06 deferred share units	\$192,087 ⁽⁴⁾	\$198,023 ⁽⁵⁾	\$180,000	Yes	
Value of Total Compensation Received						
Year	\$					
2013	147,500 ⁽⁶⁾					
2012	140,206					

	<p>CALIN ROVINESCU Montreal, Québec, Canada Age: 58</p>	<p>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.</p> <p>Mr. Rovinescu is the Chairman of the Star Alliance Chief Executive Board. He is also a member of the IATA Board of Governors and was elected Chairman, effective June 2014. Mr. Rovinescu serves on the boards of several private and non-profit corporations.</p> <p>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.</p>
	<p>Air Canada Director since April 1, 2009</p>	
	<p>Not Independent</p>	
	<p>Areas of Expertise: Airline industry Legal Corporate finance Banking Mergers and acquisitions Governance Business management Strategy Employment and labour</p>	
<p>Voting Results at 2013 Annual Meeting For: 93.96% Withheld: 6.04%</p>		

Board/Committee Memberships at the Date Hereof:	2013 Attendance	Attendance (Total):		Public Board Membership:
Member of the Board	10 of 10	10 of 10	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
March 27, 2014	336,532 Class B voting shares ⁽²⁾ 3,114,330 Options – Class B voting shares 1,246,931 Performance share units – Class B voting shares 1,056,913 Restricted share units – Class B voting shares \$200,000 principal amount of 7.625% senior secured first lien notes due 2019	\$24,627,027.60 ⁽³⁾	\$7,661,181 ⁽⁴⁾	3 times base salary	Yes
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 ⁽⁵⁾	\$5,946,805 ⁽⁶⁾	1 times base salary	Yes

Value of Total Compensation Received as a Director⁽⁷⁾

Year	\$
2013	None.
2012	None.

(1) The Board has revised the executive share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors".

(2) Mr. Rovinescu's Class B voting shares are held by a family holding company controlled by Mr. Rovinescu.

(3) Class B voting shares are calculated at a market value of \$5.35 per share (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class B voting shares). Share units and options are calculated at a market value of \$5.35 per share underlying the share units and in-the-money options (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class B voting shares), less the applicable exercise price in the case of the options. Market value of the notes is equal to the principal amount plus accrued interest as of March 27, 2014.

(4) This amount represents the sum of (a) the greater of: (i) the market value of the shares underlying the restricted share units as at March 27, 2014 (described above) and (ii) the price of the shares underlying the restricted share units at the time of grant; and (b) the greater of: (i) the market value of the shares as at March 27, 2014 (described above), and (ii) the purchase price of the shares. Options and performance share units are not taken into account for the purposes of Air Canada's share ownership requirements.

(5) 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.

(6) 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.

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

	<p>VAGN SØRENSEN London, United Kingdom Age: 54</p> <p>Air Canada Director since November 15, 2006</p> <p>Independent</p> <p>Areas of Expertise: Airline industry Strategy International business Transportation industry Airport and airline food and beverage industry Global senior executive management Consulting and private equity Compensation Other international board experience</p> <p>Voting Result at 2013 Annual Meeting For: 89.44% Withheld: 10.56%</p>	<p>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 Automic 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. Sørensen 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.</p> <p>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.</p> <p>Mr. Sørensen holds a Master of Science in Economics and Business Administration from Aarhus School of Business, University of Aarhus, Denmark.</p>
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Board/Committee Memberships at the Date Hereof:	2013 Attendance	Attendance (Total):		Public Board Membership:	
Member of the Board	10 of 10	22 of 22	100%	TDC A/S	April 2006
Human Resources and Compensation Committee (Chair)	5 of 5			DFDS A/S	April 2006
Audit, Finance and Risk Committee	4 of 4			FLSmidth & Co. A/S	April 2009
Nominating Committee	3 of 3			Royal Caribbean Cruises Ltd.	July 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
March 27, 2014	19,300 Class A variable voting shares 89,135.28 deferred share units	\$576,876 ⁽²⁾	\$755,284 ⁽³⁾	\$450,000	Yes
May 17, 2013	19,300 Class A variable voting shares 76,065.22 deferred share units	\$211,711 ⁽⁴⁾	\$450,703 ⁽⁵⁾	\$180,000	Yes

Value of Total Compensation Received		<p>(1) The Board has revised the director share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors".</p> <p>(2) Class A variable voting shares and deferred share units are calculated at a market value of \$5.32 per share and unit (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class A variable voting shares).</p> <p>(3) This amount represents the greater of: (i) the market value of the shares and deferred share units as at March 27, 2014 (described above), and (ii) the purchase price of the shares and deferred share units.</p> <p>(4) 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).</p> <p>(5) 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.</p> <p>(6) For further details on director remuneration, see "Remuneration of Directors".</p>
Year	\$	
2013	156,987 ⁽⁶⁾	
2012	150,000	

	<p>ANNETTE VERSCHUREN, O.C. Toronto, Ontario, Canada Age: 57</p> <p>Air Canada Director since November 12, 2012</p> <p>Independent</p> <p>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</p> <p>Voting Result at 2013 Annual Meeting For: 94.05% Withheld: 5.95%</p>	<p>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.</p> <p>Ms. Verschuren is a director of Liberty Mutual Insurance Group, the North West Company Inc. and Saputo 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.</p> <p>Ms. Verschuren holds honorary doctorate degrees from Dalhousie University, Mount Saint Vincent University, Carleton University and St. Francis Xavier University where she also earned a Bachelor of Business Administration.</p>
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Board/Committee Memberships at the Date Hereof:	2013 Attendance	Attendance (Total):		Public Board Membership:	
Member of the Board Audit, Finance and Risk Committee Human Resources and Compensation Committee Nominating Committee	9 of 10 3 of 3 4 of 4 1 of 1	17 of 18	94%	The North West Company Inc. Saputo Inc.	December 2011 August 2013

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⁾
March 27, 2014	43,093 Class B voting shares 14,169.50 deferred share units	\$306,354 ⁽³⁾	\$311,285 ⁽⁴⁾	\$450,000	No
May 17, 2013	10,000 Class B voting shares 6,586.85 deferred share units	\$36,657 ⁽⁵⁾	\$38,912 ⁽⁶⁾	\$180,000	No

Value of Total Compensation Received	
Year	\$
2013	143,462 ⁽⁷⁾
2012	16,500

(1) The Board has revised the director share ownership requirements effective August 6, 2013. See "Share Ownership Requirement for Directors".
(2) Ms. Verschuren has until November 12, 2017 to meet Air Canada's share ownership requirements.
(3) Class B voting shares and deferred share units are calculated at a market value of \$5.35 per share and unit (based on the March 27, 2014 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 March 27, 2014 (described above), and (ii) the purchase price of the shares and deferred share units.
(5) 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).
(6) 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.
(7) For further details on director remuneration, see "Remuneration of Directors".

We would like to acknowledge the contribution and service to the Corporation and the Board of Mr. Thomas Birks, who is not standing for re-election at the meeting. Mr. Birks has served as a director and member of the Audit, Finance and Risk Committee and Pension Committee since February 7, 2013 and as a member of the Governance and Corporate Matters Committee since June 27, 2013.

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 was equal to 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 Trust provides that the net proceeds of any sales of such shares by the Trust are to be contributed to the pension plans.

On January 1, 2014, the Government of Canada published the *Air Canada Pension Plan Funding Regulations, 2014* (the "**2014 Regulations**"). These regulations are in respect of certain fixed payments under Air Canada's domestic defined benefit registered pension plans for the period between 2014 and 2020 inclusive, and are scheduled to expire December 31, 2020. As part of the 2014 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 current service payments, subject to Air Canada's right to discontinue funding of the pension plans in accordance with the 2014 Regulations and have past service payments in respect of all Air Canada pension plans, collectively, determined in accordance with normal funding rules. For more information on the 2014 Regulations, please refer to the section under the heading "Compensation Discussion and Analysis – Executive Compensation Program".

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.

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.

Effective October 1, 2013, non-executive directors of Air Canada receive a retainer of \$150,000 per year. The annual Board retainer fee is payable in cash, deferred share units ("**DSUs**") or shares (acquired on the open market), or a combination thereof. DSUs are notional units whose value is always equal to the value of the shares of Air Canada. Non-executive directors of Air Canada receive a minimum of 50% of their annual Board retainer fee in DSUs or in shares of the Corporation until the minimum share ownership threshold, as described below, is achieved. Directors who have achieved such minimum threshold 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 such subsidiary.

The Chairman of the Board receives an additional retainer of \$200,000 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, 2013 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 (\$)	In shares (\$)
Bernard Attali ⁽¹⁾	60,000	Nil	6,250	Nil	Nil	Nil	Nil	66,250	51,250	15,000	Nil
Thomas Birks ⁽²⁾	115,200	Nil	20,450	Nil	Nil	Nil	Nil	135,650	Nil	135,650	Nil
Christie J.B. Clark ⁽³⁾	67,500	10,000	2,500	Nil	Nil	Nil	Nil	80,000	80,000	Nil	Nil
Michael M. Green	127,500	20,000	12,500	Nil	Nil	Nil	Nil	160,000	133,750	Nil	26,250
Jean Marc Huot	127,500	Nil	12,500	Nil	Nil	Nil	Nil	140,000	88,125	33,750	18,125
Pierre-Marc Johnson ⁽⁴⁾	60,000	10,000	5,000	Nil	Nil	Nil	Nil	75,000	63,750	11,250	Nil
Joseph B. Leonard	127,500	Nil	22,500	Nil	Nil	Nil	Nil	150,000	123,750	Nil	26,250
David I. Richardson ⁽⁵⁾	127,500	213,750	2,500	Nil	Nil	Nil	Nil	343,750	326,875	16,875	Nil
Roy J. Romanow	127,500	10,000	10,000	Nil	Nil	Nil	Nil	147,500	90,625	48,750	8,125
Calin Rovinescu ⁽⁶⁾	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Vagn Sørensen	127,500	10,000	19,487	Nil	Nil	Nil	Nil	156,987	110,168	46,819	Nil
Annette Verschuren	127,500	Nil	15,962	Nil	Nil	Nil	Nil	143,462	102,212	33,750	7,500

(1) Mr. Attali retired from the Board on June 27, 2013.

(2) Mr. Birks was appointed to the Board on February 7, 2013.

(3) Mr. Clark was elected to the Board on June 27, 2013.

(4) Mr. Johnson retired from the Board on June 27, 2013.

(5) Chairman of the Board of Air Canada.

(6) 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.

Share Ownership Requirements for Directors

Under the Corporation's share ownership guidelines, non-executive directors are required to own a minimum of securities of Air Canada representing an amount equivalent in value to three times their annual Board retainer fee, through shares and/or DSUs. The value of the securities is based on the greater of the market value of the shares and/or DSUs and the purchase price of the securities. Such ownership must be achieved by August 6, 2016 or within five 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 three times the annual base salary of the President and Chief Executive Officer through shares and/or restricted share units (performance share units are not included in the calculation of the President and Chief Executive Officer's

share ownership requirements). The value of the securities is based on the sum of: (a) the greater of: (i) the market value of the shares underlying the restricted share units; and (ii) the price of the shares underlying the restricted share units at the time of grant; 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 by August 6, 2016.

Name	Number of Shares Owned	Number of DSUs or RSUs Owned	Total Value of Shares 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	458,440	44,194.09 DSUs	\$2,471,125	\$450,000	n.a. ⁽²⁾	16.47 times
Christie J.B. Clark	43,000	-	\$270,900	\$450,000	June 27, 2018	1.81 times
Michael M. Green	108,214	1,287.77	\$588,319	\$450,000	August 6, 2016	3.92 times
Jean Marc Huot	31,098	181,401.08 DSUs	\$1,141,801	\$450,000	August 6, 2016	7.61 times
Joseph B. Leonard	108,214	4,640.00 DSUs	\$607,768	\$450,000	August 6, 2016	4.05 times
David I. Richardson	30,000	90,666.33 DSUs	\$783,281	\$450,000	August 6, 2016	5.22 times
Roy J. Romanow	13,350	86,521.74 DSUs	\$540,565	\$450,000	August 6, 2016	3.60 times
Calin Rovinescu	336,532	1,056,913 RSUs	\$7,661,181 ⁽³⁾	3 times base salary	August 6, 2016	5.47 times
Vagn Sørensen	19,300	89,135.28 DSUs	\$755,284	\$450,000	August 6, 2016	5.04 times
Annette Verschuren	43,093	14,169.50 DSUs	\$311,285	\$450,000	November 12, 2017	2.08 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 March 27, 2014 Toronto Stock Exchange closing price of the Class A variable voting shares (\$5.32) or the Class B voting shares (\$5.35), as applicable), and (ii) the purchase price of the securities.
- (2) Mr. Birks is not standing for re-election at the meeting.
- (3) This amount represents the sum of (a) the greater of: (i) the market value of the shares underlying the restricted share units as at March 27, 2014 and (ii) the price of the shares underlying the restricted share units at the time of grant; and (b) the greater of: (i) the market value of the shares as at March 27, 2014 described above, and (ii) the purchase price of the shares.

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 (following their filing for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) and Chapter II of the *U.S. Bankruptcy Code*, respectively), 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 or 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 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.

Eight of nine director nominees are independent.

Eight (8) of the nine (9) director nominees standing for election to the Board, namely, Christie J.B. Clark, Michael M. Green, Jean Marc Huot, Joseph B. Leonard, David I. Richardson, Roy J. Romanow, Vagn Sørensen and Annette Verschuren, as well as Thomas Birks, a current director who is not standing for re-election at the meeting, 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.

Name	Status		Reason for Non-Independence
	Independent	Not Independent	
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	✓		

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
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 and a trustee of Choice Properties Real Estate Investment Trust. Joseph B. Leonard is a director of Mueller Water Products, Inc. and Walter Energy, Inc. Vagn Sørensen is the chairman of FLSmith & 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. and Saputo Inc.

Please see the section under the heading "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

At every meeting, the Board decides whether an *in camera* session, without the presence of management (except the Corporate Secretary) and under the chairmanship of the Chairman of the Board, is necessary. During the year ended December 31, 2013, there were seven *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 during the 12-month period ended December 31, 2013.

Name	Number and % of Meetings Attended							Overall Attendance ⁽³⁾
	Board	Audit, Finance and Risk Committee	Governance and Corporate Matters Committee	Pension Committee	Human Resources and Compensation Committee	Nominating Committee	Committees (Total)	
Thomas Birks ⁽¹⁾	9/9 (100%)	3/3	3/3	5/5	-	-	11/11 (100%)	20/20 (100%)
Christie J.B. Clark ⁽²⁾	4/4 (100%)	2/2 (Chair)	-	-	-	1/1	3/3 (100%)	7/7 (100%)
Michael M. Green	10/10 (100%)	2/2	-	6/6 (Chair)	5/5	3/3	16/16 (100%)	26/26 (100%)
Jean Marc Huot	10/10 (100%)	-	2/2	6/6	-	-	8/8 (100%)	18/18 (100%)
Joseph B. Leonard	9/10 (90%)	2/2	-	6/6	5/5	1/1	14/14 (100%)	23/24 (96%)
David I. Richardson	10/10 (100%)	-	3/3	-	-	4/4 (Chair)	7/7 (100%)	17/17 (100%)
Roy J. Romanow	10/10 (100%)	2/2	5/5 (Chair)	2/2	-	-	9/9 (100%)	19/19 (100%)
Calin Rovinescu	10/10 (100%)	-	-	-	-	-	-	10/10 (100%)
Vagn Sørensen	10/10 (100%)	4/4	-	4/4	5/5 (Chair)	3/3	16/16 (100%)	26/26 (100%)
Annette Verschuren	9/10 (90%)	3/3	-	-	4/4	1/1	8/8 (100%)	17/18 (94%)

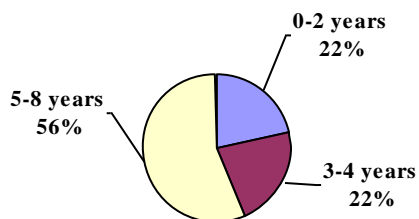
- (1) Mr. Birks was appointed to the Board, the Audit, Finance and Risk Committee and the Pension Committee on February 7, 2013, and was appointed to the Governance and Corporate Matters Committee on June 27, 2013.
- (2) Mr. Clark was elected to the Board and was appointed to the Audit, Finance and Risk Committee as Chair and the Nominating Committee on June 27, 2013.
- (3) Bernard Attali, who retired from the Board on June 27, 2013, attended 7 out of 11 (64%) Board and committee meetings in 2013, and Pierre Marc Johnson, who retired from the Board on June 27, 2013, attended 10 out of 14 (71%) Board and committee meetings in 2013.

Board Size

Air Canada's articles permit the Corporation to have between 7 and 21 directors, with the actual number of directors determined by the Board of Directors. The Board is currently comprised of ten (10) directors; however, since one of the current directors will not be standing for re-election at the meeting, the Board has resolved to have nine (9) directors effective upon the election of the directors at the meeting. Please refer to the section under the heading "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 the director nominees standing for election to the Board.



The average tenure of the director nominees is 4.6 years.

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 "G" 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 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, Christie J.B. Clark, Michael M. Green, 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, global development 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 airport 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 2013.

Director Continuing Education 2013		
Topic	Presentation By	Directors Attending
International economic and political developments	Independent Consultant	All directors
Corporate social responsibility	Priscille LeBlanc, Vice President, Corporate Communications	David I. Richardson, Thomas Birks, Jean Marc Huot, Joseph B. Leonard, Roy J. Romanow, Calin Rovinescu, Vagn Sørensen
Jet fuel procurement strategies	Paul Whitty, Director, Fuel Purchasing and Supply	All directors
Social media	Craig Landry, Vice President, Marketing	All directors
Pension plans and long-term investment strategy	Jean Michel, President, Air Canada Pension Investments	All directors
Recent trends in executive compensation	Independent Consultant	All directors

Air Canada Code of 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 of the Board 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 24 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 the heading "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 2013, 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 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 Towers Watson. Towers Watson was first engaged by Air Canada in 1980.

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

Type of Fee	Billed in 2012	Billed in 2013	Percentage of Total Fees Billed in 2013
Executive-Compensation-Related Fees	\$13,800	\$60,623	100%
All Other Fees	Nil	Nil	0%
Total Annual Fees	\$13,800	\$60,623	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, 2013 to December 31, 2013.

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

Members: Christie J.B. Clark (Chair)
Thomas Birks
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, the risk is managed at an acceptable level for the stakeholders, 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 and the Air Canada *rouge*TM pension plan for flight attendants:

- 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 amendments to the retirement arrangements that, in the opinion of the Management Pension Committee, affect the cost of retirement benefits in a material way.
- 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 approve on at least a quarterly basis whether funded consent benefits will be granted.
- 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.
- Establish a statement 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 audited annual financial statements for the retirement plans.

The Pension Committee met six times during the period from January 1, 2013 to December 31, 2013.

The Pension Committee is currently composed of:

Members: Michael M. Green (Chair)
Thomas Birks
Jean Marc Huot
Joseph B. Leonard
Roy J. Romanow

Governance and Corporate Matters Committee

The Governance and Corporate Matters Committee shall be comprised of three 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, 2013 to December 31, 2013.

The Governance and Corporate Matters Committee is currently composed of:

Members: Roy J. Romanow (Chair)
Thomas Birks
David I. Richardson

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 five times during the period from January 1, 2013 to December 31, 2013.

The Human Resources and Compensation Committee is currently composed of:

Members: Vagn Sørensen (Chair)
 Michael M. Green
 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 four times during the period from January 1, 2013 to December 31, 2013.

The Nominating Committee is currently composed of:

Members: David I. Richardson (Chair)
 Christie J.B. Clark
 Joseph B. Leonard
 Vagn Sørensen
 Annette Verschuren

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 2013. A more detailed discussion of our executive compensation program is provided in the Compensation Discussion and Analysis that follows this report on page 48.

This year, shareholders will be casting a non-binding advisory vote on the Corporation's approach to executive compensation policies. Air Canada's bi-annual advisory say on pay vote, introduced in 2012, was supported with the approval of 91.85% of those shareholders present at our 2012 annual and special meeting voting in person or by proxy. 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 42 to 67 of this circular. We encourage you to read the disclosure and to participate in the advisory vote.

Disclosure is presented in the following sections of the circular:

Report of the Human Resources and Compensation Committee (pages 42 to 47)

This section provides information on the composition and responsibilities of the committee, details on key activities undertaken by the committee in 2013, an overview of the committee's objectives and rationale for the compensation program and a high level summary of 2013 performance and compensation decisions.

Air Canada's Executive Compensation Program – Components of Executive Compensation (pages 51 to 60) and – Compensation of the Named Executive Officers (pages 61 to 68)

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 2013 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 68 to 77)

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 performance share units, restricted share units (collectively with performance share units, "**share units**"), stock options, 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 from time to time hires an independent compensation advisor who reports solely to the committee and does not provide any services to management.

The table below sets out the members of the Human Resources and Compensation Committee in 2013 and the basis of their experience.

<u>Committee Member</u>	<u>Member Since</u>	<u>Direct Experience</u>	<u>Basis of Experience</u>
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.
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.
Annette Verschuren	November 12, 2012	Yes	Chair and Chief Executive Officer, NRStor Inc.; Former President, The Home Depot Canada; Former President and co-owner, Michaels of Canada; Former Vice President, Corporate Development, Imasco Ltd.; Former Executive Vice President, Canada Development Investment Corporation; Director, Liberty Mutual Insurance Group, the North West Company Inc. and Saputo Inc.

2013 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 2013 included the following:

- Reviewed and approved an increase to the share ownership requirements of the President and Chief Executive Officer and the Corporation's Executive Vice Presidents;
- Implemented the executive compensation limitations pursuant to an agreement entered into between Air Canada and the Government of Canada;
- Reviewed and approved amendments to the Corporation's short-term target incentive levels applicable to the President and Chief Executive Officer and the Corporation's Executive Vice Presidents in order to align such incentives with Air Canada's comparator group;
- Reviewed and approved amendments to the termination entitlements applicable to the President and Chief Executive Officer and the Corporation's three Executive Vice Presidents in order to align such entitlements with Air Canada's comparator group;
- Reviewed and approved a restructured Employee Share Ownership Plan that promotes share ownership by Air Canada employees and rewards loyalty;
- Oversaw the retirement arrangements relating to the departing executive officers and the employment arrangements relating to newly hired executive officers;
- Approved new compensation arrangements resulting from the promotion of the Senior Vice President and Chief Legal Officer and the Vice President Human Resources;
- 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 practices;

- 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 analyzing 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 include base salary, short-term incentives, 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 analyzing 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 "Air Canada's Executive Compensation Program - 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. Under the Corporation's new anti-monetization policy adopted on February 11, 2014, the President and Chief Executive Officer is prohibited from using derivatives and other financial instruments to retain legal ownership of his Air Canada shares while reducing exposure to changes in the share price.

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 48.

<u>Current Compensation</u>	<u>Form</u>	<u>Eligibility</u>	<u>Performance Period</u>
<p>Base Salary</p> <ul style="list-style-type: none"> 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
<p>Short-term Incentive – Annual Incentive Plan</p> <ul style="list-style-type: none"> Rewards executives based on corporate, department and individual performance Reflects annual achievement of Air Canada's financial performance against pre-established Adjusted Net Income and EBITDAR targets 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
<p>Long-term Incentive – Stock Options and Share Units</p> <ul style="list-style-type: none"> Links interests of executives with interests of shareholders The Long-Term Incentive Plan provides for an annual target grant of stock options and share units in the amounts described in the table in "Long-Term Incentives – Stock Options and 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 The Corporation issues share units under the Long-Term Incentive Plan which may be either performance-based (referred to as either a "performance share unit" or a "PSU") or time-based (referred to as either a "restricted share unit" or a "RSU"). More than 50% of share units granted under the Corporation's Long-Term Incentive Plan are PSUs and may vest after a three year period, subject to the Corporation's achievement of its cumulative annual EBITDAR target over such three-year period. The remainder of the share units granted under the Corporation's Long-Term Incentive Plan are RSUs which vest after three years from the date of their grant, based on time only 	Stock Options, Performance Share Units and Restricted 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 share units

<ul style="list-style-type: none"> Participants receive on the redemption date in respect of all vested 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 			
<u>Pension</u>	<u>Form</u>	<u>Eligibility</u>	<u>Measurement Period</u>
<p>Defined Benefit Pension Plan and Supplementary Retirement Plan</p> <ul style="list-style-type: none"> 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) In 2013, officers were generally eligible to retire with an unreduced pension 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 Effective January 1, 2014, officers are generally eligible to retire with an unreduced pension at the earliest of (i) when their age plus years of service equals the sum of 80, their age is at least 55, and they obtain the consent from the Company as administrator of the pension plan or (ii) at age 65 <p>Defined Contribution Pension Plan and Supplementary Retirement Plan</p> <ul style="list-style-type: none"> Provides for financial protection upon retirement Aligned with the median of the Corporation's comparator group Benefits are provided by contributions equal to a percentage of the individual's salary made by the Corporation to individual defined contribution accounts, plus investment income 	Cash	<p>All officers of Air Canada hired prior to December 31, 2011 (19 individuals)</p> <p>All officers of Air Canada hired after October 1, 2012 (5 individuals)</p>	Pensionable service period to a maximum of 35 years
<u>Other Benefits</u>	<u>Form</u>	<u>Eligibility</u>	<u>Applicable Period</u>
<p>Group Benefits</p> <ul style="list-style-type: none"> Provides protection in case of sickness, disability or death 	Cash, Insurance and Other Benefits	All employees	N/A
<p>Employee share ownership plan</p> <ul style="list-style-type: none"> Encourages employees to make investments in Air Canada Permits eligible employees of Air Canada to invest up to 10% of their salary for purchase of Air Canada shares with a contribution by Air Canada at 33.33% for the first 12 months following the investment made by the employees and 50% thereafter 	Cash	All employees where permitted	Annual
<p>Perquisites</p> <ul style="list-style-type: none"> 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 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 2013 Corporate Performance

In 2013, the Corporation reported a record adjusted net income of \$340 million, after deducting accruals for 2013 Annual Incentive Plan ("AIP") payments (or \$384 million before deducting such AIP accruals), a six-fold increase over its performance in 2012. Air Canada achieved an EBITDAR in 2013 of \$1.433 billion, representing an increase of 8.6% from the Corporation's EBITDAR recorded in 2012, excluding the impact of benefit plan amendments. Operating income was a record \$619 million, up from operating income of \$442 million in 2012. In addition to the financial successes, the Corporation reported: a turnaround in on-time-performance, a record annual load factor of 82.8 percent, the successful launch of Air Canada *rouge*TM, numerous industry awards and an over 300 percent increase in Air Canada's share price. The Corporation advanced on its main four priorities of (i) cost transformation by eliminating the pension solvency deficit and progressing on its strategies to further lower operating costs, completing a \$1.4 billion refinancing of high yield notes and concluding the first offering in Canada of enhanced equipment trust certificates to finance aircraft on very favourable terms; (ii) international growth by announcing service expansions and introducing specially configured new Boeing 777 300ER aircraft on international routes with higher demand for economy travel; (iii) customer engagement by undertaking various initiatives, such as by revealing the new Dreamliner interiors and opening the new Frankfurt Maple Leaf Lounge; and (iv) culture change by displaying a commitment to customer service and operational excellence during the harsh winter storms and ongoing deep freezes in multiple cities across Canada and certain parts of the USA.

As a result of the Corporation meeting and exceeding its objectives for 2013, (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 for the Corporation's 2,700 eligible plan participants, as the Corporation exceeded its Adjusted Net Income (calculated in the manner described in the section under the heading "Air Canada's Executive Compensation Program – Short-Term Incentives – Air Canada Annual Incentive") target for 2013 by more than \$100 million, before deducting the AIP accruals and (iii) an annual grant of stock options and share units was awarded under the Corporation's Long-Term Incentive Plan.

AIR CANADA'S EXECUTIVE COMPENSATION PROGRAM

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 2013.

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 (50th 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 75th percentile) depending on each executive's profile, experience and performance in his or her role.

In December 2013, further to an agreement reached with Air Canada in March 2013, the Government of Canada formally approved the 2014 Regulations under the *Pension Benefits Standards Act, 1985* in respect of special payments required to be made to amortize the deficit under Air Canada's defined benefit plans applicable to the period between 2014 to 2020 inclusively, expiring December 31, 2020. According to the terms of the 2014 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 \$1,400 million 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. The following limitations apply to compensation payable in respect of the plan years during which Air Canada funds its plans pursuant to the 2014 Regulations:

- 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 aggregate 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 no amounts may be paid under the Annual Incentive Plan unless the Corporation also makes special payments to the pension plans under the regulations described above.
- The Corporation may not grant any equity-based compensation (including options, share units 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 unless the Corporation also makes special payments to the pension plans under the regulations described above. 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, share units 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 effective 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 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.

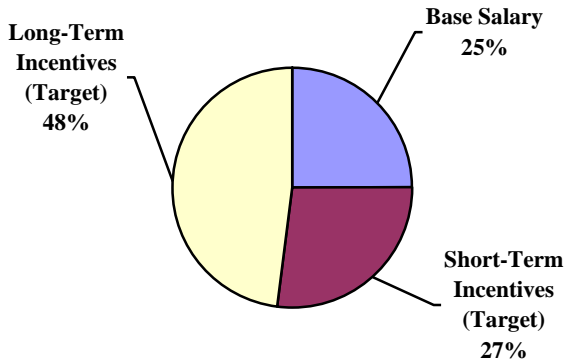
The table below describes the companies which have been identified in accordance with the above criteria and included in Air Canada's comparator group, as well as each organization's level of alignment to Air Canada's peer profile requirements in the list below. The comparator group for the President and Chief Executive Officer excludes the four financial institutions named below. On February 11, 2014, the Board of Directors revised Air Canada's comparator group by accounting for the merger between American Airlines and US Airways as American Airlines Group, the removal of Blackberry (RIM) and Maple Leaf Foods Inc. and the addition of Canadian Tire Corporation Limited, SNC-Lavalin Group Inc. and Southwest Airlines Co.

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 Group	✓		✓	✓	✓	✓
Bank of Montreal			✓	✓	✓	
BCE Inc.			✓	✓	✓	✓
Bombardier Inc.		✓	✓		✓	✓
CAE Inc.		✓			✓	✓
Canadian National Railway Company		✓	✓			
Canadian Pacific Railway Limited		✓	✓			✓
Canadian Tire Corporation Limited			✓	✓		✓
Celestica Inc.			✓		✓	
Delta Airlines Inc. / Northwest Airlines Corp	✓		✓	✓	✓	✓
Domtar Corp.			✓			✓
Enbridge Inc.			✓			✓
EnCana Corp			✓			✓
Rogers Communications Inc.			✓	✓	✓	✓
Royal Bank of Canada			✓	✓	✓	
SNC-Lavalin Group Inc.			✓		✓	✓
Southwest Airlines Co.	✓		✓	✓	✓	✓
SunLife Financial Inc.			✓	✓	✓	
Telus Corporation			✓	✓	✓	✓
Toronto-Dominion Bank			✓	✓	✓	
Transat AT Inc.	✓			✓	✓	✓
TransCanada Corp			✓		✓	✓
United Airlines Inc. / Continental Airlines Inc.	✓		✓	✓	✓	✓
WestJet Airlines Ltd.	✓			✓	✓	✓

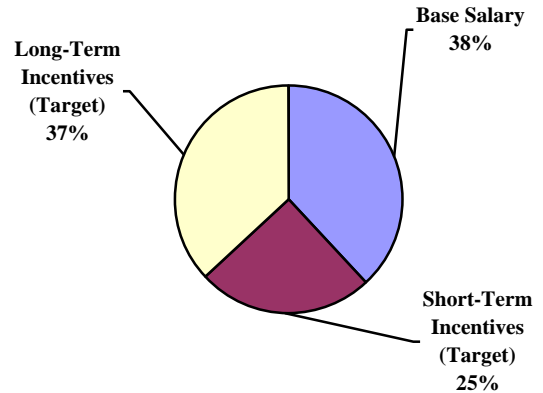
COMPONENTS OF EXECUTIVE COMPENSATION

The following charts set forth the relative weight of 2013 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.

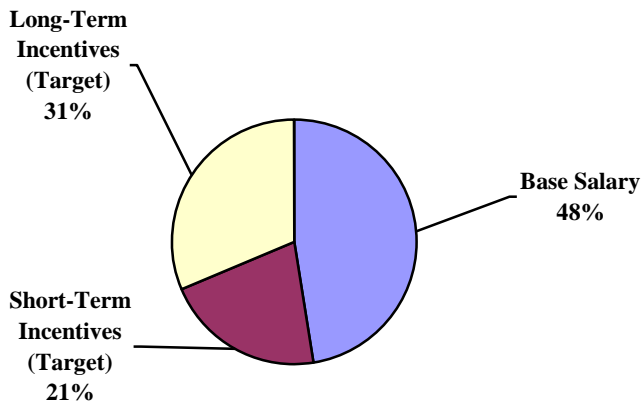
Compensation of Chief Executive Officer



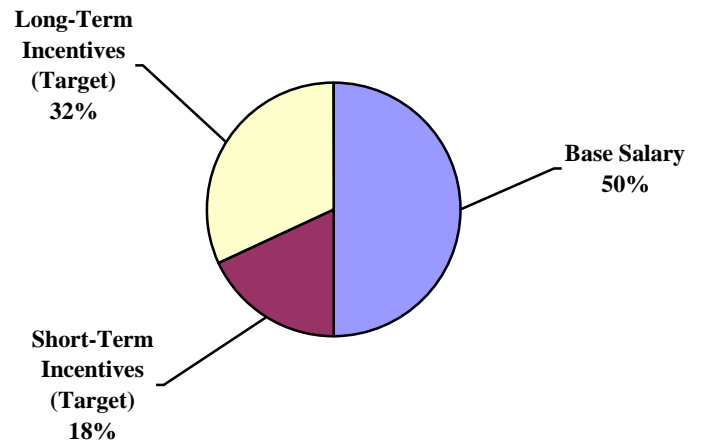
Compensation of Executive Vice Presidents



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 (50th percentile) of the comparator group. However, in specific circumstances, 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.

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, of which there were 2,700 eligible employees as at year end based on the Corporation's achievement of its annual financial results as measured by Adjusted Net Income (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 exchange, 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 items), and EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence, and aircraft rent) targets, while incorporating the Board of Directors' authority to recognize and adjust actual Adjusted Net Income and EBITDAR results for variances when warranted.

EBITDAR and Adjusted Net Income are each non-GAAP financial measures and, as such, neither has a standardized meaning and nor is likely to be comparable with similar measures used by other publicly traded companies. EBITDAR is 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 Adjusted Net Income and EBITDAR, please refer to the "Management's Discussion and Analysis" section of Air Canada's 2013 annual report.

With the intention of encouraging the development of a corporate culture focused more on transformation and performance, Air Canada's Annual Incentive Plan grants an award based on the achievement of a number of corporate objectives, of which 50% relates to the Corporation's annual financial results as measured by Adjusted Net Income, and 50% relates to (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 the portion of an award relating to the financial component of the Annual Incentive Plan is based on Air Canada achieving a minimum Adjusted Net Income (before deducting AIP accruals), while the component of the Annual Incentive Plan that rewards the achievement of department-specific objectives and individual performance is obtained by the achievement by Air Canada of a minimum EBITDAR. 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%-120%
Executive Vice President	55%-75%
Senior Vice President	35%-55%
Vice President	30%-40%

The trigger to grant the portion of an award based on Air Canada's Adjusted Net Income is determined as follows:

Adjusted Net Income	Percentage of the Target Bonus Payable (Financial Component of the Annual Incentive Plan)
\$100 million below target Adjusted Net Income or less	0%
\$50 million below target Adjusted Net Income	50%
Target Adjusted Net Income	100%
\$50 million above target Adjusted Net Income	150%
\$100 million above target Adjusted Net Income or greater	200%

The percentage of the financial component of the Annual Incentive Plan target bonus payable is prorated on a straight line basis for Adjusted Net Income performance between the reference points above. For example, if the Corporation's Adjusted Net Income is \$25 million below the target Adjusted Net Income, 75% of the financial component of the Annual Incentive Plan target bonus will be payable.

The trigger to grant the portion of an award based on the achievement of department-specific objectives and individual performance is obtained by the achievement by Air Canada of a minimum of 85% of the target EBITDAR.

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 2013 Adjusted Net Income, before deducting the AIP accruals, was \$384 million (or \$340 million after deducting the AIP accruals), compared to a target of \$273 million. The Corporation's 2013 EBITDAR was \$1.433 billion, compared to a target of \$1.362 billion. In accordance with the Annual Incentive Plan, the Board of Directors approved awards to the 2,700 plan participants under the plan based on achievement of corporate, department or individual objectives.

Long-Term Incentives – Stock Options and Share Units

Air Canada's Long-Term Incentive Plan is intended to attract, retain and motivate management in key positions at Air Canada and its subsidiaries and to align their interests with those of Air Canada's shareholders. The Human Resources and Compensation Committee determines which employees are eligible to receive stock options or 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 share units to all senior management and officers of Air Canada. Options and 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.

Under the Long-Term Incentive Plan, a maximum of 19,470,294 shares (which represent approximately 6.8% of the issued and outstanding shares of Air Canada on March 27, 2014) have been authorized for issuance following the exercise of stock options and/or the redemption of share units, of which 1,281,037 shares have been issued pursuant to the exercise of options. Currently, there is an aggregate of 9,847,321 options and 8,138,437 share units outstanding under the Long-Term Incentive Plan. All of the share units outstanding under the Long-Term Incentive Plan are not currently exercisable for underlying Air Canada shares issuable from treasury, but rather are exercisable for Air Canada shares purchased on the secondary market or for cash, at the discretion of the Corporation. The outstanding options represent, in the aggregate, approximately 3.4% of the Corporation's issued and outstanding shares as of March 27, 2014.

At the meeting, shareholders will vote, if deemed advisable, to adopt an ordinary resolution to replenish the share reserve under the Corporation's Long-Term Incentive Plan by an amount of 1,281,037 shares, as well as increase the number of shares authorized for issuance under the Long-Term Incentive Plan by an amount of 541,239 shares, such that an aggregate of 20,011,623 shares, representing 7% of the currently issued and outstanding shares of the Corporation, will be reserved and authorized for issuance following the exercise of stock options and/or the redemption of share units. For more information, please refer to the section under the heading "Business of the Meeting – Long-Term Incentive Plan Replenishment and Amendment".

Air Canada's target grant of stock options and/or 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 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 share units: (i) provides for a mix between stock option and share unit grants; and (ii) 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) ⁽¹⁾	Target Performance Share Unit Grant based on Performance (% of base salary)	Target Restricted 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%

⁽¹⁾ 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.

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 straight line 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 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 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, however, that shareholder approval shall not be required for the following amendments and the Board may make any changes which may include but are not limited to: (a) amendments of a "housekeeping nature", (b) a change to the vesting provisions of any option or 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 share unit and its substitution by a new share unit;
- (iii) any amendment that extends the term of options or share units beyond their original expiry;
- (iv) any amendment which would permit any option or 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 share unit may be payable or, subject to applicable regulatory provisions, and except in respect of options or share units that are held by an insider of the Corporation, extend the expiration date of any option or share unit provided that the period during which an option is exercisable or share unit is outstanding does not exceed 10 years in the case of options, and three years in the case of share units from the date such option or 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 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 Share Units

Share units, comprised of a mix of both performance share units and restricted 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 share units tracks the value of Air Canada shares. 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 based on the Corporation achieving its cumulative annual EBITDAR target over a three-year period based on the table below, while restricted share units will vest after three years from their date of grant.

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 straight line 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 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 54 of this circular) of Air Canada shares on the redemption date.

Participants receive, therefore, on the redemption date in respect of all vested 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 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 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 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 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 share units shall be terminated immediately, provided that all unvested 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 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 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 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 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 Share Units 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 share units at the end of their term based on: (i) the total number of completed months of active service during the share unit term, divided by (ii) the total number of months in the share unit term
Resignation	No further options vest. All vested options must be exercised within 30 days from the date of the resignation	Forfeiture of unvested share units
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 share units at the end of their term based on: (i) the total number of completed months of active service during the share unit term, divided by (ii) the total number of months in the share unit term
Termination for cause	Forfeiture of all unexercised options	Forfeiture of all unvested share units
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 share units at the end of their term based on: (i) the total number of completed months of active service during the share unit term, divided by (ii) the total number of months in the share unit term

Event	Vesting of Stock Options and Exercise Limitations	Vesting of Share Units and Payment Limitations
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 share units at the end of their term based on: (i) the total number of completed months of active service during the share unit term, divided by (ii) the total number of months in the share unit 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 share units at the end of their term based on: (i) the total number of completed months of active service during the share unit term, divided by (ii) the total number of months in the share unit term

Annual Grants of Options and 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	Dilution Rate ⁽¹⁾
2013	4,052,085	77	1.4%
2012	2,922,043	76	1.1%
2011	3,439,471	71	1.2%
2010	50,000	2	0.02%
2009	2,330,000	65	0.8%

⁽¹⁾ Dilution of options granted during the year compared to the total number of outstanding shares on December 31.

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
2013	10,079,694	3.5%
2012	8,410,403	3.0%
2011	6,411,206	2.3%
2010	3,287,931	1.2%
2009	3,963,474	1.4%

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

Year	Number of PSUs Granted	Number of Participants	Dilution Rate ⁽¹⁾	Number of RSUs Granted	Number of Participants	Dilution Rate ⁽¹⁾
2013	1,809,572	23	nil	2,237,564	157	nil
2012	1,211,585	23	nil	1,500,645	143	nil
2011	1,449,400	21	nil	1,861,500	124	nil
2010	1,495,260	164	nil	1,037,077	1	nil
2009	2,500	1	0.0009% ⁽²⁾	nil	nil	nil

(1) The zero dilution percentage is due to the fact that all 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 dilution percentage does not include shares underlying share units that 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.

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 share units granted during each of the last five calendar years:

Year	Total Number of PSUs Outstanding as of December 31	Dilution	Total Number of RSUs Outstanding as of December 31	Dilution
2013	2,452,848	Nil ⁽¹⁾	5,685,589	Nil ⁽¹⁾
2012	4,031,912	Nil ⁽²⁾	3,223,799	Nil ⁽²⁾
2011	3,679,757	Nil ⁽³⁾	2,517,754	Nil ⁽³⁾
2010	2,552,372	0.0009% ⁽⁴⁾	1,037,077	Nil ⁽⁴⁾
2009	1,653,064	0.2% ⁽⁵⁾	Nil	Nil ⁽⁶⁾

- (1) The zero dilution percentage is due to the fact that all 8,138,437 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 7,255,711 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 zero dilution percentage is due to the fact that all 6,197,511 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 3,586,949 share units, as these 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.
- (5) The dilution percentage does not include shares underlying 1,091,218 performance share units, as these 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.
- (6) No restricted share units were issued at such date.

Equity Compensation Plan Information

The following table details the number of securities to be issued upon the exercise of options and the redemption of share units 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 share units ⁽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⁾	9,879,694	\$2.47	8,320,086

- (1) As at December 31, 2013.
- (2) Does not include shares underlying an aggregate of 8,620,866 share units granted on April 8, 2011, April 2, 2012 and April 1, 2013 as these 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 remaining 200,000 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 under the heading "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 and amended effective with the 2014 calendar year. The Employee Share Ownership Plan permits eligible employees of Air Canada to invest up to 10% of their salary for purchase of Air Canada shares with a contribution by Air Canada at 33.33% for the first 12 months following the investment made by each employee and 50% thereafter. 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 of which he was a co-founder 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.

Mr. Rovinescu's base salary for the year ended December 31, 2013 remains unchanged since 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 share units to the President and Chief Executive Officer pursuant to the Long Term Incentive Plan are described at pages 53 to 58 of this circular.

Mr. Rovinescu's pension benefits, including his pension entitlements in the event he is terminated, are described at pages 75 to 77 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 restricted share units if the Corporation maintains a 90-day moving average share price of \$4.00 and an additional 25,000 restricted share units for each dollar increment in excess of \$4.00. In 2013, the Corporation exceeded the \$4.00 share price target by maintaining a 90-day moving average share price of at least \$5.00 and, as a result, Mr. Rovinescu was entitled to 50,000 restricted share units.

2013 Key Accomplishments

The Human Resources and Compensation Committee evaluated Mr. Rovinescu's performance for 2013 based on the achievement of the evolution and execution of Air Canada's strategy and key priorities and objectives, including the following key corporate financial and non-financial accomplishments for 2013:

- Achieved a record Adjusted Net Income of \$384 million before deducting the AIP accruals (or \$340 million after deducting the AIP accruals) versus a target of \$251 million;
- Reached liquidity levels exceeding \$2.4 billion, exceeding the minimum level for 2013 of \$1.7 billion;
- Successfully achieved operational improvements to key airline measures, such as a 14.7% improvement of on-time performance;
- Successfully launched Air Canada *rouge*TM as Air Canada's new leisure airline;
- Successfully negotiated pension funding regulations with the Finance Department and Minister of Finance for 7 years;
- Completed a \$1.4 billion refinancing of high yield notes;
- Concluded the first offering in Canada of enhanced equipment trust certificates to finance aircraft on very favourable terms;
- 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 fourth 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 maintained 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 bonus calculated at the midpoint of the target bonus range). 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 share units granted (on a prorated basis), shall immediately vest upon such termination without cause and, in the case of the options, must be exercised within 90 days following the date of termination. 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 of cash that would become payable to Mr. Rovinescu and the value of his options and share units that would accelerate as well as other benefits to which he would be entitled 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 2013:

Name	CALIN ROVINESCU – IF TERMINATED WITHOUT CAUSE			
	Cash Portion	Value of Exercisable/Vested Options and Share Units ⁽¹⁾	Other Benefits ⁽²⁾	Total Value
Calin Rovinescu	\$4,620,000	\$21,180,078	\$89,662	\$25,889,740

(1) Based on the December 31, 2013 closing price of Air Canada's Class B voting shares (\$7.41).

(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, 2013 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. All unvested share units granted shall be forfeited and cancelled on Mr. Rovinescu's last day of active employment.

In the event of the termination of Mr. Rovinescu's employment as a result of retirement, 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 and unvested share units (on a prorated basis) will immediately vest, and all options must be exercised within the earlier of 90 days or the scheduled option expiry.

The following table sets out Mr. Rovinescu's accumulated Air Canada shares and share units and the value of each type of holding as at March 27, 2014 having an aggregate value of \$14,126,012.

Type of Security	Number of Securities	Market Value of Securities
Class B voting shares	336,532	\$1,800,446 ⁽¹⁾
Restricted share units – Class B voting shares	1,056,913	\$5,654,485 ⁽²⁾
Performance share units – Class B voting shares	1,246,931	\$6,671,081 ⁽²⁾

(1) Class B voting shares are calculated at a market value of \$5.35 per share (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class B voting shares).

(2) Share units are calculated at a market value of \$5.35 per unit (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class B voting shares).

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, 2013, was \$527,000. Any future salary progression will be based on personal performance in the position. As was detailed at page 52 of this circular, for the 2013 calendar year, Mr. Rousseau's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of Adjusted Net Income and EBITDAR against its business plan, was a range of 55%-75% of basic annual salary with a maximum bonus of 110%-150% of basic annual salary.

Annual target grants of stock options and/or share units to the Executive Vice President and Chief Financial Officer are described at pages 53 to 57 of this circular.

Mr. Rousseau's pension benefits are described at pages 75 to 77 of this circular.

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 and payment of the Annual Incentive Plan Award at two times the midpoint of his target range, 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. Additionally, all unexercised options granted, as well as any of the share units granted (on a prorated basis) shall immediately vest upon such termination and, in the case of the options, must be exercised within 90 days following the date of termination. 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.

In the event of the termination of Mr. Rousseau's employment as a result of retirement, death or disability, Mr. Rousseau 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 and unvested share units (on a prorated basis) will immediately vest, and all options must be exercised within the earlier of 90 days or scheduled option expiry.

The table below shows the estimated amount of cash that would become payable to Mr. Rousseau and the value of his options and share units that would accelerate as well as other benefits to which he would be entitled 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 2013:

Name	MICHAEL ROUSSEAU – IF TERMINATED WITHOUT CAUSE			
	Cash Portion ⁽¹⁾	Value of Exercisable/Vested Options and Share Units ⁽²⁾	Other Benefits ⁽³⁾	Total Value
Michael Rousseau	\$1,749,000	\$4,651,871	\$75,420	\$6,476,291

- (1) Based on Mr. Rousseau's salary of \$530,000 for the year ended December 31, 2013.
- (2) Based on the December 31, 2013 closing price of Air Canada's Class B voting shares (\$7.41).
- (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, 2013, was \$475,000. Any future salary progression will be based on personal performance in the position. As was detailed at page 52 of this circular, for the 2013 calendar year, Mr. Smith's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of Adjusted Net Income and EBITDAR against its business plan, was a range of 55%-75% of basic annual salary with a maximum bonus of 110%-150% of basic annual salary.

Annual target grants of stock options and/or share units to the Executive Vice President and Chief Commercial Officer are described at pages 53 to 57 of this circular. Mr. Smith's pension benefits are described at pages 75 to 77 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 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 and payment of the Annual Incentive Plan Award at two times the midpoint of his target range, 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. Additionally, all unexercised options granted, as well as any of the share units granted (on a prorated basis), shall immediately vest upon such termination and, in the case of the options, must be exercised within 90 days following the date of termination. The above payments and conditions are subject to Mr. Smith's compliance during the severance period with the non-competition provisions of his employment agreement.

In the event of the termination of Mr. Smith's employment as a result of retirement, death or disability, Mr. Smith 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 and unvested share units (on a prorated basis) will immediately vest, and all options must be exercised within the earlier of 90 days or scheduled option expiry.

The table below shows the estimated amount of cash that would become payable to Mr. Smith and the value of his options and share units that would accelerate as well as other benefits to which he would be entitled 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 2013:

Name	BENJAMIN SMITH – IF TERMINATED WITHOUT CAUSE			
	Cash Portion ⁽¹⁾	Value of Exercisable/Vested Options and Share Units ⁽²⁾	Other Benefits ⁽³⁾	Total Value
Benjamin Smith	\$1,584,000	\$4,050,454	\$75,055	\$5,709,509

- (1) Based on Mr. Smith's salary of \$480,000 for the year ended December 31, 2013.
- (2) Based on the December 31, 2013 closing price of Air Canada's Class B voting shares (\$7.41).
- (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 Operating Officer

As per the terms of his employment agreement, the base salary of Mr. Klaus Goersch, as Executive Vice President and Chief Operating Officer for the year ended December 31, 2013, was \$447,500. Any future salary progression will be based on personal performance in the position. As was detailed at page 52 of this circular, for the 2013 calendar year, Mr. Goersch's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of Adjusted Net Income and EBITDAR against its business plan, was a range of 55%-75% of basic annual salary with a maximum bonus of 110%-150% of basic annual salary.

Annual target grants of stock options and/or share units to the Executive Vice President and Chief Operating Officer are described at pages 53 to 57 of this circular.

Mr. Goersch's pension benefits are described at pages 75 to 77 of this circular.

Mr. Goersch'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 and payment of the Annual Incentive Plan Award at two times the midpoint of his target range, 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. Additionally, all unexercised options granted, as well as any of the share units granted (on a prorated basis), shall immediately vest upon such termination and, in the case of the options, must be exercised within 90 days following the date of termination. The above payments and conditions are subject to Mr. Goersch's compliance during the severance period with the non-competition provisions of his employment agreement.

In the event of the termination of Mr. Goersch's employment as a result of retirement, death or disability, Mr. Goersch 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 and unvested share units (on a prorated basis) will immediately vest, and all options must be exercised within the earlier of 90 days or scheduled option expiry.

The table below shows the estimated amount of cash that would become payable to Mr. Goersch and the value of his options and share units that would accelerate as well as other benefits to which he would be entitled 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 2013:

Name	KLAUS GOERSCH - IF TERMINATED WITHOUT CAUSE			
	Cash Portion ⁽¹⁾	Value of Exercisable/Vested Options and Share Units ⁽²⁾	Other Benefits ⁽³⁾	Total Value
Klaus Goersch	\$1,485,000	\$1,830,134	\$74,857	\$3,389,991

(1) Based on Mr. Goersch's salary of \$450,000 for the year ended December 31, 2013.

(2) Based on the December 31, 2013 closing price of Air Canada's Class A variable voting shares (\$7.41).

(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 Senior Vice President and Chief Legal Officer, Mr. Shapiro's base salary for the year ended December 31, 2013, was \$366,500. 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 52 of this circular, for the 2013 calendar year, Mr. Shapiro's target bonus under the Corporation's Annual Incentive Plan, based on the Corporation's achievement of Adjusted Net Income and 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 share units are described at pages 53 to 57 of this circular. Mr. Shapiro's pension benefits are described at pages 75 to 77 of this circular.

Share Ownership Requirements for Executive Officers

On August 6, 2013, the Board approved amendments to the share ownership guidelines for the Executive Vice-Presidents who are each required to own a minimum of securities of Air Canada representing an amount equivalent in value to one times his or her annual base salary through shares and/or restricted share units (performance share units are not included in the calculation of the share ownership requirements applicable to Executive Vice-Presidents). Such ownership must be achieved by August 6, 2016 or within five years of the date of appointment of such Executive Vice-President, whichever occurs later. The Board also 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 three times the annual base salary of the President and Chief Executive Officer through shares and/or restricted share units (performance share units are not included in the calculation of the President and Chief Executive Officer's share ownership requirements). The value of the securities is based on the sum of: (a) the greater of: (i) the market value of the shares underlying the restricted share units; and (ii) the price of the shares underlying the restricted share units at the time of grant; and (b) the greater of: (i) the market value of the shares and (ii) the purchase price of the shares.

Name	Total Number of Securities Owned	Total Value of Securities for the Purpose of Minimum Share Ownership Requirements⁽¹⁾	Value of Securities Required to Meet Guidelines	Latest Date to Meet Share Ownership Requirements	Satisfies Ownership Requirements
Calin Rovinescu – President and Chief Executive Officer	336,532 Class B voting shares 1,056,913 restricted share units	\$7,661,181	Three times base salary	August 6, 2016	Yes
Michael Rousseau – Executive Vice President and Chief Financial Officer	50,058 Class B voting shares 226,436 restricted share units	\$1,479,243	One times base salary	August 6, 2016	Yes
Benjamin Smith – Executive Vice President and Chief Commercial Officer	64,449 Class B voting shares 201,554 restricted share units	\$1,423,116	One times base salary	August 6, 2016	Yes
Klaus Goersch – Executive Vice President and Chief Operating Officer	50,000 Class A variable voting shares 71,170 restricted share units	\$644,624	One times base salary	October 1, 2017	Yes

(1) This amount represents the sum of (a) the greater of the market value of the shares and the purchase price of the shares (based on the March 27, 2014 Toronto Stock Exchange closing price of the Class A variable voting shares (\$5.32) or the Class B voting shares (\$5.35)), as applicable, and (b) the greater of: (i) the market value of the shares underlying the restricted share units as at March 27, 2014 described above, and (ii) the price at the time of grant. Options and performance share units 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, 2013, 2012 and 2011 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 2013 year (collectively, the "Named Executive Officers").

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	2013	1,400,000 ⁽⁴⁾	2,623,902	1,241,867	2,260,800 ⁽⁵⁾	290,800	Nil	7,817,369
President and Chief Executive Officer	2012	1,400,000	558,462	367,199	1,900,000 ⁽⁶⁾	299,600	5,000,000 ⁽⁷⁾	9,525,261
	2011	1,400,000	1,210,143	743,384	325,000 ⁽⁸⁾	320,500	Nil	3,999,027
Michael Rousseau	2013	527,000	512,789	275,110	771,150 ⁽⁹⁾	247,300	Nil	2,333,349
Executive Vice President and Chief Financial Officer	2012	518,000	82,880	59,286	622,000 ⁽¹⁰⁾	196,400	Nil	1,478,566
	2011	518,000	406,575	274,341	300,000 ⁽¹¹⁾	182,200	Nil	1,681,116
Benjamin Smith	2013	475,000	455,097	243,383	698,400 ⁽¹²⁾	128,400	Nil	2,000,280
Executive Vice President and Chief Commercial Officer	2012	460,000	73,600	52,648	552,000 ⁽¹³⁾	67,200	Nil	1,205,448
	2011	451,250	335,661	223,315	250,000 ⁽¹⁴⁾	111,600	Nil	1,371,826
Klaus Goersch ⁽¹⁵⁾	2013	447,500	415,500	225,503	654,750 ⁽¹⁶⁾	67,100	Nil	1,810,353
Executive Vice President and Chief Operating Officer	2012	110,000	Nil	52,902	100,000 ⁽¹⁷⁾	16,500	Nil	262,902
David Shapiro	2013 ⁽¹⁸⁾	366,500	206,066	115,734	370,000 ⁽¹⁹⁾	111,700	Nil	1,170,000
Senior Vice President and Chief Legal Officer	2012	356,000	39,982	24,899	281,000 ⁽²⁰⁾	41,700	Nil	743,581
	2011	356,000	130,186	86,454	75,000 ⁽²¹⁾	43,100	Nil	690,740

(1) The grant date fair value of the annual grant of share units awarded in 2013 under the Corporation's Long-Term Incentive Plan (LTIP), as reported in this table, reflects a valuation factor of 55% for the performance share units and 100% for the restricted share units 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 grants of \$3.04 and \$2.49. The share prices at the time of the grants 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 share units was \$2,623,902 for Mr. Rovinescu, \$512,789 for Mr. Rousseau, \$455,097 for Mr. Smith, \$415,500 for Mr. Goersch and \$206,066 for Mr. Shapiro. These 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 Share Units" on page 72 of this circular for more details.

The accounting fair value of these Share Units was \$3,038,939 for Mr. Rovinescu, \$619,939 for Mr. Rousseau, \$549,288 for Mr. Smith, \$501,737 for Mr. Goersch and \$244,397 for Mr. Shapiro. The difference between the accounting fair value and the grant date fair value of the share units as presented in this column is \$415,037 for Mr. Rovinescu, \$107,150 for Mr. Rousseau, \$94,191 for

Mr. Smith, \$86,237 for Mr. Goersch and \$38,331 for Mr. Shapiro. The difference between the accounting fair value and the grant date fair value of the share units as presented in this column is due to a forfeiture rate of 85.74% applied for accounting purposes versus the valuation factor of 55% in the case of the performance share units and 100% in the case of restricted share units applied for purposes of determining the grant date fair value.

- (2) The grant date fair value for options awarded in 2013 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 Share Units" at page 53 of this circular for more detail).

The grant date fair value for the options granted on April 1, 2013, using the binomial lattice model, was based on the following factors, key assumptions and plan provisions:

- i. Binomial factor: 33.8778%
- ii. Volatility: 53.24%
- 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 grant date fair value for the options granted on June 27, 2013, using the binomial lattice model, was based on the following factors, key assumptions and plan provisions:

- i. Binomial factor: 35.5411%
- ii. Volatility: 56.55%
- 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: \$1,580,409 for Mr. Rovinescu, \$351,160 for Mr. Rousseau, \$310,704 for Mr. Smith, \$288,139 for Mr. Goersch and \$148,191 for Mr. Shapiro. The difference between the accounting fair value and the grant date fair value of the options as presented in this column is: \$338,542 for Mr. Rovinescu, \$76,050 for Mr. Rousseau, \$67,321 for Mr. Smith, \$62,636 for Mr. Goersch and \$32,457 for Mr. Shapiro. 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 2013, 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.

Calin Rovinescu

- (4) Mr. Rovinescu's base salary for 2013 is unchanged since 2010. As described under the heading "Remuneration of Directors" at page 24 of this circular, Mr. Rovinescu did not receive any compensation for serving as a director of Air Canada in 2011, 2012 or 2013.
- (5) Amounts paid pursuant to the terms of the Annual Incentive Plan.
- (6) Amounts paid pursuant to the terms of the Annual Incentive Plan.
- (7) 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.
- (8) Amounts paid pursuant to the terms of the Annual Incentive Plan.

Michael Rousseau

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

Benjamin Smith

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

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

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

Klaus Goersch

(15) On October 1, 2012, Mr. Goersch was appointed Executive Vice President and Chief Operating Officer of the Corporation.

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

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

David Shapiro

(18) 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.

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

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

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

Long-Term Incentive Plan Awards

The following table details all unexercised options held by the Named Executive Officers as at December 31, 2013. 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 A variable voting shares and Class B voting shares, as applicable.

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	200,000	0.97	May 7, 2016	1,288,000
	719,700	2.34	April 8, 2018	3,648,879
	925,481	0.96	April 2, 2019	5,969,352
	819,149	3.04	April 1, 2020	3,579,681
	450,000	2.49	June 27, 2020	2,214,000
Michael Rousseau	82,500	14.90	Oct 10, 2014	Nil
	265,600	2.34	April 8, 2018	1,346,592
	149,423	0.96	April 2, 2019	963,778
	198,383	3.04	April 1, 2020	866,934
	80,000	2.49	June 27, 2020	393,600
Benjamin Smith	55,000	15.85	May 10, 2014	Nil
	162,150	2.34	April 8, 2018	822,101
	132,692	0.96	April 2, 2019	855,863
	176,170	3.04	April 1, 2020	769,863
	70,000	2.49	June 27, 2020	344,400
Klaus Goersch	100,000	1.28	October 1, 2019	613,000
	168,511	3.02	April 1, 2020	739,763
	60,000	2.49	June 27, 2020	295,200
David Shapiro	62,774	2.34	April 8, 2018	318,264
	62,756	0.96	April 2, 2019	404,776
	90,894	3.04	April 1, 2020	397,207
	25,000	2.49	June 27, 2020	123,000

(1) Based on the closing price of the Class B voting shares (\$7.41) or the Class A variable voting shares (\$7.41), as applicable, on December 31, 2013.

AIR CANADA SHARE UNITS

The tables below detail the number and market value of unvested performance share units and unvested restricted share units held by the Named Executive Officers as at December 31, 2013.

Performance Share Units:

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	528,846	Jan 1, 2012 to Dec 31, 2014	3,918,749	Nil
	468,085	Jan 1, 2013 to Dec 31, 2015	3,468,510	
	250,000	Jan 1, 2013 to Dec 31, 2015	1,852,500	
Michael Rousseau	66,410	Jan. 1, 2012 to Dec 31, 2014	492,098	Nil
	88,170	Jan. 1, 2013 to Dec 31, 2015	653,340	
	80,000	Jan. 1, 2013 to Dec 31, 2015	592,800	
Benjamin Smith	58,974	Jan 1, 2012 to Dec 31, 2014	436,997	Nil
	78,298	Jan 1, 2013 to Dec 31, 2015	580,188	
	70,000	Jan 1, 2013 to Dec 31, 2015	518,700	
Klaus Goersch	74,894	Jan 1, 2013 to Dec 31, 2015	554,965	Nil
	60,000	Jan 1, 2013 to Dec 31, 2015	444,600	
David Shapiro	34,231	Jan 1, 2012 to Dec 31, 2014	253,652	Nil
	45,447	Jan 1, 2013 to Dec 31, 2015	336,762	
	15,000	Jan 1, 2013 to Dec 31, 2015	111,150	

(1) Based on the closing price of the Class B voting shares (\$7.41) or the Class A variable voting shares (\$7.41), as applicable, on December 31, 2013.

Restricted Share Units:

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	258,600	April 8, 2011 to April 8, 2014	1,916,226	Nil
	290,866	April 2, 2012 to April 2, 2015	2,155,317	
	257,447	April 1, 2013 to April 1, 2016	1,907,682	
	150,000	June 27, 2013 to June 27, 2016	1,111,500	
	25,000	Nov 13, 2013 to Nov 13, 2016	185,250	
	25,000	Dec 13, 2013 to Dec 13, 2016	185,250	
Michael Rousseau	88,500	April 8, 2011 to April 8, 2014	655,785	Nil
	49,808	April 2, 2012 to April 2, 2015	369,077	
	66,128	April 1, 2013 to April 1, 2016	490,008	
	22,000	June 27, 2013 to June 27, 2016	163,020	

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 (\$)
Benjamin Smith	78,600	April 8, 2011 to April 8, 2014	582,426	Nil
	44,231	April 2, 2012 to April 2, 2015	327,752	
	58,723	April 1, 2013 to April 1, 2016	435,137	
	20,000	June 27, 2013 to June 27, 2016	148,200	
Klaus Goersch	56,170	April 1, 2013 to April 1, 2016	416,220	Nil
	15,000	June 27, 2013 to June 27, 2016	111,150	
David Shapiro	30,500	April 8, 2011 to April 8, 2014	226,005	Nil
	22,821	April 2, 2012 to April 2, 2015	169,104	
	30,298	April 1, 2013 to April 1, 2016	224,508	
	7,000	June 27, 2013 to June 27, 2016	51,870	

(1) Based on the closing price of the Class B voting shares (\$7.41) or the Class A variable voting shares (\$7.41), as applicable, on December 31, 2013.

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, 2013 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, 2013. 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 68 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	89,963	2.34	April 8, 2013	3.18	75,569	2,260,800
	115,685	0.96	April 2, 2013	3.30	270,703	
Michael Rousseau	33,200	2.34	April 8, 2013	3.18	27,888	771,150
	18,678	0.96	April 2, 2013	3.30	43,707	
Benjamin Smith	27,025	2.34	April 8, 2013	3.18	22,701	698,400
	16,587	0.96	April 2, 2013	3.30	38,814	
Klaus Goersch ⁽³⁾	25,000	1.28	October 1, 2013	3.74	61,500	654,750
David Shapiro	10,463	2.34	April 8, 2013	3.18	8,789	370,000
	7,845	0.96	April 2, 2013	3.30	18,357	

- (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 2013, and corresponds to the amounts disclosed in the Summary Compensation Table on page 68 of this circular under the heading "Annual Incentive Plans".
- (3) Mr. Goersch was hired September 2012 and was granted options upon on his hire.

Share Units – value vested or earned during the year

The performance share units of the Named Executive Officers that vested in 2013, based on the achievement of the Corporation's three-year annual EBITDAR target, 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	470,100	December 31, 2013	7.68	3,610,368
Michael Rousseau	155,000	December 31, 2013	7.68	1,190,400
Benjamin Smith	117,900	December 31, 2013	7.68	905,472
Klaus Goersch	Nil	-	Nil	Nil
David Shapiro	45,700	December 31, 2013	7.68	350,976

(1) The vesting of the performance share units was in the form of cash for all NEOs.

The restricted share units of the Named Executive Officers that vested in 2013 are disclosed in the table below.

Share-based awards				
Name	Restricted Share Units Vested	Vesting Date	Fair Market Value of Shares on the Date of Vesting (\$)	Value vested during the Year ⁽¹⁾ (\$)
Calin Rovinescu	345,693	February 9, 2013	2.42	836,577
Michael Rousseau	Nil	Nil	Nil	Nil
Benjamin Smith	Nil	Nil	Nil	Nil
Klaus Goersch	Nil	Nil	Nil	Nil
David Shapiro	Nil	Nil	Nil	Nil

(1) The vesting of Mr. Rovinescu's 345,693 restricted share units was in the form of cash.

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).

Effective January 1, 2014, changes have been made to the pension plan mainly with respect to the early retirement conditions. Under the amended plan, 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 reached the criteria of age 55 and 80 points by the end of 2013 will remain eligible to an unreduced pension without consent required by 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 was established in 2013 for contributions in excess of the maximum permitted by the *Income Tax Act* (Canada).

The following tables provide information on the pension benefits of each Named Executive Officer calculated as of December 31, 2013.

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⁾	21.6400	270,100	414,400	4,593,500	290,800	55,000	4,939,300
Michael Rousseau	11.2500	115,800	210,200	1,286,300	247,300	-107,400	1,426,200
Benjamin Smith	16.0833	146,000	319,100	1,508,100	128,400	-70,900	1,565,600
David Shapiro	16.4167	116,000	206,700	1,516,900	111,700	-17,800	1,610,800

- (1) This column reflects the number of years of credited service for each Named Executive Officer as of the year ended December 31, 2013, including, as the case may be, any additional pensionable service credited pursuant to the Named Executive Officer's individual employment agreement. Messrs Rousseau and Smith were credited with an additional 5 years and 3 years respectively before December 31, 2013. 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 4.75 years of credited pensionable service as of December 31, 2013.
- (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, 2013. 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, 2013 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 2012 year-end financial statement reporting purposes. These assumptions include future earnings projections at the rate of 2% for 2013, 3% for 2014 and 2015 and 2.5% per annum thereafter (plus merit scales) as well as assumptions regarding retirement, termination and death. Benefits are valued using a discount rate of 4.3%, which reflects corporate AA bond yields at the beginning of the year as was adopted for 2012 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 2013, 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 2013 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, 2013 and is based on 2013 year-end assumptions, assuming a going-concern basis. The 2013 year-end assumptions are the same as for 2012, except a discount rate of 4.9% was used, which reflects corporate AA bond yields at the end of the year. Future earnings projections are applied to 2013 earnings. In addition, the mortality table was changed to use 80% of the mortality rates of the UP94 generational table, with 150% of the projection scale AA. The benefit reductions do not have an impact on the accrued obligations at the end of the year. They only have an impact on the solvency liabilities of the plan, which are not relevant in determining the disclosure of executive compensation.
- (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.

DEFINED CONTRIBUTION PLAN

Name	Accumulated value at start of year (\$)	Compensatory Change (\$)	Accumulated value at year end (\$)
Klaus Goersch	16,600	67,100	89,100 ⁽¹⁾

(1) This amount includes a \$5,400 non-compensatory change.

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 61 and following of this circular.

Air Canada is currently a party to change of control agreements with each of Messrs. Rovinescu, Rousseau, Smith and Goersch. 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, Smith or Goersch 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.

Each of Messrs. Rovinescu, Rousseau, Smith and Goersch would become entitled to the payments and benefits to which they are entitled under the terms of their respective employment agreement in the event of a termination without cause. Additionally, Messrs. Rovinescu, Rousseau and Smith, will be entitled to receive an additional two years of pensionable service and Mr. Goersch will be entitled to receive a lump sum payment equal to a two-year contribution to his defined contribution plan.

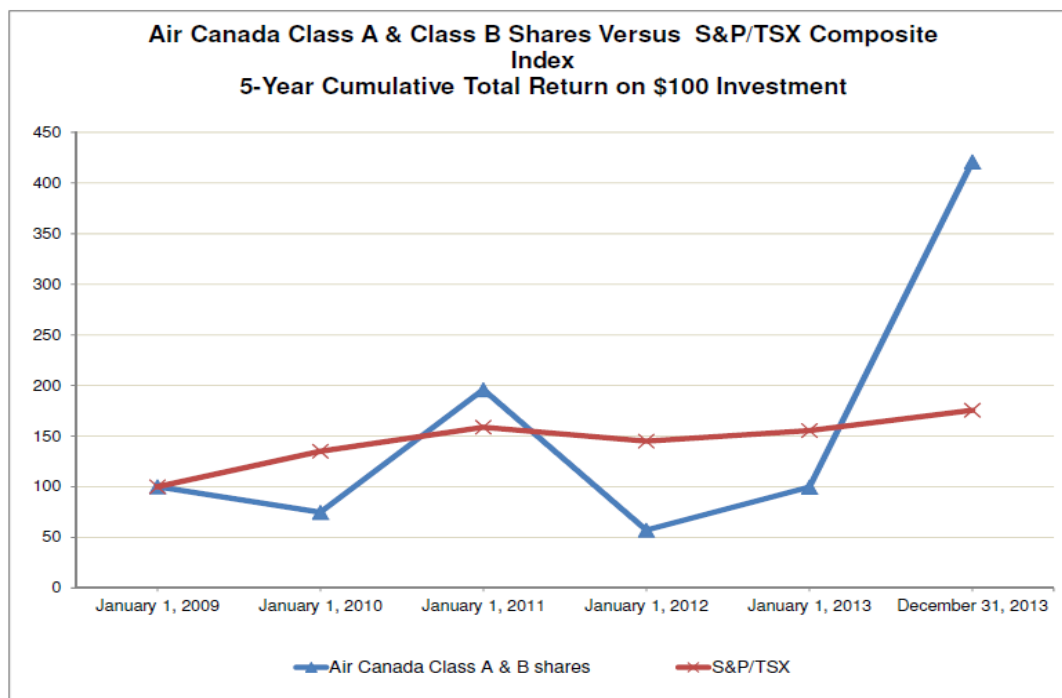
Air Canada and Mr. Rovinescu entered into an additional agreement whereby following a "Hostile Change of Control", Mr. Rovinescu has the right at any time within two years thereafter, to require the Board of Directors to terminate his employment and any such termination shall be considered to be (and 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 62 and 63 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

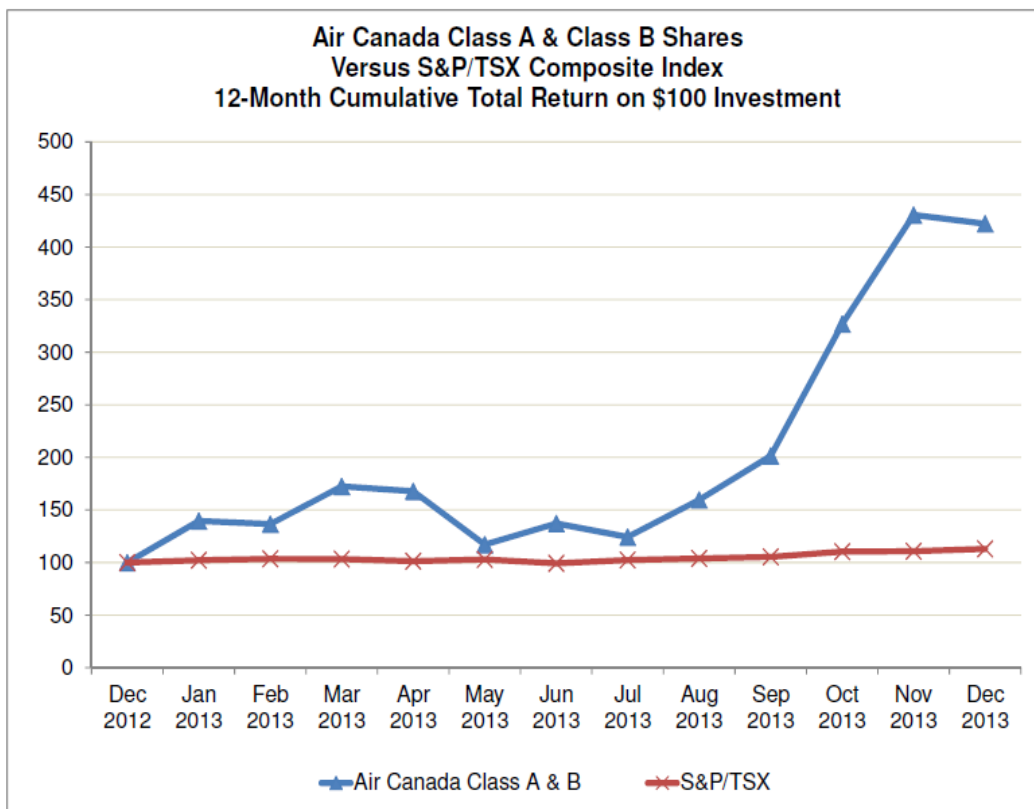
Five Year Total Shareholder Return Comparison

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, 2009 with the cumulative return on the S&P/TSX Composite Index for the period beginning on January 1, 2009 and ended December 31, 2013. 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 321% and 323%, respectively, from December 31, 2012 to December 31, 2013. 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, 2012 with the cumulative return on the S&P/TSX Composite Index for the period beginning on December 31, 2012 and ended December 31, 2013.



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. Cash compensation of Air Canada's Named Executive Officers has remained fairly constant relative to the Corporation's EBITDAR. The cash compensation of Air Canada's Named Executive Officers has remained largely unchanged over the past three years, whereas a large portion of compensation is in the form of long-term stock-based incentives, as described on page 51 of this circular under the heading "Components of Executive Compensation". The increase in the aggregate compensation of Air Canada's Named Executive Officers from 2012 to 2013 mostly resulted from stock-based compensation awarded under Air Canada's Long Term Incentive Plan. 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 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 Adjusted Net Income and of EBITDAR. The total aggregate compensation is the sum of the annual total compensation values reported in the Summary Compensation Table for the 2011, 2012 and 2013 years.

	2011	2012	2013
Total aggregate NEO compensation (\$ millions) ⁽¹⁾⁽²⁾	8.82	13.29 ⁽³⁾	14.71
Adjusted Net Income (\$ millions)	n/a ⁽⁴⁾	55	340
As a percentage of Adjusted Net Income	n/a	15.1%	4.3%
EBITDAR (\$ millions)	1,242 ⁽⁵⁾	1,327 ⁽⁶⁾	1,433
As a percentage of EBITDAR	0.71%	1.00%	1.03%

- (1) Named Executive Officers by year include:
2013 – Calin Rovinescu, Michael Rousseau, Benjamin Smith, Klaus Goersch and David Shapiro.
2012 – Calin Rovinescu, Michael Rousseau, Benjamin Smith, Duncan Dee, David Shapiro and David Legge.
2011 – 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 includes the \$5 million retention payment made to Calin Rovinescu pursuant to the 2009 Employment Agreement.
- (4) The Corporation reported a loss of \$122 million for the fiscal year ended December 31, 2011.
- (5) Historical consolidated financial information for the fiscal year ended December 31, 2011 has not been restated for new accounting standards that were effective and adopted by the Corporation on January 1, 2013.
- (6) Restated to \$1,320 million based on new accounting standards that were effective and adopted by the Corporation on January 1, 2013.

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, 2013 to October 1, 2014 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\$1,335,080. 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 March 27, 2014, 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 or in any proposed transaction since the commencement of the Corporation's last financial year that has materially affected or is reasonably expected to 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

Ontario

320 Bay Street
B1 Level
Toronto, Ontario

British Columbia

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

Québec

2001 University Street
Suite 1600
Montreal, Québec

Nova Scotia

1660 Hollis Street
Centennial Building
Suite 406
Halifax, Nova Scotia

Shareholder proposals for our 2015 annual meeting

We will include proposals from shareholders that comply with applicable laws in next year's management proxy circular for our 2015 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 December 29, 2014.

HOW TO REQUEST MORE INFORMATION

Documents you can request

Financial information with respect to Air Canada is provided in its consolidated financial statements and Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) for the year ended December 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, 2013, which includes our consolidated annual financial statements together with the accompanying auditors' report, and our related MD&A;
- any interim financial statements that were filed after the consolidated financial statements for the year ended December 31, 2013, and our related MD&A; and
- our Annual Information Form for the year ended December 31, 2013.

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. You will receive an e-mail telling you when they are available on our website. If you do not sign up for this service, you will continue to receive 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"

ORDINARY RESOLUTION REGARDING RENEWAL OF THE SHAREHOLDER RIGHTS PLAN

"BE IT RESOLVED THAT:

1. The Rights Plan, as set forth in the Shareholder Rights Plan Agreement between the Corporation and CST Trust Company originally adopted on March 30, 2011, ratified by the Corporation's shareholders on May 5, 2011, as amended on June 4, 2012, which was amended and restated by the Board of Directors on March 27, 2014, be, and it is hereby, ratified; and
2. Any director or officer of the Corporation be, and each is hereby, authorized and directed, for and on behalf of the Corporation, to sign and execute all documents, to conclude any agreements and to do and perform all acts and things deemed necessary or advisable in order to give effect to this resolution, including compliance with all securities laws and regulations."

SCHEDULE "B"

SUMMARY OF PRINCIPAL TERMS OF THE SHAREHOLDER RIGHTS PLAN

This summary is qualified in its entirety by reference to the text of the shareholder rights plan agreement entered into on March 30, 2011, as amended on June 4, 2012, and which was amended and restated by the Board of Directors on March 27, 2014, between Air Canada (the "**Corporation**") and CST Trust Company, as amended from time to time in accordance with its terms (the "**Rights Plan**") which is available on SEDAR at www.sedar.com. The Rights Plan will come into force immediately following the meeting or any adjournment or postponement thereof, provided that the Rights Plan is ratified by the requisite majority of shareholders of Air Canada. Capitalized terms used in this summary without express definition have the meanings ascribed thereto in the Rights Plan.

Issue of Rights

The Corporation will issue one right (a "**Right**") in respect of each Class B Voting Share (the "**Voting Shares**") and Class A variable voting share (the "**Variable Voting Shares**" and, together with the Voting Shares, the "**Shares**") outstanding at the close of business on the Business Day immediately preceding the date of the meeting or any adjournment or postponement thereof (the "**Record Time**"). The Corporation will issue Rights on the same basis for each Voting Share and Variable Voting Share issued after the Record Time but prior to the earlier of the Separation Time (as defined below) and the Expiration Time (as defined below).

Rights Certificates and Transferability

Before the Separation Time, the Rights will be evidenced by the registered ownership of the Shares (whether or not evidenced by a certificate representing such Shares) and the Rights will not be transferable separate from the Shares. From and after the Separation Time, the Rights will be evidenced by separate Rights Certificates which will be transferable separate from and independent of the Shares.

Exercise of Rights

Rights are not exercisable before the Separation Time. After the Separation Time and before the Expiration Time, each Right entitles the holder (other than holders described below) to acquire that number of Voting Shares or Variable Voting Shares, as the case may be, having an aggregate Market Price on the date of the occurrence of the Flip-in Event (as defined below) equal to twice the Exercise Price for an amount in cash equal to the Exercise Price of \$100 (subject to certain anti-dilution adjustments). Effectively, this means that a shareholder of the Corporation, other than an Acquiring Person (as defined below) and certain persons related to such Acquiring Person as further described in the Rights Plan, can acquire additional Shares from treasury at half their Market Price after the Separation Time.

Definition of "Acquiring Person"

Subject to certain exceptions, an Acquiring Person is a person who is the Beneficial Owner (as defined below) of 20% or more of the outstanding Voting Shares and Variable Voting Shares on a combined basis.

Definition of "Beneficial Ownership"

Under the Rights Plan, a person shall be deemed the "Beneficial Owner" of, and to have "Beneficial Ownership" of, and to "Beneficially Own":

1. any securities of which such person or any Affiliate or Associate of such person or any other person acting jointly or in concert with such person is the owner in law or equity;
2. any securities as to which such person or any Affiliate or Associate of such person or any other person acting jointly or in concert with such person has the right to acquire upon the exercise of any Convertible Securities or pursuant to any agreement, arrangement or understanding, in each case if such right is exercisable immediately or within a period of 60 days thereafter; and

3. any securities which are subject to a lock-up or similar agreement to tender or deposit them into any Take-over Bid (as defined in the Rights Plan) made by such person or any Affiliate or Associate of such person or any other person acting jointly or in concert with such person.

However, a person is not deemed the "Beneficial Owner" of, or to have "Beneficial Ownership" of, or to "Beneficially Own" securities under the Rights Plan where:

1. such securities have been deposited or tendered pursuant to a Take-over Bid, unless those securities have been taken up or paid for;
2. by reason of the holders of such securities having agreed to deposit or tender such securities to a Take-over Bid pursuant to a Permitted Lock-Up Agreement (as defined below);
3. such person is an investment fund or mutual fund manager, a trust company, a statutory body established to manage funds of public bodies, an agent of the crown for the management of public assets, a pension fund or a pension fund administrator or trustee, as long as such person is not making a Take-over Bid or acting jointly or in concert with a person who is making a Take-over Bid, the whole as more fully described in the Rights Plan and subject to certain exceptions set forth therein; or
4. such person is a registered holder of securities as a result of carrying on the business of or acting as a nominee of a securities depository.

Definition of "Separation Time"

Separation Time occurs on the tenth trading day after the earlier of the following dates, or such later date as may be determined by the Board of Directors:

1. the first date of public announcement of facts indicating that a person has become an Acquiring Person;
2. the date of the commencement or announcement of the intent of a person to commence a Take-over Bid (other than a Permitted Bid or Competing Bid (as such terms are defined below)) or such later date as determined by the Board of Directors; and
3. the date on which a Permitted Bid or Competing Bid ceases to qualify as such; or such later date as determined by the Board of Directors.

Definition of "Expiration Time"

Provided that the Rights Plan is ratified by the requisite majority of shareholders of the Corporation at the meeting or any adjournment or postponement thereof, Expiration Time occurs on the date being the earlier of:

1. the time at which the right to exercise Rights is terminated under the terms of the Rights Plan; and
2. the date immediately after the Corporation's annual meeting of shareholders to be held in 2017.

Definition of a "Flip-in Event"

A Flip-in Event occurs when a person becomes an Acquiring Person. Upon the occurrence of a Flip-in Event, any Rights that are beneficially owned by an Acquiring Person or by certain persons related to the Acquiring Person or by persons to whom the Acquiring Person has transferred its Rights will become null and void as a result of which the Acquiring Person's investment in the Corporation would be greatly diluted if a substantial portion of the Rights are exercised after a Flip-in Event occurs.

Definition of "Permitted Bid"

A Permitted Bid is a Take-over Bid made by an Offeror (as defined in the Rights Plan) pursuant to a Take-over Bid circular that complies with the following conditions:

1. the bid is made to all registered holders of Voting Shares and Variable Voting Shares (other than Shares held by the Offeror);
2. the Offeror agrees that no Shares will be taken up or paid for under the bid for 60 days following the commencement of the bid and that no Shares will be taken up or paid for unless more than 50% of the outstanding Voting Shares and Variable Voting Shares (on a combined basis) held by Independent Shareholders have been deposited pursuant to the bid and not withdrawn;
3. the Offeror agrees that the Shares may be deposited to the Take-over Bid at any time before its expiry, unless the Take-over Bid is withdrawn, and Shares deposited to the Take-over Bid may be withdrawn at any time until taken up or paid for; and
4. if the condition in paragraph 2 above is satisfied, the bid shall remain open for an additional period of at least 10 business days to permit the remaining shareholders to tender their Shares.

Definition of "Competing Bid"

A Competing Bid is a Take-over Bid that:

1. is made while another Permitted Bid is in existence; and
2. satisfies all the requirements of a Permitted Bid except that the Shares under a Competing Bid may be taken up on a date that is no earlier than the date which is the later of 35 days after the Competing Bid was made and 60 days after the earliest date on which any other Permitted Bid or Competing Bid that was then in existence was made, and only if at that date more than 50% of the outstanding Voting Shares and Variable Voting Shares (on a combined basis) held by Independent Shareholders have been deposited pursuant to the bid and not withdrawn.

Definition of "Permitted Lock-Up Agreement"

A Permitted Lock-Up Agreement is an agreement between a person making a Take-over Bid (the "**Lock-up Bid**") and one or more holders (each a "**Locked-up Person**") of Shares pursuant to which such Locked-up Persons agree to deposit or tender Shares to Lock-up Bid and where the agreement:

1. (i) permits the Locked-up Person to withdraw Shares in order to tender or deposit such Shares to another Take-over Bid (or terminate the agreement in order to support another transaction) that represents an offering price for each Share that exceeds, or provides a value for each Share that is greater than, the offering price or value represented by or proposed to be represented by the Lock-up Bid; or

(ii) permits the Locked-up Person to withdraw Shares in order to tender or deposit such Shares to another Take-over Bid (or terminate the agreement in order to support another transaction) that represents an offering price for each Share that exceeds, or provides a value for each Share that is greater than, the offering price or value represented by or proposed to be represented by, the Lock-up Bid by as much or more than a specified amount not greater than 7% of the offering price or value that is represented by the Lock-up Bid; and
2. permits the Locked-up Person to withdraw Shares in order to tender or deposit such Shares to another Take-over Bid (or terminate the agreement in order to support another transaction) if the number of Shares to be purchased under such other Take-over Bid or transaction exceeds the number of Shares offered to be purchased under the Lock-up Bid by as much or more than a specified number of Shares not greater than 7% of the number of Shares offered to be purchased under the Lock-up Bid, at an offering price for each

Share that is not less, or provides a value for each Share that is not less than, the offering price or value represented by or proposed to be represented by the Lock-up Bid; and

3. provides for no "break-up" fees, "top-up" fees, penalties, payments, expenses or other amounts that exceed in the aggregate the greater of: (i) the cash equivalent of 2.5% of the price or value payable under the Lock-up Bid to the Locked-up Person, and (ii) 50% of the amount by which the price or value payable under another Take-over Bid or another transaction to a Locked-up Person exceeds the price or value of the consideration that such Locked-up Person would have received under the Lock-up Bid, to be payable, directly or indirectly, by such Locked-up Person pursuant to the agreement if any Locked-up Person fails to tender Shares pursuant thereto or withdraws Shares previously tendered thereto in order to tender such Shares to another Take-over Bid or support another transaction.

Fiduciary Duties of Directors

The Rights Plan will not detract from or lessen duties of the Board of Directors, including the duty to act honestly and in good faith with a view to the best interests of the Corporation and its shareholders. The Board will continue to have the duty and power to take such actions and make such recommendations to the Corporation's shareholders as are considered appropriate.

Redemption of Rights

The Rights may be redeemed by the Board at its option with the prior approval of the shareholders at any time before a Flip-in Event occurs at a redemption price of \$0.00001 per Right. In addition, the Rights will be redeemed automatically in the event of a successful Permitted Bid, Competing Bid or a bid for which the Board has waived, in accordance with the provisions of the Rights Plan, the operation of the Rights Plan.

Waiver

Before a Flip-in Event occurs, the Board may waive the application of the "Flip-in" provisions of the Rights Plan to any prospective Flip-in Event which would occur by reason of a Take-over Bid made by a Take-over Bid circular to all registered holders of Voting Shares and Variable Voting Shares. However, if the Board waives the Rights Plan with respect to a particular bid, it will be deemed to have waived the Rights Plan with respect to any other Take-over Bid made by Take-over Bid circular to all registered holders of Voting Shares and Variable Voting Shares before the expiry of that first bid.

The Board may also waive the "Flip-in" provisions of the Rights Plan in respect of any Flip-in Event provided that the Board has determined that the Acquiring Person became an Acquiring Person through inadvertence and on the condition that such Acquiring Person reduces its ownership to such a level that it is no longer an Acquiring Person.

Finally, the Board may waive the "Flip-in" provisions of the Rights Plan in respect of any Flip-in Event provided that the Acquiring Person has reduced its ownership or has entered into a contractual arrangement with the Corporation or other acceptable undertaking to do so such that at the time the waiver becomes effective such person is no longer an Acquiring Person.

Other waivers of the "Flip-in" provisions of the Rights Plan will require prior approval of the shareholders of the Corporation.

Term of the Rights Plan

Provided that the Rights Plan is ratified by the requisite majority of shareholders of the Corporation at the meeting or any adjournment or postponement thereof, the Rights Plan will be in effect until the close of business on the date immediately following the date of the Corporation's annual meeting of shareholders to be held in 2017, unless terminated earlier in accordance with the Rights Plan.

Amending Power

Except for minor amendments to correct clerical or typographical errors and amendments to maintain the validity of the Rights Plan as a result of a change in any applicable legislation or regulations or rules thereunder, including the *Canada Transportation Act*, consent of shareholders is required for amendments to the Rights Plan before the Separation Time and consent of the holders of Rights is required for amendments to the Rights Plan after the Separation Time and before the Expiration Time.

Rights Agent

CST Trust Company

Rightholder not a Shareholder

Until a Right is exercised, the holder thereof as such will have no rights as a shareholder of the Corporation.

SCHEDULE "C"

ADVANCE NOTICE BY-LAW

BY-LAW NO. 2

A By-law Relating to Advance Notice of Nominations of Directors of the Corporation

PART ONE

Introduction

The purpose of this By-law No. 2 of the Corporation (the "**By-law**") is to provide shareholders, directors and management of Air Canada (the "**Corporation**") with procedures relating to the nomination of directors. This By-law is the framework by which the Corporation fixes a deadline by which shareholders of the Corporation wishing to nominate persons for election as directors of the Corporation must submit director nominations to the Corporation prior to any annual or special meeting of shareholders and sets forth the information that a shareholder must include in the notice to the Corporation for the notice to be in proper written form.

It is the belief of the Corporation and the Board that this By-law is beneficial to shareholders and other stakeholders and is in the best interest of the Corporation. This By-law will be subject to periodic review by the Corporation and, subject to the Act, the Special Act and the CTA, will be revised to reflect mandatory changes as required pursuant to applicable securities regulatory or stock exchange requirements and, at the discretion of the Board, amendments necessary to meet evolving industry standards.

PART TWO

Advance Notice of Nominations of Directors

Section 1.01 Nomination Procedures – Subject only to the Act, the Special Act, the CTA, Applicable Securities Law and the articles of the Corporation, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if the election of directors is a matter specified in the notice of meeting,

- (a) by or at the direction of the Board or an authorized officer of the Corporation, including pursuant to a notice of meeting;
- (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Act, or a requisition of a shareholders meeting by one or more of the shareholders made in accordance with the provisions of the Act; or
- (c) by any person (a "**Nominating Shareholder**") who:
 - (i) at the close of business on the date of the giving of the notice provided for section 1.03 and on the record date for notice of such meeting, is entered in the securities register of the Corporation as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting and provides evidence of such beneficial ownership to the Corporation, and
 - (ii) complies with the notice procedures set forth below in this By-law.

Section 1.02 Nominations for Election – For the avoidance of doubt, the procedures set forth in this By-law shall be the exclusive means for any person to bring nominations for election to the Board before any annual or special meeting of shareholders of the Corporation.

Section 1.03 Timely Notice – In addition to any other applicable requirements, for a nomination to be validly made by a Nominating Shareholder, the Nominating Shareholder must have given notice thereof in proper written form to the corporate secretary of the Corporation:

- (a) in the case of an annual meeting (including an annual and special meeting) of shareholders, not less than thirty (30) nor more than sixty-five (65) days prior to the date of the meeting; provided, however, that in the event that the meeting is to be held on a date that is less than fifty (50) days after the date (the "**Notice Date**") on which the first public announcement of the date of the meeting was made, notice by the Nominating Shareholder shall be made not later than the close of business on the tenth (10th) day following the Notice Date; and
- (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not also called for other purposes), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the meeting was made.

In no event shall any adjournment, postponement or reconvening of a meeting, or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.

Section 1.04 Proper Form of Notice – To be in proper form, a Nominating Shareholder's notice must be in writing and must set forth or be accompanied by, as applicable:

- (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director (a "**Proposed Nominee**"):
 - (i) the name, age and business and residential address of the Proposed Nominee;
 - (ii) the principal occupation, business or employment of the Proposed Nominee, both present and for the five years preceding the notice;
 - (iii) whether the Proposed Nominee is a resident Canadian within the meaning of the Act;
 - (iv) whether the person is a "Canadian" within the meaning of the CTA;
 - (v) the number of securities of each class or series of the Corporation or any of its subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by the Proposed Nominee, as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice;
 - (vi) a description of any relationship, agreement, arrangement or understanding (including and without limitation, whether familial, business, financial, compensatory or indemnity related or otherwise) between the Nominating Shareholder and the Proposed Nominee, or any Affiliates or Associates of, or any person or entity acting jointly or in concert with the Nominating Shareholder or the Proposed Nominee, in any way relating to the Proposed Nominee's nomination and election as a director;
 - (vii) whether the Proposed Nominee is party to any existing or proposed relationship, agreement, arrangement or understanding with any competitor, supplier, director, officer, employee or other person having or involved in any contractual or fiduciary relationship with the Corporation or any of the Corporation's Affiliates or any other third party which may give rise to a real or perceived conflict of interest between the interests of the Corporation or any of the Corporation's Affiliates and the interests of the Proposed Nominee; and

- (viii) any other information relating to the Proposed Nominee that would be required to be disclosed in a dissident's proxy circular or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to the Act or any Applicable Securities Laws;
- (b) as to the Nominating Shareholder:
- (i) the name, business and residential address of such Nominating Shareholder;
 - (ii) the number of securities of each class or series of the Corporation or any of its subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by such Nominating Shareholder or any other person with whom such Nominating Shareholder is acting jointly or in concert with respect to the Corporation or any of its securities, as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice;
 - (iii) its interests in, or rights or obligations associated with, any agreements, arrangements or understandings, the purpose or effect of which may be to alter, directly or indirectly, such Nominating Shareholder's economic interest in a security of the Corporation or such Nominating Shareholder's economic exposure to the Corporation;
 - (iv) full particulars regarding any proxy, contract, arrangement, agreement, understanding or relationship pursuant to which such Nominating Shareholder, or any of its Affiliates or Associates, has any interests, rights or obligations relating to the voting of any securities of the Corporation or the nomination of directors to the Board;
 - (v) full particulars of any direct or indirect interest of such Nominating Shareholder in any contract with the Corporation or with any of the Corporation's Affiliates;
 - (vi) whether such Nominating Shareholder is party to any existing or proposed relationship, agreement, arrangement or understanding with any competitor, supplier, director, officer, employee or other person having or involved in any contractual or fiduciary relationship with the Corporation or any of the Corporation's Affiliates or any other third party which may give rise to a real or perceived conflict of interest between the interests of the Corporation or any of the Corporation's Affiliates and the interests of such Nominating Shareholder;
 - (vii) whether such Nominating Shareholder intends to deliver a proxy circular and/or form of proxy to any shareholder of the Corporation in connection with such nomination or otherwise solicit proxies or votes from shareholders of the Corporation in support of such nomination; and
 - (viii) any other information relating to such Nominating Shareholder that would be required to be disclosed in a dissident's proxy circular or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to the Act or any Applicable Securities Laws; and
- (c) a written consent duly signed by each Proposed Nominee to being named as a nominee for election to the Board and to serve as a director of the Corporation, if elected.

References to "Nominating Shareholder" in this section 1.04 shall be deemed to refer to each shareholder that nominates or seeks to nominate a person for election as director in the case of a nomination proposal where more than one shareholder is involved in making such nomination proposal.

Section 1.05 Other Information – The Corporation may require any Proposed Nominee to furnish any other information as may reasonably be required by the Corporation to determine the eligibility and qualifications of such Proposed Nominee to serve as an independent director of the Corporation or that would reasonably be expected to be material to a reasonable shareholder's understanding of the independence and/or qualifications, or lack thereof, of such Proposed Nominee.

Section 1.06 Notice to be Updated – In addition, to be considered timely and in proper written form, a Nominating Shareholder's notice shall be promptly updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting.

Section 1.07 Power of the Chair – The chair of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in this By-law and, if any proposed nomination is not in compliance with this By-law, to declare that such defective nomination shall be disregarded.

Section 1.08 Delivery of Notice – Notwithstanding any other provision of this By-law, notice given to the corporate secretary of the Corporation pursuant to this By-law may only be given by personal delivery or facsimile transmission, and shall be deemed to have been given and made only at the time it is served by personal delivery or sent by facsimile transmission (provided that receipt of the confirmation of such transmission has been received) to the corporate secretary of the Corporation at the address of the principal executive offices of the Corporation; provided that if such delivery or electronic communication is made on a day which is not a business day or later than 5:00 p.m. (Montreal time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

Section 1.09 Board Discretion – Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in this By-law.

Section 1.10 Definitions – For purposes of this By-law,

- (a) "**Act**" means the *Canada Business Corporations Act*, or any statute that may be substituted therefor, as from time to time amended.
- (b) "**Affiliate**", when used to indicate a relationship with a specific person, shall mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified person.
- (c) "**Applicable Securities Laws**" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the written rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commissions and similar regulatory authorities of each province and territory of Canada.
- (d) "**Associate**", when used to indicate a relationship with a specified person, shall mean:
 - (i) any body corporate or trust of which such person beneficially owns, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all voting securities of such body corporate or trust for the time being outstanding,
 - (ii) any partner of that person,
 - (iii) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity,
 - (iv) a spouse of such specified person,
 - (v) any person of either sex with whom such specified person is living in conjugal relationship outside marriage, or
 - (vi) any relative of such specified person or of a person mentioned in clauses (iv) or (v) of this definition if that relative has the same residence as the specified person.

- (e) **"beneficially owns" or "beneficially owned"** means, in connection with the ownership of securities of the Corporation by a person, (i) any such securities as to which such person or any of such person's Affiliates or Associates owns at law or in equity, or has the right to acquire or become the owner at law or in equity, where such right is exercisable immediately or after the passage of time and whether or not on condition or the happening of any contingency or the making of any payment, upon the exercise of any conversion right, exchange right or purchase right attaching to any securities, or pursuant to any agreement, arrangement, pledge or understanding whether or not in writing; (ii) any such securities as to which such person or any of such person's Affiliates or Associates has the right to vote, or the right to direct the voting, where such right is exercisable immediately or after the passage of time and whether or not on condition or the happening of any contingency or the making of any payment, pursuant to any agreement, arrangement, pledge or understanding whether or not in writing; (iii) any such securities which are beneficially owned, directly or indirectly, by a Counterparty (or any of such Counterparty's Affiliates or Associates) under any Derivatives Contract (without regard to any short or similar position under the same or any other Derivatives Contract) to which such person or any of such person's Affiliates or Associates is a Receiving Party; provided, however that the number of securities that a person beneficially owns pursuant to this clause (iii) in connection with a particular Derivatives Contract shall not exceed the number of Notional Securities with respect to such Derivatives Contract; provided, further, that the number of securities owned beneficially by each Counterparty (including their respective Affiliates and Associates) under a Derivatives Contract shall for purposes of this clause be deemed to include all securities that are owned beneficially, directly or indirectly, by any other Counterparty (or any of such other Counterparty's Affiliates or Associates) under any Derivatives Contract to which such first Counterparty (or any of such first Counterparty's Affiliates or Associates) is a Receiving Party and this proviso shall be applied to successive Counterparties as appropriate; and (iv) any such securities which are owned beneficially within the meaning of this definition by any other person with whom such person is acting jointly or in concert with respect to the Corporation or any of its securities.
- (f) **"Board"** means the board of directors of the Corporation.
- (g) **"close of business"** means 5:00 p.m. (Montreal time) on a business day in Montreal, Quebec.
- (h) **"CTA"** means the *Canada Transportation Act*, or any statute that may be substituted therefor, as from time to time amended.
- (i) **"Derivatives Contract"** shall mean a contract between a **"Receiving Party"** and a **"Counterparty"** that is designed to expose the Receiving Party to economic benefits and risks that correspond substantially to the ownership by the Receiving Party of a number of securities of the Corporation or securities convertible into such shares of the Corporation specified or referenced in such contract (the number corresponding to such economic benefits and risks, the "Notional Securities"), regardless of whether obligations under such contract are required or permitted to be settled through the delivery of cash, securities of the Corporation or securities convertible into other securities or property, without regard to any short position under the same or any other Derivatives Contract. For the avoidance of doubt, interests in broad-based index options, broad-based index futures and broad-based publicly traded market baskets of stocks approved for trading by the appropriate governmental authority shall not be deemed to be Derivatives Contracts.
- (j) **"person"** means a natural person, partnership, limited partnership, limited liability partnership, corporation, limited liability corporation, unlimited liability corporation, joint stock company, trust, unincorporated association, joint venture or other entity or governmental entity, and pronouns have a similarly extended meaning.
- (k) **"public announcement"** shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Corporation or its transfer agent and registrar under the Corporation's profile on the System for Electronic Document Analysis and Retrieval at www.sedar.com., or any system that is a replacement or successor thereto.
- (l) **"Special Act"** means the *Air Canada Public Participation Act*, or any statute that may be substituted therefor, as from time to time amended.

PART THREE
Effective Date

Section 1.11 Effective Date - This By-law shall come into force on March 27, 2014.

ENACTED by the Board the 27th day of March, 2014.

SCHEDULE "D"

ORDINARY RESOLUTION RATIFYING THE ADVANCE NOTICE BY-LAW

"BE IT RESOLVED THAT:

1. The Advance Notice By-Law adopted by the Board of Directors of the Corporation, the full text of which is reproduced in Schedule "C" to the management proxy circular of the Corporation dated March 27, 2014, be, and it is hereby, approved, ratified and confirmed.
2. Any director or officer of the Corporation be and each is hereby, authorized and directed, for and on behalf of the Corporation, to do and perform all acts and things deemed necessary or advisable in order to give effect to this resolution."

SCHEDULE "E"

ORDINARY RESOLUTION APPROVING THE LONG-TERM INCENTIVE PLAN REPLENISHMENT AND AMENDMENT

"BE IT RESOLVED THAT:

1. The maximum number of Air Canada Class A variable voting shares and/or Class B voting shares issuable pursuant to the exercise of options or the redemption of share units under the Corporation's Long-Term Incentive Plan (the "**Plan**") be replenished by the addition of 1,281,037 shares, from 18,189,257 to 19,470,294;
2. The Plan be and it is hereby amended to increase the aggregate number of Air Canada Class A variable voting shares and/or Class B voting shares issuable under the Plan by 541,329 shares from 19,470,294 to 20,011,623;
3. In order to reflect the foregoing, Section 9.1 of the Plan is hereby amended so as to state as follows:
 - 9.1 The maximum number of Common Shares that may be issued under the Plan as of and from May 15, 2014 is twenty million eleven thousand six hundred twenty-three (20,011,623) Common Shares subject to adjustment pursuant to the provisions of Section 10 hereof. In accordance with the foregoing, a total of twenty million eleven thousand six hundred twenty-three (20,011,623) Common Shares shall be and they are hereby set aside and reserved for allotment for the purpose of the Plan. The Board or the Committee, as the case may be, may cause Common Shares used to satisfy share unit awards granted under the Plan to be purchased instead on the open market.
4. The Board of Directors be authorized to revoke, at its sole discretion, this ordinary resolution at any time before it is acted upon without the requirement to obtain any further approval from the shareholders; and
5. Any director or officer of the Corporation be authorized and directed for and in the name of and on behalf of the Corporation to execute or cause to be executed and to deliver or cause to be delivered, all such documents and instruments, and to do or cause to be done all such other acts and things as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this resolution."

SCHEDULE "F"

NON-BINDING ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION

"BE IT RESOLVED THAT:

On an advisory basis and not to diminish the role and responsibilities of the Board of Directors, that the shareholders accept the approach to executive compensation disclosed in the Corporation's management proxy circular delivered in advance of the 2014 annual and special meeting of shareholders."

SCHEDULE "G"

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