



**NOTICE OF  
2008 ANNUAL  
MEETING OF SHAREHOLDERS  
AND MANAGEMENT PROXY CIRCULAR**



**WHAT'S INSIDE**

---

NOTICE OF 2008 ANNUAL SHAREHOLDER MEETING.....	2
MANAGEMENT PROXY CIRCULAR.....	3
VOTING YOUR SHARES .....	4
BUSINESS OF THE MEETING.....	10
THE NOMINATED DIRECTORS .....	12
STATEMENT OF GOVERNANCE PRACTICES.....	21
COMMITTEES .....	27
COMPENSATION OF CERTAIN EXECUTIVE OFFICERS .....	31
REPORT ON EXECUTIVE COMPENSATION BY THE HUMAN RESOURCES AND COMPENSATION COMMITTEE .....	37
PERFORMANCE GRAPHS.....	41
OTHER IMPORTANT INFORMATION.....	43
HOW TO REQUEST MORE INFORMATION.....	45
SCHEDULE "A" RECORD OF ATTENDANCE BY DIRECTORS.....	A-1
SCHEDULE "B" CHARTER OF THE BOARD OF DIRECTORS.....	B-1



Letter from the Chairman and the President and Chief Executive Officer

Dear Shareholders:

You are cordially invited to attend our annual meeting of shareholders of Air Canada. It will be held on Wednesday, May 21, 2008 at 9:30 a.m. (Montreal 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 nominee directors, the proposed auditors, the compensation of directors and certain officers, and our corporate governance practices.

During the meeting, we will also present management's report for 2007. Our business strategy remains focused on being a leading innovator in the airline industry in order to realize the full potential of our brand and franchise and in so doing, build shareholder value, broaden customer loyalty and promote employee satisfaction on a sustainable basis. To ensure all our efforts are directed to common, positive goals, in early 2008 we captured, refined and communicated to all employees Air Canada's mission, vision and values, which we will discuss at our annual shareholder meeting.

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

Sincerely,



David I. Richardson  
Chairman



Montie Brewer  
President and Chief Executive Officer

**NOTICE OF 2008 ANNUAL SHAREHOLDER MEETING**

---

**When**

May 21, 2008 at 9:30 a.m. (Montreal time)

**You are entitled to receive notice of, and vote at, our annual shareholder meeting or any adjournment thereof if you were a shareholder on April 2, 2008.**

**Where**

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

**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.

**Webcast**

A webcast replay of management's presentation at the meeting will be made available at a later date on our website at [www.aircanada.com](http://www.aircanada.com).

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,

**Business of the 2008 Annual Shareholder Meeting**

*Corporate Secretary*

Four items will be covered at the meeting:

*Carolyn M. Hadrovic*

1. placement before shareholders of the consolidated financial statements of Air Canada for the year ended December 31, 2007, 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 appointed;
3. appointment of auditors; and
4. consideration of such other business, if any, that may properly come before the meeting or any adjournment thereof.

Montreal, Québec  
April 4, 2008

**MANAGEMENT PROXY CIRCULAR**

---

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

This circular is for our annual shareholder meeting to be held on May 21, 2008 ("**meeting**"). As a shareholder of Air Canada, you have the right to vote your shares on the election of the directors, the appointment of the auditors, and on any other items that may properly come before the meeting or any adjournment thereof.

To help you make an informed decision, please read this circular. This circular tells you about the meeting, the nominee directors, the proposed auditors, our corporate governance practices, the compensation of directors and certain officers and other matters. The information in this document is current as at April 4, 2008 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, 2007.

**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.

If you have any questions about any of the information in this circular, please call Shareholder Relations at (514) 205-7866 for service in English or in French.

**Approval of this circular**

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

*Corporate Secretary*

*Carolyn M. Halrovic*

Montreal, Québec  
April 4, 2008

## **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 CIBC Mellon Trust Company ("**CIBC Mellon**") 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 envelope we have provided or by delivering it to one of CIBC Mellon's principal Corporate Trust Offices in Halifax, Montreal, Toronto, Vancouver or Calgary **for receipt before 4:00 p.m. (Montreal time) on May 16, 2008 or with the Secretary of the meeting prior to commencement of the meeting on the day of the meeting or on the day of any adjournment thereof.** A list of addresses for the principal

Corporate Trust Offices of CIBC Mellon is set forth on page 44 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 an admission ticket at the meeting upon registration at the registration desk.

### **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 CIBC Mellon 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](http://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 15, 2008.**

*By facsimile or by mail*

Alternatively you may vote your shares by completing the voting instruction form as directed on the form and returning it by facsimile at (905) 507-7793 or (514) 281-8911 or in the business reply envelope provided **for receipt before 4:00 p.m. (Montreal time) on May 15, 2008.**

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 of Air Canada**

Shares purchased by employees of Air Canada or its subsidiaries under the Employee Share Ownership Plan of Air Canada ("Employee Shares") are registered in the name of Computershare Trust Company of Canada ("Computershare"), as trustee in accordance with the provisions of such plan 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.computershare.com/proxy](http://www.computershare.com/proxy) and follow the instructions on the screen. Your voting instructions are then conveyed electronically over the Internet.

You will need the Control Number, Holder Account Number and Access Number found on your voting instruction form.

If you return your voting instruction form via the Internet, 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 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 15, 2008.**

*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 15, 2008.**

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, write your name in the space provided on the voting instruction form and follow the instructions provided in the voting instruction form.

**Completing the form of proxy**

You can choose to vote "For" or "Withhold" with respect to the election of the directors and the

appointment of the auditors. If you are a non-registered shareholder voting your shares, or an employee voting your Employee Shares held pursuant to the Employee Share Ownership Plan of Air Canada, please follow the instructions provided in the voting instruction form.

When you sign the form of proxy without appointing an alternate proxyholder, you authorize David I. Richardson, Montie Brewer 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 nominee directors who are named in this circular and FOR appointing PricewaterhouseCoopers LLP as auditors of the Corporation.**

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

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

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

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

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

You must also complete the Declaration of Canadian Status contained in the form of proxy, voting

instruction form or in the Internet voting instructions to inform the Corporation whether you are Canadian or not in order to enable Air Canada to comply with the restrictions imposed by 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) 205-7866 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, CIBC Mellon, 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 chair of the meeting on the day of the meeting, or any adjournment thereof. If the voting instructions were conveyed over the Internet, conveying new voting instructions by Internet or by mail within the applicable cut-off times will revoke the prior instructions.

### **Voting requirements**

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

### **Voting shares and quorum**

As of April 3, 2008, there were 83,870,501 Class B voting shares and 16,129,499 Class A variable voting shares outstanding. Shareholders of record on April 2, 2008 are entitled to receive notice of and vote at the meeting. The list of shareholders entitled to vote at the meeting will be available for inspection on and

after April 8, 2008 during usual business hours at the Montreal office of the Corporation's transfer agent, CIBC Mellon, 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**

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 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 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 (ii) the total number of votes cast by or on behalf of holders of Class A variable voting shares at any meeting exceeds 25% 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% 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% of the votes that may be cast at such 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 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 of Air Canada and 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**

As of April 3, 2008, to the knowledge of the officers or directors of the Corporation, each of the following entities beneficially owned or exercised control or direction over, directly or indirectly, shares carrying more than 10% 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
ACE Aviation Holdings Inc.	75,000,000 Class B voting shares	89.42% of all outstanding Class B voting shares
Morgan Stanley & Co. Incorporated <sup>(1)</sup>	3,000,000 Class A variable voting shares	18.60% of all outstanding Class A variable voting shares

(1) Based on publicly available early warning reports.

**BUSINESS OF THE MEETING**

Four 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, 2007, 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 appointed;
3. appointment of auditors; and
4. consideration of such other business, if any, that may properly come before the meeting or any adjournment thereof.

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

**1. Placement of Air Canada's financial statements**

The consolidated financial statements for the year ended December 31, 2007, including the auditors' report thereon, are available on SEDAR at [www.sedar.com](http://www.sedar.com). Copies of such statements will also be available at the meeting.

**2. Election of directors**

Twelve (12) directors are to be elected to the Board. Please see "The Nominated Directors" for more information. Directors elected at the meeting will serve until the end of the next annual shareholder meeting or until their successors are appointed.

All of the individuals to be nominated as directors are currently members of the Board and were appointed on November 15, 2006, except for Montie Brewer who was appointed on March 8, 2005, David I. Richardson and Marvin Yontef who were appointed on September 30, 2004, Robert G. Long who was appointed on January 1, 2008 and Patricia Jacobsen, Joseph B. Leonard and Michael M. Wilson who are new nominees for election to the Board of Directors of Air Canada.

**If you do not specify how you want your shares voted, the persons named as proxyholders in the**

**management form of proxy or voting instruction form will cast the votes represented by proxy at the meeting FOR the election of the nominee directors who are named in this circular.**

**3. Appointment of auditors**

The Board, on the advice of the Audit, Finance and Risk Committee, recommends that PricewaterhouseCoopers LLP, Chartered Accountants, be reappointed as auditors. PricewaterhouseCoopers LLP were first appointed as auditors of Air Canada on April 26, 1990. The auditors appointed at the meeting will serve until the end of the next annual shareholder meeting or until their successors are appointed.

Fees payable for the years ended December 31, 2007 and December 31, 2006 to PricewaterhouseCoopers LLP and its affiliates are \$2,354,582 and \$2,215,397 respectively, as detailed below:

	Year ended December 31, 2007	Year ended December 31, 2006
Audit fees	\$2,039,178	\$1,794,807
Audit-related fees	\$297,404	\$390,590
Tax fees	\$18,000	\$30,000
All other fees	Nil	Nil
	\$2,354,582	\$2,215,397

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 financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements, including services with respect to Air Canada's initial public offering and the prospectuses filed in connection with such offering in 2006.

Audit-related fees. Audit-related fees were paid for professional services related to pension plan audits, specified procedures reports and other items related to the audit.

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

More information on Air Canada's Audit, Finance and Risk Committee is contained in Air Canada's Annual Information Form filed by Air Canada on March 28, 2008 and which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

#### **4. Consideration of other business**

We will also:

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

**THE NOMINATED DIRECTORS**

---

Twelve (12) directors are to be elected at the meeting, each of whom is to hold office until the end of the next annual meeting of shareholders or until their successors are 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 table below sets 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 (if applicable), their principal occupation and other principal directorships and committee memberships. Also indicated is the number of securities beneficially owned, or over which control was exercised, directly or indirectly, as of April 3, 2008 (including securities of ACE Aviation Holdings Inc. ("**ACE Aviation**")).

**BERNARD ATTALI**  
Paris, France

*Air Canada director since November 15, 2006*



Bernard Attali is the Honourary Chairman of Air France Group and Senior Advisor (France) for TPG Capital. Mr. Attali is also a director of Baccarat SA and ACE Aviation. He was Vice-Chairman of Deutsche Bank Europe Investment Banking from 1999 to 2000. Mr. Attali has served as Chairman and Chief Executive Officer of Air France as well as Chairman of the International Air Transport Association, Excom and the Association of European Airlines (AEA). Mr. Attali is Commandeur de la Légion d'Honneur and Titulaire de la Médaille de l'Aéronautique. Mr. Attali holds diplomas from the Institut d'Études Politiques of Paris and the École Nationale d'Administration.

Member of the Governance and Corporate Matters Committee  
Member of the Nominating Committee

5,000 Class A variable voting shares of ACE Aviation  
3,070.35 deferred share units of Air Canada



**MONTIE BREWER**  
Hudson, Québec



*Air Canada director since March 8, 2005*

Montie Brewer was appointed President and Chief Executive Officer of Air Canada in December 2004. Mr. Brewer joined Air Canada in April 2002 as Executive Vice President, Commercial. In that role he was the chief architect of, and led the implementation of Air Canada's new business model including the airline's successful simplified fare structure. Mr. Brewer was also responsible for all commercial aspects of Air Canada including Jazz, Air Canada Jetz, Air Canada Vacations, new businesses and a strategic direction of network planning, marketing and scheduling. An industry veteran, Mr. Brewer was previously Senior Vice President — Planning for United Airlines with previous airline experience gained at Northwest Airlines, Republic Airlines, Braniff and Trans World Airlines. He has planned and developed over 20 hub operations worldwide, managed low-cost airline operations as President of United Shuttle and successfully restructured the route networks of three carriers. While at United Airlines, Mr. Brewer acted as a key negotiator in the founding of Star Alliance, of which Air Canada was also a founding member. Mr. Brewer holds a Bachelor's degree in Business Administration from Michigan State University in East Lansing, Michigan.

40,000 Class B voting shares of Air Canada  
8,265 Class B voting shares of ACE Aviation  
484,800 options to purchase Class B voting shares of Air Canada  
169,126 options to purchase Class B voting shares of ACE Aviation

**BRIAN DUNNE**  
Westmount, Québec



*Air Canada director since November 15, 2006*

Brian Dunne has been the Executive Vice President and Chief Financial Officer of ACE Aviation since 2005. He has executive responsibility for the overall financial strategic direction, control and financial monitoring of ACE Aviation. Prior to joining ACE Aviation, Mr. Dunne was Chief Financial Officer and a director of Aer Lingus, the national carrier of Ireland. After joining Aer Lingus as Chief Financial Officer in 2001, Mr. Dunne played a key role in transforming Aer Lingus into a profitable low fare carrier and led the airline's successful cost reduction program and European fleet transformation. From 1987, Mr. Dunne spent 14 years with Arthur Andersen in a variety of professional roles, ultimately as a Partner in the business consulting practice. Mr. Dunne is a non-executive director of WRI Holdings Limited, a leading internet travel retailer and distributor. Mr. Dunne is also a Fellow of the Institute of Chartered Accountants in Ireland and holds a Bachelor of Commerce degree from University College Dublin, Ireland.

3,000 Class B voting shares of Air Canada  
413,449 options to purchase Class B voting shares of ACE Aviation

**PATRICIA JACOBSEN**  
Vancouver, British Columbia



*First nomination for election as director of Air Canada*

Patricia Jacobsen is a corporate director. Ms. Jacobsen was Chief Executive Officer of the Greater Vancouver Transportation Authority from 2001 to 2008. Ms. Jacobsen previously was Chief Executive Officer of the Manitoba Workers' Compensation Board, and held senior management positions with Liberty Mutual Insurance and Manulife Financial in Toronto. During her career with the Ontario Government, Ms. Jacobsen held various roles, especially Deputy Minister Transportation and Deputy Minister of Executive Resources. She is currently Vice-Chair of the BC Cancer Foundation and Chair of the Governance and Human Resources Committee. Previous directorships include Canada Line Rapid Transit, Inc., Greater Vancouver Gateway Council and Transportation, Property and Casualty Insurance Company Inc. Ms. Jacobsen holds a Bachelor of Arts degree from the University of Manitoba.

**PIERRE MARC JOHNSON**  
Montreal, Québec



*Air Canada director since November 15, 2006*

Pierre Marc Johnson is Counsel to the offices of the Canadian law firm Heenan Blaikie LLP and advises, mediates, negotiates for or with, various governments, United Nations related organizations and other international institutions. Mr. Johnson is a director of ACE Aviation, HLT Energies inc. and the Veolia Environmental Institute (Paris). During his career in Public Office, Mr. Johnson, a physician and attorney, became Québec's Premier in 1985 and then Leader of the Opposition. Mr. Johnson had previously been Minister of Labour and Manpower, Financial Institutions, Social Affairs, Intergovernmental Affairs, Attorney General and Minister of Justice.

Member of the Governance and Corporate Matters Committee  
Member of the Human Resources and Compensation Committee

5,000 Class B voting shares of ACE Aviation  
3,070.35 deferred share units of Air Canada

**JOSEPH B. LEONARD**  
Orlando, United States

*First nomination for election as director of Air Canada*



Joseph B. Leonard has been Chairman of AirTran Airways since January 1999. Mr. Leonard was also Chief Executive Officer of AirTran Airways from 1999 to 2007. Mr. Leonard was President and Chief Executive Officer of AlliedSignal's Aerospace Marketing, Sales, and Service Organization. He also previously held various senior management positions with Northwest Airlines Corporation, Eastern Airlines, Inc and AMR Corporation. Mr. Leonard is director of AirTran Holdings, Inc. and Mueller Water Products, Inc. Mr. Leonard holds a Bachelor of Science degree in Aerospace Engineering from Auburn University Montgomery-AUM.

**ROBERT G. LONG**  
Thornhill, Ontario

*Air Canada director since January 1, 2008*



Robert G. Long is a corporate director serving the Dominion of Canada General Insurance, Empire Life Insurance Company, ICICI Bank Canada and Inscope Corporation. Mr. Long is the former Vice-Chairman of Ernst & Young LLP and joined its predecessor, Clarkson, Gordon & Co. in 1963. Mr. Long was also a member of the Executive and Management Committees of that firm and a senior partner in the international audit practice until his retirement from the partnership in 2001. Mr. Long holds a Bachelor of Commerce degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.

Chair of the Audit, Finance and Risk Committee  
Member of the Nominating Committee

2,794.52 deferred share units of Air Canada

**ARTHUR T. PORTER**  
Montreal, Québec

*Air Canada director since November 15, 2006*



Arthur T. Porter has been the Director General and Chief Executive Officer of the McGill University Health Centre since January 2004. Dr. Porter is also a Professor of Oncology at McGill University and was the President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003. Dr. Porter has extensive clinical, research and administrative experience in a university teaching hospital environment. Dr. Porter has also acted as consultant for several major companies in the airline and energy sectors with respect to healthcare and logistical challenges. Dr. Porter is a director of Adherex, a biotechnology company and a director and member of the Audit Committee of the Munder Funds. Dr. Porter holds a Medical Degree from the Cambridge School of Clinical Medicine, a Master of Business Administration from the University of Tennessee and Certificates in Medical Management from Harvard University and the University of Toronto.

Chair of the Nominating Committee

Member of the Audit, Finance and Risk Committee

Member of the Human Resources and Compensation Committee

2,000 Class B voting shares of Air Canada

4,686.32 deferred share units of Air Canada

**DAVID I. RICHARDSON**  
Grafton, Ontario

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



David I. Richardson is a corporate director. Mr. Richardson is a director and the Chair of the Audit Committee of ACE Aviation. 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 holds a Bachelor of Commerce degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.

10,000 Class B voting shares of Air Canada

5,000 Class B voting shares of ACE Aviation

**VAGN SØRENSEN**  
Holte, Denmark

*Air Canada director since November 15, 2006*



Vagn Sørensen is a corporate director. He is Chairman of Select Service Partner Ltd., BTX Group A/S and Scandic Hotels AB, and Vice Chairman of TDC A/S, DFDS A/S and ST Global. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006. Mr. Sørensen previously held various senior marketing and management positions with SAS Scandinavian Airlines including Vice-President, European Routes, Vice-President, SAS Airlines International, Senior Vice-President, SAS Business Systems Division and Executive Vice President and Deputy CEO. Mr. Sørensen has served as Chairman of the Association of European Airlines (AEA), member of the Board of Governors of the International Air Transport Association and member of the Board of Vienna Stock Exchange. Mr. Sørensen holds a Master of Economics from Aarhus Business School, Denmark.

Chair of the Human Resources and Compensation Committee  
Member of the Audit, Finance and Risk Committee  
Member of the Governance and Corporate Matters Committee

9,300 Class A variable voting shares of Air Canada  
2,400 Class A variable voting shares of ACE Aviation  
5,313.67 deferred share units of Air Canada

**MICHAEL M. WILSON**  
Calgary, Alberta

*First nomination for election as director of Air Canada*



Michael M. Wilson is President and Chief Executive Officer of Agrium Inc. since 2003. Mr. Wilson joined Agrium in August of 2000 as Executive Vice-President and Chief Operating Officer. Mr. Wilson brings over 30 years of international and executive management experience in the chemical industry. Prior to joining Agrium, Mr. Wilson was President of Methanex Corporation, a leading global producer of methanol headquartered in Vancouver, British Columbia. In addition, he held various senior positions in North America and Asia during his 18 years with Dow Chemical. Mr. Wilson is a director of Agrium and is currently Past Chair of Canpotex Ltd., Vice Chair of the International Plant Nutrient Institute (IPNI), director of the Fertilizer Institute (TFI), Vice President, North America, International Fertilizer Association (IFA) and director of the Calgary Prostate Cancer Institute. Mr. Wilson holds a Bachelor of Science degree in Chemical Engineering from the University of Waterloo.

**MARVIN YONTEF**  
Toronto, Ontario

*Air Canada director since September 30, 2004*



Marvin Yontef is a senior partner with the Canadian law firm Stikeman Elliott LLP acting on a wide range of commercial activities including mergers and acquisitions, corporate finance and corporate reorganizations. Mr. Yontef is also a director of ACE Aviation.

Chair of the Governance and Corporate Matters Committee

5,000 Class B voting shares of Air Canada  
3,900 Class B voting shares of ACE Aviation  
6,140.69 deferred share units of Air Canada  
3,051.00 deferred share units of ACE Aviation

## Remuneration of Directors

The Board's compensation is designed to attract and retain highly talented and 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's compensation practices against the market practices of large Canadian based companies including those in the S&P/TSX 60 index.

As of October 1, 2007, non-executive directors of Air Canada receive a retainer of \$120,000 per year, except for non-executive directors of Air Canada who are also directors of ACE Aviation who instead receive a retainer of \$85,000 per year. The annual retainer fee is payable in cash or in deferred share units ("**DSUs**") in accordance with the share ownership guidelines, as described below. DSUs are notional units whose value is always equal to the value of the shares of Air Canada. The President and Chief Executive Officer of Air Canada and executive officers of ACE Aviation receive no compensation as directors of Air Canada or of any of its subsidiaries. All of the current directors of Air Canada's subsidiaries, AC Cargo General Partner Inc., ACGHS General Partner Inc. and Touram General Partner Inc., are also executive officers of Air Canada or its subsidiaries and receive no compensation as directors of any such subsidiaries.

The Chair of the Audit, Finance and Risk 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, \$10,000, \$10,000 and \$10,000 per year. The members of the Audit, Finance and Risk 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, \$5,000, \$5,000 and \$5,000 per year.

Transportation privileges are granted to directors of Air Canada in line with airline industry practice.

## Share Ownership Requirement for Directors

The Board has adopted share ownership guidelines according to which non-executive directors are required to own a minimum of securities of Air Canada representing \$120,000 or \$85,000 in value, as the case may be, through shares and/or DSUs. Such ownership must be achieved by October 1, 2012. Directors who have not achieved the share ownership guidelines will receive 50% of their annual retainer fee in cash and the remainder in DSUs until the share ownership guidelines have been met. Directors who have achieved the share ownership guidelines may elect to receive their annual retainer fee in cash, DSUs or a combination of cash and DSUs. For information relating to the number of Air Canada shares and/or DSUs owned by the directors of Air Canada, please refer to their respective biographies beginning at page 12 of this circular.

## 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) Montie Brewer was Senior Vice President, Planning for United Airlines until March 31, 2002. UAL Corp., the parent company of United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code on December 9, 2002; and
- (ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003.



## STATEMENT OF GOVERNANCE PRACTICES

---

The Board has extensively reviewed the Corporation's governance practices and concludes that, we comply with 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 and unrelated. Based on the information received from each director and having taken into account the independence criteria set forth below, the Board concluded that all directors of the Corporation standing for election to the Board, with the exception of the President and Chief Executive Officer of Air Canada, Montie Brewer, the Executive Vice-President and Chief Financial Officer of ACE Aviation, Brian Dunne and Marvin Yontef, are independent and unrelated.

A majority of the directors of the Corporation, namely Bernard Attali, Patricia Jacobsen, Pierre Marc Johnson, Joseph B. Leonard, Robert G. Long, Arthur T. Porter, David I. Richardson, Vagn Sørensen and Michael M. Wilson, are "independent" directors in that each of them has no material relationship with the Corporation and, in the reasonable opinion of the Board, are unrelated and independent under the laws, regulations and listing requirements to which the Corporation is subject. The Board determined that Montie Brewer and Brian Dunne are not independent because of their position held as officers of Air Canada or ACE Aviation (which holds a 75% interest in Air Canada) and Marvin Yontef is not independent because of payments for legal services billed to Air Canada and its affiliates by the law firm of which he is a partner.

#### *Directorships of Other Reporting Issuers*

Bernard Attali, Pierre Marc Johnson, Joseph B. Leonard, Robert G. Long, Arthur T. Porter, David I. Richardson, Vagn Sørensen, Michael M. Wilson and Marvin Yontef are presently directors of several public entities. Bernard Attali is currently the Honourary Chairman of Air France Group and a director of Baccarat SA and ACE Aviation. Pierre Marc Johnson is currently a director of ACE Aviation and HLT Energies inc. Joseph B. Leonard is currently a director of AirTran Holdings Inc. and Mueller Water Products, Inc. Robert G. Long is currently a director of Inscape Corporation. Arthur T. Porter is currently a director of Adherex and the Munder Funds. David I. Richardson is currently a director of ACE Aviation. Vagn Sørensen is currently Vice Chairman of TDC A/S and DFDS A/S. Michael M. Wilson is currently director of Agrium, Inc. Marvin Yontef is currently a director of ACE Aviation.

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

#### *Chair of the Board of Directors*

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 Director's Meetings*

At each meeting of the Board, time is specifically reserved for non-executive directors to hold "in camera" sessions, in the absence of non-independent management directors. At each such meeting, the directors consider whether an "in camera" meeting would be appropriate in the circumstances. The Chairman of the Board chairs the "in camera" sessions. In 2007, the independent directors of the Board did not consider it necessary to hold "in camera" sessions at which non-independent directors and members of management would not be in attendance.

*Attendance Record*

See "Schedule A" of this circular for the attendance records of the directors of the Board and the Committees of the Corporation.

*Board Size*

As a result of the previously announced resignations of Richard H. McCoy, John T. McLennan and Robert A. Milton effective January 1, 2008, the Board of Directors is currently comprised of nine (9) directors. The Board will be comprised of twelve (12) directors once the three (3) new nominated directors have been elected. Please refer to "The Nominated Directors" in this circular for further details. The Board of Directors is of the view that this size and its composition are adequate and allow for the efficient functioning of the Board of Directors as a decision making body.

*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 B" to this circular.

**Position Descriptions**

*President and Chief Executive Officer*

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

*Chair of each Committee*

The Chairs of the Audit, Finance and Risk Committee, the Governance and Corporate Matters Committee, the Human Resources and Compensation Committee and the Nominating Committee are respectively, Robert G. Long, Marvin Yontef, Vagn Sørensen and Arthur T. Porter.

Position descriptions have been adopted by the Board of Directors for the Chair of each of the Audit, Finance and Risk 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 fulfils 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 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 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 Corporation has in place a continuous education program. In this regard, the Corporation provides directors with regular reports on the operations and finances of Air Canada. Management periodically gives directors 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. Extensive documentation and selected presentations are also provided to directors to ensure that their knowledge and understanding of the Corporation's business remains current. Furthermore, aircraft and facility tours are provided to directors so they can enhance their understanding of the operational aspects of Air Canada's business. The Corporation encourages continuous education by offering to reimburse the costs and expenses of attending conferences or courses, including director education programs offered by leading institutions of higher education. In addition, in 2008, a guest speaker from private legal practise or a leading institution of higher education will be invited to present to the members of the Board the latest trends and best practices on corporate governance matters and other topics of interest.

### **Air Canada Code of Business Conduct**

The Corporation has adopted a Corporate Policy and Guidelines on Business Conduct (the "**Code**") which was approved by the Board on November 15, 2006. 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](http://www.sedar.com) or on the Corporation's website at [www.aircanada.com](http://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. In addition, all new members of management are required to complete a management acknowledgement form whereby they 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. Also, all current members of management are required to complete the management acknowledgment form on an annual basis. The Code also includes a "whistle-blower policy" whereby employees can report violations of the Code. The Board has concluded that such measures are appropriate and sufficient. Since the adoption of the Code, Air Canada has not filed any material change report pertaining to any conduct of a director or executive officer that would constitute a departure from the Code.

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

### **Nomination of Directors**

The Nominating Committee is composed entirely of independent directors. It 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. In consultation with the President and CEO and the Chairman, the Nominating Committee determines the expected skill-set of new candidates by taking into account the existing strength 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. In formulating its list of potential candidates, the Nominating Committee collects and reviews information on leading business people published by Canadian organizations. 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.

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. 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 a 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 "Report on Executive Compensation" for the process and criteria used to determine the compensation of the officers of Air Canada.

In 2007, Air Canada retained the services of Towers Perrin to assist with preparing information on executive compensation. Towers Perrin's scope of services included performing competitive reviews of senior executive compensation levels and providing Air Canada with compensation trend information. In addition to these services, Towers Perrin also provided benefit consulting services to the Corporation.

Please consult the section entitled "Committees" of this circular for a description of the responsibilities, powers and operations of the Human Resources and Compensation Committee.

### **Other Board Committees**

There are four Committees of the Board: the Audit, Finance and Risk Committee, the Governance and Corporate Matters Committee, the Human Resources and Compensation Committee and the Nominating Committee. The roles and responsibilities of each Committee are described in the respective Committee charters. Please consult the section titled "Committees" of this circular for a description of the responsibilities, powers and operations of such Committees.

### **Assessments**

It is the role of the Chairman of the Governance and Corporate Matters Committee to assess, on an annual basis, the contribution of each individual director, the effectiveness of the Board and the effectiveness of the Committees. For this purpose, the Chairman of the Governance and Corporate Matters Committee conducts private meetings with

each director. During those meetings, the Chairman of the Governance and Corporate Matters Committee reviews with each director their assessment of the effectiveness of the Board and of its Committees and their personal contribution. Thereafter, a presentation is made to the Board. Also, on a quarterly basis, the Chair of each committee reports to the Board on the activities of the Committee. If appropriate, the Board then considers procedural or substantive changes to increase the effectiveness of the Board and its Committees.

### **Dual Share Structure**

The applicable provisions of the *Canada Transportation Act* require that national holders of domestic, scheduled international and non-scheduled international licenses be Canadian. In the case of Air Canada, this requires that it be controlled in fact by Canadians and that at least 75% of its voting interests be owned and controlled in fact by Canadians. To ensure that Air Canada remains Canadian under the *Canada Transportation Act*, Air Canada is required to have a dual share structure whereby the Class B voting shares may only be held, beneficially owned and controlled by Canadians and Class A variable voting shares may only be held, beneficially owned or controlled by persons who are not Canadians. Each Class B voting share or Class A variable voting share generally confers the right to one vote. However, in order to enable Air Canada to comply with the restrictions imposed by the *Canada Transportation Act*, if the number of Class A variable voting shares, as a percentage of the total number of voting shares outstanding of Air Canada or the total number of votes that may be cast by holders of Class A variable voting shares at any meeting exceeds 25%, the vote attached to each Class A variable voting share will decrease proportionately so that the votes attached to the Class A variable voting shares as a class or the number of votes cast on behalf of holders of Class A variable voting shares do not exceed 25%.

## COMMITTEES

---

The Board has four standing committees:

- the Audit, Finance and Risk 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 except for the Governance and Corporate Matters Committee of which Marvin Yontef is the Chairman. 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 includes reports from each committee, which tell you about its members, responsibilities and activities.

### **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 of all relationships between the external auditor and its related entities and the Corporation and its related entities.
- 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.
- Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- Approve the investment structure for the Air Canada pension plans, any applicable Statement of Investment Policies and Objectives, Statement of Investment Principles and Beliefs and other investment policies for the Air Canada pension plans.
- Review and approve the Corporation's Public Disclosure Policy.
- Establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries.
- Review the corporate policies, procedures and reports regarding environmental matters.

- Review with management and the Corporation's environmental officer the results of environment audits and recommendations resulting therefrom.
- Identify and address material financial and other risks to the business and affairs of the Corporation 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 5 times during the period from January 1, 2007 to December 31, 2007.

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

Members: Robert G. Long (Chair)  
Arthur T. Porter  
Vagn Sørensen

#### **Governance and Corporate Matters Committee**

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

The primary objective of the Governance and Corporate Matters Committee is to assist the Board of Directors 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, management succession 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 Board, the Chairman, 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 corporate compliance with applicable legislation including directors' and officers' compliance.
- Review proposed amendments to the Corporation's by-laws.
- Make recommendations to the Board with respect to 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.
- Recommend to the Board for approval a governance structure applicable to the Air Canada pension plans.
- Monitor the governance structure and, as required, report to the Board on the necessity or advisability of modifications to such structure.
- Conduct periodic self-assessments of the governance of the pension plans.
- Review such other corporate governance and strategic planning committee 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 3 times during the period from January 1, 2007 to December 31, 2007.

The Governance and Corporate Matters Committee is currently composed of:

Members: Marvin Yontef (Chair)  
Bernard Attali  
Pierre Marc Johnson  
Vagn Sørensen

### **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 of Directors in fulfilling its oversight responsibilities in the field of human resources and compensation as well as succession planning including appointing, training and monitoring of senior management, compensation of officers, organization plans 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, evaluate the CEO's performance in light of those goals, objectives and business performance measures, and make recommendations to the Board with respect to the CEO's compensation level based on this evaluation.
- Make recommendations to the Board with respect to non-CEO officer (including 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.
- Administer the long-term incentive plan of the Corporation and generally oversee the administration thereof.
- Review executive compensation disclosure before public dissemination, including the review of the annual report of senior management compensation for inclusion in the Corporation's management proxy circular, in accordance with applicable rules and regulations.
- Review on an ongoing basis management's organization plans and essential elements of succession plans for executive management of the Corporation and its non-publicly traded subsidiaries so as to satisfy itself that successors have been identified and that their career

development is appropriate in the context of the challenges facing the organization.

- Review and approve the training, monitoring and development of senior officers.
- Review and approve the senior management organizations and reporting structure.
- Review and approve the contingency plans in the event of the disability of key executives.
- Review and develop in conjunction with the Governance and Corporate Matters Committee position descriptions for the Board and for the President and CEO including the definition of the limits to management's responsibilities.
- Approve the design of and amendments to the Air Canada pension plans.
- Approve pension communication strategy, and monitor compliance of communication with strategy and applicable legislation.
- Monitor pension benefits administration.
- Where applicable, appoint members of the pension committees and the trustees of the pension plans.

The Human Resources and Compensation Committee met 6 times during the period from January 1, 2007 to December 31, 2007.

The Human Resources and Compensation Committee is currently composed of:

Members: Vagn Sørensen(Chair)  
Pierre Marc Johnson  
Arthur T. Porter

**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 of Directors 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.
- Consider whether or not each new nominee can devote sufficient time and resources to his duties as a Board member.
- Recommend 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 3 times during the period from January 1, 2007 to December 31, 2007.

The Nominating Committee is currently composed of:

Members: Arthur T. Porter (Chair)  
Bernard Attali  
Robert G. Long

## COMPENSATION OF CERTAIN EXECUTIVE OFFICERS

The following table provides a summary of the compensation earned in respect of the 2007, 2006 and 2005 fiscal years by each of Montie Brewer, Air Canada's President and CEO, Michael Rousseau, Air Canada's Executive Vice President and Chief Financial Officer since October 22, 2007, Joshua Koshy, Air Canada's Executive Vice President and Chief Financial Officer until October 31, 2007, and the three next most highly compensated executive officers of Air Canada who are currently serving as executive officers of Air Canada (together with the President and CEO and the Executive Vice President and Chief Financial Officers, the "Named Executive Officers") for services rendered in all capacities to Air Canada.

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation				All Other <sup>(6)</sup> Compensation (\$)
		Salary (\$)	Bonus <sup>(1)</sup> (\$)	Other <sup>(2)</sup> Annual Compensation (\$)	Securities Under Options / PSUs Granted (#)				
					Air Canada Options <sup>(3)</sup>	Air Canada PSUs <sup>(4)</sup>	ACE Aviation Options <sup>(5)</sup>	Long-Term Incentive Plan Payouts (\$)	
Montie Brewer President and Chief Executive Officer	2007	606,000	690,543	31,880	Nil	11,160	Nil	Nil	Nil
	2006	601,000	822,147	35,108	484,800	17,314	100,000	Nil	Nil
	2005	600,000	625,870	30,744	N/A	N/A	Nil	Nil	650
Michael Rousseau Executive Vice President and Chief Financial Officer <sup>(7)</sup>	2007	96,774	47,238	Nil	165,000	10,000	Nil	Nil	Nil
	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2005	Nil	Nil	Nil	N/A	N/A	Nil	Nil	Nil
Joshua Koshy Executive Vice President and Chief Financial Officer <sup>(8)</sup>	2007	312,500	210,784	Nil	Nil	Nil	Nil	Nil	859,900
	2006	354,167	466,090	Nil	194,198	13,393	Nil	Nil	Nil
	2005	145,833	172,065	Nil	N/A	N/A	100,000	Nil	Nil
Robert (Rob) Reid Executive Vice President and Chief Operating Officer	2007	400,000	205,804	Nil	Nil	7,366	Nil	Nil	Nil
	2006	358,333	363,477	Nil	165,714	11,428	Nil	Nil	Nil
	2005	311,727	244,383	Nil	N/A	N/A	Nil	Nil	450
Lise Fournel Senior Vice President, E-Commerce and Chief Information Officer	2007	337,837	140,037	Nil	Nil	6,222	Nil	Nil	Nil
	2006	337,837	217,171	Nil	43,436	4,826	Nil	Nil	Nil
	2005	337,837	236,357	Nil	N/A	N/A	Nil	Nil	694
Benjamin Smith Executive Vice President, Commercial <sup>(9)</sup>	2007	316,667	157,751	Nil	110,000	6,000	Nil	Nil	Nil
	2006	230,000	148,743	Nil	34,714	3,857	Nil	Nil	Nil
	2005	210,000	89,300	Nil	N/A	N/A	Nil	Nil	282

- 
- (1) - The amounts in this column for 2007 reflect:
- i) bonuses paid for the 2007 fiscal year under the Annual Incentive Plan as follows: Mr. Brewer \$681,750; Mr. Rousseau \$45,834; Mr. Koshy \$156,250; Mr. Reid \$200,000; Ms. Fournel \$135,135; Mr. Smith \$153,125;
  - ii) awards paid for the 2007 fiscal year under the Profit Sharing Plan as follows: Mr. Brewer \$8,793; Mr. Rousseau \$1,404; Mr. Koshy \$4,534; Mr. Reid \$5,804; Ms. Fournel \$4,902; Mr. Smith \$4,626; and
  - iii) payment of \$50,000 to Mr. Koshy pursuant to his employment contract.
- The amounts in this column for 2005 and 2006 reflect bonuses paid under the Annual Incentive and Profit Sharing Plans.
- (2) Perquisites and other personal benefits for fiscal year 2007 do not exceed the lesser of \$50,000 or 10% of the total of the annual salary and bonus for the Named Executive Officers. However, Mr. Brewer did receive \$31,880 in other annual compensation for 2007 which includes compensation attributable to residence costs.
- (3) -The amounts in this column for 2007 reflect:
- i) options granted in 2007 to Mr. Rousseau pursuant to his employment contract; and
  - ii) options granted in 2007 to Mr. Smith coincident with his appointment to Executive Vice President, Commercial.
- The amounts in this column for 2006 reflect options granted pursuant to the completion of the initial public offering of Air Canada.
- (4) - The amounts in this column for 2007 reflect:
- i) An annual grant of Air Canada performance share units to Mr. Brewer, Mr. Reid and Ms. Fournel;
  - ii) performance share units granted to Mr. Rousseau pursuant to his employment contract; and
  - iii) performance share units granted to Mr. Smith coincident with his appointment to Executive Vice President, Commercial.
- The amounts in this column for 2006 reflect performance share units granted pursuant to the completion of the initial public offering of Air Canada.
- (5) The amounts in this column for 2006 represent a special grant of 100,000 ACE Aviation stock options to Mr. Brewer and for 2005 for Mr. Koshy pursuant to his employment contract.
- (6) - The amount in this column for Mr. Koshy represents severance arrangements related to his termination of employment with Air Canada.
- The amounts in this column for 2005 represent the final settlement of a claim that was filed on behalf of the Named Executive Officers as part of the restructuring process of Air Canada in respect of lost wages, holidays, vacation and foregone Employee Share Ownership Plan company matches for 2002 and 2003. The amount in 2005 represents the settlement, which was in the form of shares of ACE Aviation which were immediately sold on the open market at \$39.80.
- (7) Mr. Rousseau became Air Canada's Chief Financial Officer on October 22, 2007.
- (8) Mr. Koshy ceased employment with Air Canada on October 31, 2007.
- (9) Mr. Smith was appointed Executive Vice President, Commercial on May 22, 2007.

### **Aggregate Compensation**

The aggregate compensation (including salary and bonuses) paid by Air Canada and its subsidiaries to the Corporation's 22 full-time officers as of December 31, 2007 for services rendered during the financial year ended December 31, 2007 was \$8,218,301. The value of the perquisites and other personal benefits received in respect of the financial year ended December 31, 2007 by these officers does not exceed 10% of the above-mentioned cash remuneration.

### Air Canada Option Grants

The following table details grants of options to purchase shares in the capital of Air Canada made to Named Executive Officers during the most recently completed financial year.

#### OPTION GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR<sup>(1)</sup>

Name	Securities Under Options Granted	% of Total Options Granted to Employees in Financial Year	Exercise Price	Market Value of Securities Underlying Options on the Date of Grant (\$/Security)	Expiration Date
Montie Brewer	Nil	N/A	N/A	N/A	N/A
Michael Rousseau	165,000	34.2%	\$14.90	\$14.90	October 10, 2014
Joshua Koshy	Nil	N/A	N/A	N/A	N/A
Robert (Rob) Reid	Nil	N/A	N/A	N/A	N/A
Lise Fournel	Nil	N/A	N/A	N/A	N/A
Benjamin Smith	110,000	22.8%	\$15.85	\$15.85	May 10, 2014

(1) For details as to the material terms of the option grants, including exercise dates, refer to the "Report on Executive Compensation by the Human Resources and Compensation Committee".

### Air Canada Performance Share Unit Grants

The following table details grants of Air Canada performance share units ("PSUs") made to Named Executive Officers during the most recently completed financial year.

#### PERFORMANCE SHARE UNIT GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR<sup>(1)</sup>

Name	Securities Under PSUs Granted	% of Total PSUs Granted to Employees in Financial Year	Grant Price	Market Value of Securities Underlying PSUs on the Date of Grant (\$/Security)	Redemption Date <sup>(2)</sup>
Montie Brewer	11,160	4.8%	\$16.79	\$16.79	December 31, 2010
Michael Rousseau	10,000	4.3%	\$14.90	\$14.90	December 31, 2010
Joshua Koshy	Nil	N/A	N/A	N/A	N/A
Robert (Rob) Reid	7,366	3.2%	\$16.79	\$16.79	December 31, 2010
Lise Fournel	6,222	2.7%	\$16.79	\$16.79	December 31, 2010
Benjamin Smith	6,000	2.6%	\$15.85	\$15.85	December 31, 2009

(1) For details as to the material terms of the PSU grants refer to the "Report on Executive Compensation by the Human Resources and Compensation Committee".

(2) At the end of the three-year term, all vested performance share units are redeemed for Air Canada shares (issued from treasury or purchased on the secondary market, at the discretion of the Corporation) and/or equivalent cash (at the discretion of the Corporation) based on the fair market value of the Air Canada shares on the redemption date. Participants receive therefore, on the redemption date in respect of all vested

performance share units, a value equal to the fair market value of the Air Canada shares on such date, with payment being effected with Air Canada shares and/or cash at the discretion of the Corporation.

### Air Canada Option Exercises

The following table details the aggregated exercises of options to purchase shares in the capital of Air Canada during the most recently completed financial year and the option values at financial year-end.

#### AGGREGATED OPTION EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION VALUES

Name	Securities Acquired on Exercise	Aggregate Value Realized	Exercisable/Unexercisable Options at December 31, 2007		Value of Exercisable/Unexercisable in-the-Money Options at December 31, 2007 <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Montie Brewer	Nil	Nil	60,600	424,200	Nil	Nil
Michael Rousseau	Nil	Nil	Nil	165,000	Nil	Nil
Joshua Koshy	Nil	Nil	Nil	Nil	Nil	Nil
Robert (Rob) Reid	Nil	Nil	20,715	144,999	Nil	Nil
Lise Fournel	Nil	Nil	5,430	38,006	Nil	Nil
Benjamin Smith	Nil	Nil	4,340	140,374	Nil	Nil

(1) Based on the closing price of the Class B voting shares (\$12.05) on December 31, 2007.

### Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options and redemption of PSUs <sup>(1)</sup>	Weighted-average exercise price of outstanding options <sup>(1)(2)</sup>	Number of securities remaining available for future issuance under equity compensation plans <sup>(1)</sup>
Equity compensation plans approved by securityholder(s) <sup>(1)</sup>	2,273,275 <sup>(2)(3)</sup>	\$19.24	2,726,725

(1) As at December 31, 2007.

(2) At the end of the three-year term, all vested performance share units are redeemed for Air Canada shares (issued from treasury or purchased on the secondary market, at the discretion of the Corporation) and/or equivalent cash (at the discretion of the Corporation) based on the fair market value of the Air Canada shares on the redemption date. Participants receive therefore, on the redemption date in respect of all vested performance share units, a value equal to the fair market value of the Air Canada shares on such date, with payment being effected with Air Canada shares and/or cash at the discretion of the Corporation.

(3) Includes 553,183 Air Canada shares that, at the discretion of the Corporation, may be issued from treasury upon the redemption of vested performance share units. See Note 2 above.

### ACE Aviation Option Grants

No grants of options to purchase shares in the capital of ACE Aviation were made to Air Canada officers, including the Named Executive Officers, in 2007.

### ACE Aviation Option Exercises

The following table details the aggregated exercises of options to purchase shares in the capital of ACE Aviation during the most recently completed financial year and the option values at financial year-end.

#### AGGREGATED OPTION EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION VALUES

Name	Securities Acquired on Exercise	Aggregate Value Realized	Exercisable/Unexercisable Options at December 31, 2007		Value of Exercisable/Unexercisable in-the-Money Options at December 31, 2007 <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Montie Brewer	383,638	6,860,328	169,126	Nil	1,554,268	Nil
Michael Rousseau	N/A	N/A	N/A	N/A	N/A	N/A
Joshua Koshy	90,454	594,228	Nil	Nil	Nil	Nil
Robert (Rob) Reid	185,532	3,157,926	Nil	Nil	Nil	Nil
Lise Fournel	42,730	740,970	Nil	Nil	Nil	Nil
Benjamin Smith	92,766	1,609,178	Nil	Nil	Nil	Nil

(1) Based on the closing price of the Class B voting shares of ACE Aviation (\$28.29) on December 31, 2007.

### Pension Plan

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

Benefits are calculated by multiplying 2% per year of service (maximum 35 years) times the final average annual salary (excluding bonuses, honoraria and special allowances) during the executive's highest paid 36 successive months of company service and subtracting an amount equal to 0.25% times the Canada/Québec pension plans average annual yearly maximum pensionable earnings during the same 36-month period used to determine the executive's average annual salary times the executive's years of service after December 31, 1965.

The following table shows typical annual benefits payable under this pension arrangement on December 31, 2007, to individuals 65 years of age.

**PENSION PLAN TABLE**

Final Average Earnings (\$)	Years of Service				
	15	20	25	30	35
150,000	43,361	57,815	72,269	86,723	101,176
175,000	50,861	67,815	84,769	101,723	118,676
200,000	58,361	77,815	97,269	116,723	136,176
225,000	65,861	87,815	109,769	131,723	153,676
250,000	73,361	97,815	122,269	146,723	171,176
300,000	88,361	117,815	147,269	176,723	206,176
400,000	118,361	157,815	197,269	236,723	276,176
500,000	148,361	197,815	247,269	296,723	346,176
750,000	223,361	297,815	372,269	446,723	521,176
1,000,000	298,361	397,815	497,269	596,723	696,176
1,250,000	373,361	497,815	622,269	746,723	871,176
1,500,000	448,361	597,815	747,269	896,723	1,046,176

Note: Rounding has been used in the above calculations.

In the event of death after five years of service, 50% of the accrued benefit to date of death is payable to the individual's surviving spouse as a monthly lifetime pension or as a commuted lump sum. In the event of death in retirement, 50% of the paid benefit is payable to the individual's surviving spouse as a monthly lifetime pension. Other optional forms of payment are available on an actuarial equivalent basis.

As of December 31, 2007 the years of credited service were as follows: Mr. Brewer, 10.75 years; Mr. Rousseau, 0.25; Mr. Koshy, 2.25 years; Mr. Reid, 31.17 years; Mrs. Fournel, 28.67 years and Mr. Smith, 5.83 years.



**REPORT ON EXECUTIVE COMPENSATION BY THE HUMAN RESOURCES AND COMPENSATION COMMITTEE**

---

Air Canada is well-positioned to face the challenging demands in a competitive environment and prepared to create shareholder value. To achieve its vision, the Corporation 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 ensure that the Corporation meets its strategic plans. In addition, by closely linking executives' and shareholders' interests through incentive compensation, the Executive Compensation Program contributes to the achievement of profitable growth for shareholders.

The Executive Compensation Program is reviewed annually to align it with the Corporation's business plan that incorporates four engines, which are: (i) a new customer revenue model, (ii) a new reservation sales system, (iii) new aircraft interiors and (iv) a stronger focus on its people. The Program's components were also reviewed to ensure their market competitiveness and their link to shareholder value. This report provides an overview of Air Canada's Executive Compensation Program.

**Executive Compensation Program**

Air Canada's Executive Compensation Program emphasizes incentive compensation linked to its annual and long-term financial performance to ensure that executives' interests are linked to those of its shareholders. An annual comparative analysis of compensation practices is conducted by an independent third party consulting firm and the analysis consists of a comparator group of 27 large autonomous Canadian companies with at least one billion dollars in annual sales. The comparator group, which is validated from time to time by the Board of Directors, is a diversified mixture of Canadian companies containing transportation, financial institutions, manufacturing, energy and communications. The Air Canada CEO position is benchmarked to positions in the comparator companies which are comparable in their roles and responsibilities and the components of the CEO's compensation are measured to the comparator group using the same standard for each component. Air Canada aims at rewarding its CEO, and other executives, at the median compensation levels offered in its comparator group for performance that meets corporate goals.

Air Canada's Executive Compensation Program is made up of five components:

- (i) Base salary;
- (ii) Short-term incentive compensation in the form of an annual incentive and profit sharing plan;
- (iii) Long-term incentive compensation in the form of a stock option and performance share unit plan;
- (iv) Pension, benefits and employee share ownership plan; and
- (v) Perquisites.

These five components are evaluated together to determine the appropriate compensation level for Air Canada executives.

***Base Salary***

Competitive base salaries are established by the Board of Directors of Air Canada based on the responsibilities, contribution, experience and skill set of the executive. The Board of Directors also considers equity within the officer group and salaries offered in Air Canada's reference group for similar positions when reviewing base salaries. Air Canada's policy for base salaries aims at providing the median compensation level offered in Air Canada's reference group. However, base salaries can be set below or above the median depending on each executive's profile.

***Short-Term Incentive Plans******Air Canada Annual Incentive Plan***

Air Canada's Annual Incentive Plan is designed to pay a cash award to eligible management and administrative and technical support non-unionized employees, based on the Corporation's achievement of EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent) against its business plan, while incorporating the Board's authority to recognize and adjust actual EBITDAR results for fuel variances. The Incentive Plan begins to reward participants, on a graduated basis, when EBITDAR results achieve 90% of targeted EBITDAR. It pays the target bonus at 100% and pays 200% of target bonus when 110% of the business plan's EBITDAR is achieved. Target

bonuses for the 2007 plan year range as follows:

Level	Target Bonus
Chief Executive Officer	75%
Executive Vice President	50%
Senior Vice President	40%
Vice President	35%

Effective with the 2007 plan year, target bonuses were increased to market competitive levels, EBITDAR remained the financial measurement, but excluded any weighting with ACE Aviation, and is based 100% on Air Canada's results. Also, an individual performance feature was introduced, acting as an incentive bonus multiplier, with the maximum award payable still being 200% of the target bonus.

For the 2007 plan year, the Board of Directors approved a payout at 100% of target bonuses.

Effective with the 2008 plan year, the Board of Directors increased the CEO's target bonus from 75% to 100% to better reflect market competitive levels.

*Air Canada Profit Sharing Plan*

The Profit Sharing Plan, based on the achievement of Air Canada's results, is offered to all employees to ensure that they share in Air Canada's success and work together to achieve corporate goals. Under this plan, an annual pool of funds is established based on adjusted pre-tax profits of Air Canada. The pool of funds is then distributed to plan members pro rata based on the employee's base salary earnings compared to the same earnings of all employees.

In 2005, the Corporation also introduced an adjunct program designed to advance profit sharing payouts if the Corporation achieves pre-determined monthly customer service goals for "on-time performance" and "custom satisfaction". This program, "Sharing our Success", rewards each employee worldwide \$75 each month for each of the two goals met (a total monthly award of \$150). If the amount of the Sharing Our Success payments exceeds the amounts to be distributed pursuant to the Profit Sharing Plan, no further profit sharing distributions are made.

In 2007, Sharing Our Success advanced \$29 million of profit sharing to all employees, while in accordance with its design, the Profit Sharing Plan would have only distributed \$23 million. Therefore,

no further profit sharing distributions would normally have been made, however, pursuant to the plan's design, an additional aggregate amount of \$3 million was distributed to certain plan members who were entitled to receive such further amounts as prescribed by the plan.

*Long-Term Incentive Plans*

Air Canada's Long-Term Incentive Plan is intended to attract, retain and motivate employees in key positions at Air Canada and align their interests with those of shareholders. Options and performance share units held by any person under the Long-Term Incentive Plan may not at any time exceed 5% of the aggregate number of shares outstanding from time to time. 5,000,000 shares have been authorized for issuance under the Long-Term Incentive Plan in the form of stock options and/or performance share units. The plan provides for an annual target grant of stock options and performance share units to all eligible senior management and officers of Air Canada as follows:

Level	Target Stock Option Grant (% of base salary)	Target Performance Share Unit Grant (% of base salary)
Chief Executive Officer	280%	30%
Executive Vice President	145%	30%
Senior Vice President / Vice President	90%	30%

*Air Canada Stock Option Plan*

The options to purchase Air Canada shares granted under the Long-Term Incentive Plan have a maximum term of 10 years and an exercise price based on the fair market value of the shares at the time of the grant of the options. The vesting of options granted are as follows: (i) 50% of options granted under the Long-Term Incentive Plan vest over four years and (ii) the remaining 50% vest, after four years, based on the Corporation achieving its operating margin for the four-year period against the business plan. Graduated performance vesting begins when operating margin achieves 85% of the business plan.

*Air Canada Performance Share Units*

The performance share units granted under the Long-Term Incentive Plan are notional share units which are exchangeable, on a one-to-one basis, for Air Canada shares or equivalent cash. As such, performance share units will behave like and have a value equal to Air Canada shares. Performance share units have a maximum term of three years, a grant price based on the fair market value of the Air Canada shares at the time of their grant, and vest after the three-year term based on the Corporation achieving its earnings per share target for the three-year period against the business plan. Graduated performance vesting begins when earnings per share achieves 85% of the business plan. At the end of the three-year term, all vested performance share units are redeemed for Air Canada shares (issued from treasury or purchased on the secondary market, at the discretion of the Corporation) and/or equivalent cash (at the discretion of the Corporation) based on the fair market value of the Air Canada shares on the redemption date. Participants receive therefore, on the redemption date in respect of all vested performance share units, a value equal to the fair market value of the Air Canada shares on such date, with payment being effected with Air Canada shares and/or cash at the discretion of the Corporation.

*2007 Annual Grant*

To provide a meaningful incentive and to promote retention among the executive team, concurrent with the completion of Air Canada's initial public offering, which occurred November 2006, a special initial public offering grant was made to all senior management and officers of Air Canada. Under the special initial public offering grant, officers and senior directors of the Corporation received: (i) a three-year grant of stock options with the next scheduled option grant occurring at the earliest November 2009, and (ii) an annual grant of performance share units with the next scheduled grant occurring at the earliest November 2007.

Therefore, in November 2007, an annual grant of performance share units was made to eligible senior management and officers of Air Canada who were in receipt of the special initial public offering grant; moreover, an annual grant of both stock options and performance share units was made to newly appointed senior management.

The terms of the 2006 and 2007 grants provide that vested options can be exercised over a maximum period of seven years, rather than ten years that the

plan allows, from the date of the grant at an exercise price of 100% of the market price of the underlying shares at the time of the grant.

***Pension, Benefits and Employee Share Ownership Plan****Air Canada Pension and Benefits*

Air Canada's group health and other insurance benefits and the executive pension plan are aligned with the median of the Corporation's reference group. Please refer to the "Compensation of certain Executive Officers – Pension Plan" section of this circular.

*Air Canada Employee Share Ownership Plan*

An ongoing share purchase plan was established by Air Canada (the "**Employee Share Ownership Plan**") concurrent with the completion of the initial public offering of Air Canada. The purpose of the Employee Share Ownership Plan is to permit eligible employees of Air Canada to invest up to 6% of their salary for the purchase of Air Canada shares with a corresponding match by Air Canada at 33.3% of the investments made by the employees. The funds contributed by the participants and by Air Canada are used to purchase Air Canada shares on the secondary market on behalf of such participants.

***Perquisites***

Perquisites are aligned with the median of Air Canada's reference group. Perquisites include leased automobiles, a medical top-up plan and financial counselling.

**Termination of Employment, Change in Responsibilities and Executive Employment Contracts**

Air Canada has entered into an employment agreement with Montie Brewer. The agreement provides that, in the event that he is involuntarily terminated for any reason other than for cause, disability or retirement, he shall receive a severance payment equal to two years of his annual salary. The agreement also provides for five years of pension credits upon completion of five years of service. Mr. Brewer is also entitled to early retirement status in the case of an involuntary termination. In early 2008, the Board of Directors reviewed Mr. Brewer's employment agreement with a view to retaining Mr. Brewer's services. The Board of Directors reinforced the agreement's retention measures by granting an

additional year of pension credits for each complete year worked after his 2007 employment anniversary date, up to a maximum of five additional years of pension credits and provided for a further five years of pension credits upon Mr. Brewer reaching ten years of Air Canada service and age fifty five.

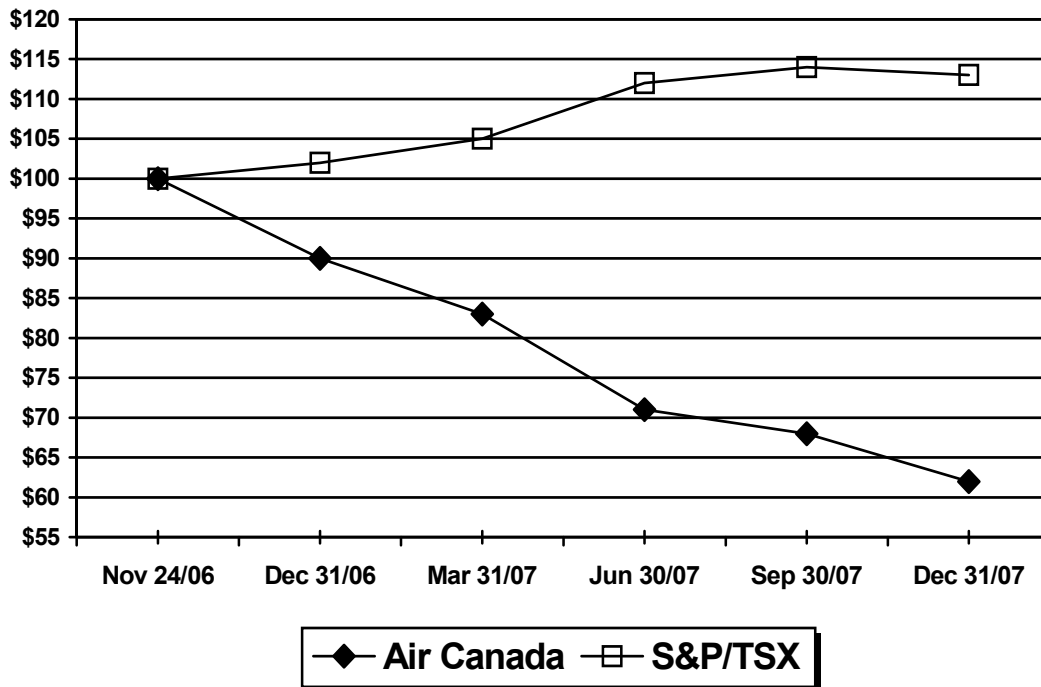
*Submitted by the Human Resources and Compensation Committee of the Board.*

**Members:** Vagn Sørensen (Chair)  
Pierre Marc Johnson  
Arthur T. Porter

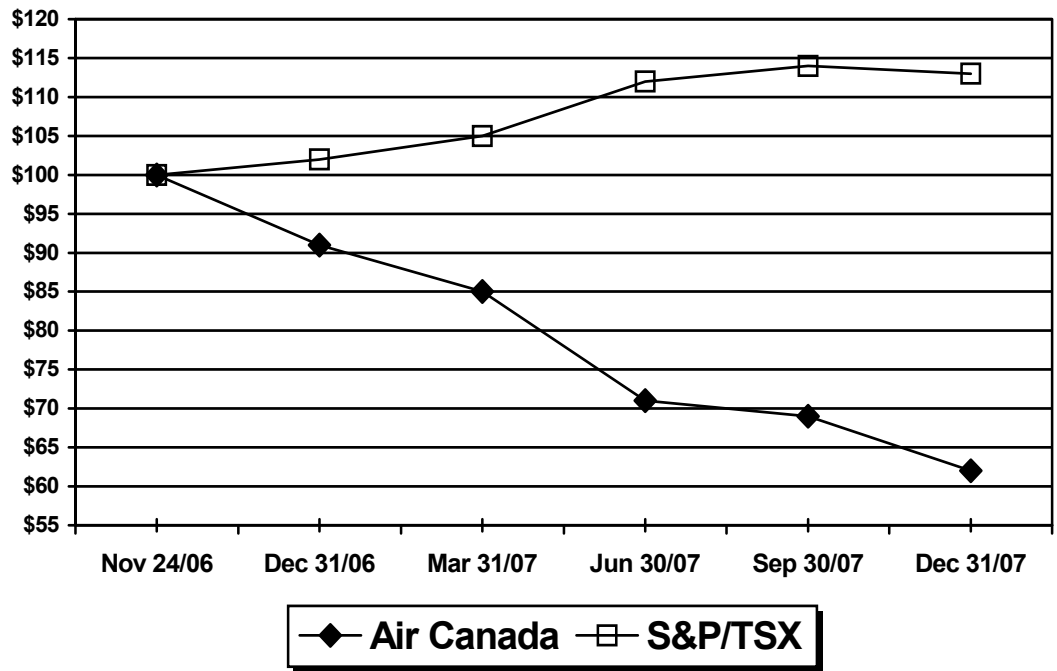
**PERFORMANCE GRAPHS**

The following performance graphs compare 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 November 24, 2006 with the cumulative return on the S&P/TSX Composite Index for the period beginning on November 24, 2006 and ended December 31, 2007. The Class A variable voting shares and the Class B voting shares started trading on the TSX on November 24, 2006.

**Air Canada Class A Shares  
Versus S&P/TSX Composite Index  
November 24, 2006 to December 31, 2007**



**Air Canada Class B Shares  
Versus S&P/TSX Composite Index  
November 24, 2006 to December 31, 2007**



**OTHER IMPORTANT INFORMATION**

---

**Directors' and Officers' Liability Insurance**

Air Canada has acquired and is maintaining directors' and officers' liability insurance for the benefit of the directors and officers of Air Canada and its subsidiaries. The coverage limit of such insurance is US\$200,000,000 per claim and US\$200,000,000 in the annual aggregate. The current policy is effective from October 1, 2007 to October 1, 2008 and protects the directors and officers for allegations of alleged "wrongful acts" in the conduct of their activities as directors and officers. The premium for this period of insurance is US\$1,787,295.

**Indebtedness of directors and officers**

As at April 3, 2008, none of the directors or executive officers of Air Canada nor any associate of such director or executive officer are indebted to Air Canada. 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**

Other than as set out below or described elsewhere in this circular, no director, senior officer or other insider, as applicable, of the Corporation, nor any associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction since the commencement of the Corporation's last financial year or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its subsidiaries.

The Corporation is currently a party to the following ongoing agreements with ACE Aviation (which holds a 75% interest in Air Canada as of April 3, 2008), Jazz Air LP ("**Jazz**") (with respect to which ACE Aviation held a 20.1% interest in Jazz Air Income Fund, the parent entity of Jazz, as of December 31, 2007 and holds a less than 10% interest as of April 3, 2008), Aeroplan Limited Partnership ("**Aeroplan**") (with respect to which ACE Aviation holds a 20.1% interest in Aeroplan Income Fund, the parent entity of Aeroplan, on April 3, 2008; on April 2, 2008, ACE Aviation announced a sale of a further interest in Aeroplan Income Fund which would bring its interest

down to 9.9%) or ACTS Aero Technical Support & Services Inc. ("**ACTS Aero**") (of which ACE Aviation holds a 23% interest as of April 3, 2008):

- a registration rights agreement dated November 24, 2006 between Air Canada, ACE Aviation and a wholly-owned subsidiary of ACE Aviation;
- an amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz;
- an amended and restated commercial participation and services agreement dated June 9, 2004, as amended, including by the agreements dated May 13, 2005 and October 13, 2006 between Air Canada and Aeroplan;
- a general services agreement dated May 13, 2005, effective January 1, 2005 between Air Canada and Aeroplan;
- maintenance service agreements effective as of October 1, 2006, in respect of aircraft maintenance and related services between Air Canada and ACTS Aero; and
- a general services agreement dated September 24, 2004 between Air Canada and ACTS Aero with respect to certain unionized employees employed by Air Canada.

For a description of such and other agreements, please refer to the section "Related Party Transactions" in Air Canada's Management's Discussion and Analysis of Results of Operations and Financial Condition for the year ended December 31, 2007 and to the sections "Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS" and "Relationship between Air Canada and ACE" in Air Canada's Annual Information Form for the year ended December 31, 2007, which sections are incorporated by reference in this circular and which are available on SEDAR at [www.sedar.com](http://www.sedar.com) (and which, upon request, the Corporation will provide a copy of such documents free of charge to a shareholder of the Corporation).

**Mail service interruption**

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

**Alberta**

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

**Ontario**

320 Bay Street  
Banking Hall  
Toronto, Ontario

**British Columbia**

1066 West Hastings St.  
The Oceanic Plaza  
Suite 1600  
Vancouver, B.C.

**Québec**

2001 University Street  
Suite 1600  
Montreal, Québec

**Nova Scotia**

1660 Hollis Street  
Suite 406  
Halifax, Nova Scotia

**Shareholder proposals for our 2009 annual meeting**

We will include proposals from shareholders that comply with applicable laws in next year's management proxy circular for our 2009 annual shareholder meeting. Please send your proposal to us by January 16, 2009.



## **HOW TO REQUEST MORE INFORMATION**

---

### **Documents you can request**

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, 2007, which includes our consolidated financial statements together with the accompanying auditors' report;
- our management discussion and analysis related to such annual consolidated financial statements;
- any interim financial statements that were filed after the consolidated financial statements for the year ended December 31, 2007;
- our management discussion and analysis related to such interim financial statements; and
- our Annual Information Form for the year ended December 31, 2007 filed on March 28, 2008.

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

These documents will also be available on our website at [www.aircanada.com](http://www.aircanada.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). All of our news releases are also available on our website.

### **Receiving information electronically**

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

#### ***How to sign up – registered shareholders***

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

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

To sign up go to the website [www.cibcmellon.com/electronicdelivery](http://www.cibcmellon.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 CIBC Mellon at 1-800-387-0825.

To sign up, go to the website [www.investordelivery.com](http://www.investordelivery.com) and follow the instructions.

#### ***How to sign up – employees holding shares under the Employee Share Ownership 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](http://www.computershare.com/employee/ca) and follow the instructions.

**SCHEDULE "A"**

**RECORD OF ATTENDANCE BY DIRECTORS**

**Record of Attendance by Director for the period beginning January 1, 2007 and ending December 31, 2007**

Director	Number of meetings attended	
	Board	Committees
Bernard Attali	5 of 8	6 of 6
Montie Brewer <sup>(3)</sup>	8 of 8	N/A
Brian Dunne	8 of 8	N/A
Pierre Marc Johnson	6 of 8	7 of 9
Robert G. Long <sup>(1)</sup>	N/A	N/A
Richard H. McCoy <sup>(2)</sup>	8 of 8	8 of 8
John T. McLennan <sup>(2)</sup>	7 of 8	8 of 8
Robert A. Milton <sup>(2)(3)</sup>	8 of 8	N/A
Arthur T. Porter	8 of 8	14 of 14
David I. Richardson	7 of 8	7 of 8
Vagn Sørensen	7 of 8	9 of 9
Marvin Yontef	8 of 8	4 of 4

- (1) Appointed effective as of January 1, 2008. Attended as an observer a meeting of the Board of Directors held on December 14, 2007.  
(2) Resigned effective as of January 1, 2008.  
(3) As *ex officio* members of each of the Board's committees, the Chairman and the President and Chief Executive Officer also attend committee meetings.

**Summary of board and committee meetings held**

Board	8
Audit, Finance and Risk Committee	5
Governance and Corporate Matters Committee	3
Human Resources and Compensation Committee	6
Nominating Committee	3
Ad Hoc Committees	1

**SCHEDULE "B"**

**CHARTER OF THE BOARD OF DIRECTORS**

---

**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 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 a 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/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 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's businesses 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) 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;
- (o) 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;
- (p) conducting, through the Governance and Corporate Matters Committee, an annual assessment of the Board and the Committees and of individual members of the Board;
- (q) reviewing, through the Human Resources and Compensation Committee, management's succession plans;
- (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 pension plans, overseeing their overall operation, funded status and compliance with fund mission and funding policy.

## **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 senior executives;
- (e) major organizational restructurings, including spin-offs;
- (f) material acquisitions and divestitures;
- (g) major corporate policies; and
- (h) in respect of pension plans, the plan reorganization, governance structure, fund mission, funding policy, annual contributions, appointment of the external auditor and the plan custodian of the pension funds.

## **VIII. BOARD COMMITTEES**

There are four Committees of the Board: the Audit, Finance and Risk Committee, the Governance and Corporate Matters Committee, the Nominating Committee and the Human Resources and Compensation 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.

March 28, 2008

