

Remarks by Calin Rovinescu

President and Chief Executive Officer, Air Canada

Annual General Meeting of Shareholders

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Introduction

Good morning and thank you for taking time to attend our annual general meeting today. A special welcome to our shareholders, partners and colleagues who have travelled from out of town to be with us.

This year's annual meeting is unique for several reasons. 2017 marks Air Canada's 80th anniversary, which is an incredible milestone for any company, especially an airline. And as you saw from the opening video, despite being 80-years-old, today we are a stronger, more vibrant, diversified and more forward-looking company than ever before.

No one would have foreseen this standing in a muddy field on September 1, 1937, when the first Air Canada flight took off from Vancouver for Seattle. There were only two customers on board – who were charged \$7.90 for a one-way ticket – and several bags of mail.

Delivering mail was one of the main reasons Trans-Canada Airlines was formed. It is a good thing airlines were invented before email, otherwise we might never have come into existence at all!

When you look back at our company, it has been our willingness to innovate, particularly regarding passenger safety and comfort that has set us apart. The spirit of innovation animated us from the start.

In 1938 we became the first airline to install alcohol de-icing nozzles on our fleet to keep the windshield ice-free for pilots.

Before the decade was out we introduced our first trans-continental flight. By 1943 we operated our first trans-Atlantic flight, Montreal to Prestwick, which took 12 hours, including a pit stop in Iceland.

In July 1950, TCA welcomed its 3 millionth passenger, a number it took nearly 13 years to reach but which we now carry in about 24 days.

Over the next decade, the workforce soon doubled to 10,000 and 30 new routes were added. Another technical innovation was the installation of anti-skid brakes, allowing aircraft to turn on ice, a very welcome invention in our climate.

We greeted the 1960s by introducing jet aircraft. The new DC-8s cut travel time to London in half to six hours. In 1963, we became the first airline with a computerized reservation system, Reservec, and we also participated in the development of the Black Box recorder. Of more practical benefit to our customers, we became the first airline to install covered walkways linking terminals to aircraft in 1965.

The most visible change of the decade was adopting the name Air Canada. It was a name that had already been in use among francophones for several years and it properly celebrated Canada's bilingualism.

The 1970s heralded the jumbo-jet era, as Air Canada took delivery of its first Boeing 747. We again raised the bar on passenger comfort as this was the first aircraft on which we offered in-flight entertainment, complete with movie screens and audio programming.

Another milestone was reached in 1977 when Judy Cameron became our first female pilot. Captain Cameron retired in 2015 but today we have more than 200 women flying our aircraft.

The 1980s were to be a decade of tremendous change for Air Canada, with the company's 1988 privatization – and the beginning of my own association with the company. By decade's end we carried 10 million people with revenue of \$3.6 billion, about a quarter of where we are today.

Hard as it is to imagine, smoking was still permitted on aircraft in the 1990s. So, it was a huge leap forward when Air Canada became the first carrier to make its European flights non-smoking in 1990. We were one of the first to introduce the new Airbus narrowbody family of aircraft into North America and the decade saw other customer service innovations, such as the debut of e-tickets and self-service kiosks.

As the new century dawned, there was significant upheaval, with a hostile takeover bid, our subsequent merger with Canadian Airlines,

SARS and then 9-11. While the industry faced a perfect storm, we continued to innovate with seatback entertainment systems, lie flat business class seats and new ultra long-range aircraft like the Boeing 777. Then the financial crisis of 2008 brought Air Canada to the edge of the precipice and risked putting everything achieved to that date in peril.

Turnaround

No journey can be understood, its twists and turns explained, or its challenges and successes appreciated, if you do not know the starting point. Indeed, how far Air Canada has travelled, can only be fully grasped by looking back to 2009 when our turnaround began.

In 2009, we faced the proverbial burning platform, the perfect storm, the near-death experience. Believe me, nothing focuses the mind like a hanging in the morning, and in those days the noose was tightening. It was the quintessential burning platform. The only comfort was knowing that we had a strong Board of Directors and a dedicated team of executives, managers and employees, all of whom shared one thing: a desire to win.

For our team, winning was however never a destination. Instead it was a mindset. And success was not some static nirvana where we got to spike the ball in some creative end-zone dance. It was, and still is, a continuous marathon relay race where, at the end of each 365 day leg, we get to gingerly pass the baton and hopefully make some incremental progress into the following year.

As that baton passes at this AGM, let's compare 2016 results to 2009 – when we first undertook to transform your company into a sustainably profitable Global Champion.

For 2016, we reported record Revenues of \$14.7 billion versus \$9.7 billion in 2009. A 50% increase.

We reported record EBITDAR in 2016 of \$2.8 billion, compared to \$679 million in 2009. A 300% increase. On a GAAP basis, Air Canada reported operating income of \$1.345 billion in 2016.

Our 2016 EBITDAR margin of 18.9% was also a record for us, more than two and a half times our 7% margin of 2009.

Return on Invested Capital was 14.7%, in 2016, up from a negative 1.5% in 2009.

Our leverage ratio over the period also significantly improved, down to 2.6-times in 2016 from an unsustainable 8.3-times in 2009.

Unrestricted liquidity at 2016 year end was \$3.4 billion, a 140% improvement over 2009.

Our domestic registered pension plans had a surplus of 1.9 billion at the end of 2016, versus a deficit of \$2.7 billion at the end of 2009. A reversal of \$4.6 billion

We carried a record of nearly 45 million passengers, up from 31 million in 2009, a 45% increase. And we did this with an average passenger load factor of 82.5%.

Perhaps of most immediate interest to you, our shareholders, our shares have returned over 1600% from the lows of 2009. Beating all our North American peers and the S&P/TSX Composite Index over that period – and again in 2016.

And I am confident the momentum will continue.

This morning we announced our First Quarter 2017 results. As Q1 is traditionally one of our weakest, I am pleased to see System traffic up 14% over last year's Q1 and Revenues up 8.9% year-over-year, while Adjusted CASM is down 6%, signaling ongoing progress in implementing our long-term strategic plan.

While our fuel cost in Q1 increased 48% year-over-year, nonetheless we delivered EBITDAR results for the Quarter that exceeded Analysts' Consensus Estimates and are better than we ourselves had projected in our February 2017 news release.

In addition, at March 31, 2017, unrestricted liquidity amounted to \$4.073 billion and we reported Free Cash Flow of \$470 million for the Quarter.

As Canada's national carrier, we get to play multi-dimensional chess in a fish bowl, in full view of the public – customers, employees, suppliers, competitors, governments, shareholders, analysts, unions, media. Virtually everyone gets a peek at virtually everything that we do. In good times and bad. From coast to coast.

It is certainly a challenge, but also an enormous privilege. We get to fly the Maple Leaf proudly on our tail – an association we have doubly reinforced by restoring the traditional Rondel with our new livery, as you saw in our video at the start of today's meeting. We are the first sign of home when someone boards our planes in Delhi, Shanghai or Sao Paulo.

We get to show off our world class fleet, our world class staff, our world class product. We get to show off Canada and convey everything that is good about Canada. Especially now, when the world does indeed need more Canada.

Lessons learned

So what did we learn on our journey from near-death in 2009 en route to becoming a profitable, leading global carrier today? Well, first we learned quickly that out of adversity can come strength and out of greater adversity, even greater strength to effect fundamental change.

So, as the noose slightly loosened around our neck, as we stabilized the patient, we immodestly set as our corporate goal, the transformation of

Air Canada into nothing less than a Global Champion. We called this goal “aspirational”.

Others had more descriptive expressions such as “delusional”. Some in fact wondered what we were smoking – and those were the days when no one was talking about legalizing marijuana.

So, we decided to take the theme of global leadership and build it into somewhat of a corporate mantra – for our board, our senior executives, our managers, and our front-line employees.

We sought to understand how highly successful international champions in other industries – like Amazon, Apple, Google, Samsung – were able to achieve what they had achieved. Frankly, simply having everyone in our organization asking themselves this very basic question was already half the battle.

Having set a goal to become a Global Champion, we next settled on a high stakes strategy involving growth and transformation. This was guided by a framework of four corporate priorities that remain to this day. Four - not four hundred - Revenue Growth and Cost Transformation. International Expansion. Culture Change. And Customer Engagement.

Invest in Risk

We quickly learned some other lessons too, lessons that we continue to apply to this day. The first: Be comfortable with commercial risk and be globally audacious. One cannot be risk averse when all is bleakest; we had to move quickly to seize opportunities arising from the ashes of 2008. And we had to take a long-term view as to what would ultimately benefit the long-term interests of Air Canada's various stakeholders.

Since 2009 we have profitably grown our capacity outside Canada by 74%. Or, put another way, in the last five years we grew half as much as we did in the first 75 years of our existence. Fully 90% of our growth in 2016 was in international markets. That kind of growth does not come without risk.

In 2016 alone we added 28 new routes, including 15 international and far-flung destinations such as Delhi, Brisbane, Lyon, Budapest, Glasgow, Warsaw and Casablanca, our first African destination. For this year, we have already launched or announced more than a dozen new routes, including from here in Montreal to Shanghai, Tel Aviv, Algiers, Reykjavik and Marseille.

Today we fly to nearly 60 countries worldwide and are one of a handful of airlines in the world flying to all six inhabited continents.

We took other risks too. We moved forward with a \$10 billion capex program to acquire one of the most modern fleets in the world and refurbish some of our existing widebody aircraft. This month, we will have 25 of a planned 37 Boeing 787 Dreamliners in our fleet.

Later this year we will take delivery of the first of our 61 Boeing 737 Max aircraft. During 2016 we also finalized an agreement to buy 45 Bombardier C-Series aircraft.

One of the biggest risks we took over the last few years was launching our leisure airline, Air Canada Rouge with a separate brand, differentiated product and separate inflight crews. Rouge has enabled us to maintain or expand our leisure routes and enter new international markets. It gives us flexibility to move in and out of markets to meet seasonal demand and allows us to stay in the game in markets we were losing.

Since it began flying in 2013 with four aircraft and 14 routes, Rouge has blossomed and was named “Best New Long-haul Airline” at the Budapest Annual Awards. This summer it will operate 49 aircraft across a network of 93 routes.

While we took risk on the commercial side of the house, we also significantly de-risked your company. This came from the beneficial effects of route diversification, increased fleet flexibility, fully-funded pension plans, and long-term labour contracts concluded in 2016 that gave us unprecedented 10-year agreements with our key labour groups.

We also meaningfully lowered our cost of capital last year with a \$1.25 billion refinancing. Among other things, it reduced debt by \$355 million and is expected to save \$60 million in interest.

To demonstrate our progress, we set out three-year targets and objectives for our investors which we reconfirmed in today's quarterly results news release.

Invest in Brainpower

Our second lesson was “Invest in Brainpower”. It is simply the most valuable natural resource we have. It is exportable, importable, transferable, scalable and available to be richly mined without damaging the environment. It's the most basic and most abundant truly “natural” resource. We need to find more ways to keep this brainpower in our country, including that of talented students, which at Air Canada we are doing through scholarships, internships and by investing in research and development in such fields as biofuels and Artificial Intelligence.

Perhaps most importantly, Air Canada is creating jobs and opportunities. We hired 1,500 people last year and we expect to hire 800 or more this year. Since 2009, our company has grown from about 26,000 to more than 30,000 people, despite the challenging macro-economic times we experienced.

We also support and will continue to support companies that invest in brainpower, companies that create new leading-edge technologies and capabilities and that challenge the status quo in aerospace and aviation. We are proud to have been the first major North American airline to order the Bombardier C Series, which we think is an excellent long range, next generation narrowbody aircraft – perfect for Air Canada. We are glad that Bombardier's efforts have challenged the

somewhat comfortable duopoly that existed in the small narrowbody aircraft segment.

Technological disruption has led to enormous innovation in the aerospace industry's relatively short lifespan and we are not in favour of attempts to stifle it. Disruption makes our industry better and we certainly intend to continue to encourage it and to encourage companies like Bombardier to continue to innovate.

Air Canada's ability to attract brainpower is at least in part due to our targeted culture change initiative that has led to increased employee engagement. Our recruitment website gets 110,000 visits each month and we average more than 290 applications for every job filled.

This culture change has also been recognized by outsiders. In 2016 we were named one of Canada's Top 100 employers for the fourth year in a row, in addition to also being named one of Montreal's Top Employers. A national survey rated us one of the country's top three Most Attractive Companies to Work For and Air Canada was also named one of the Most Engaged Workplaces in North America by an employee social recognition company. A long way from the dark days of 2009.

Invest in Diversity

Related to culture change is our third lesson, "Invest in Diversity".

As you know, there is a lot of discourse right now on immigration as an unbeatable strategy for economic growth as the baby-boom generation exits the work force. It is time for us to welcome even more immigrants – and take advantage of intolerance flaring up elsewhere. Our country has been built by immigrants and immigration needs to be a key ingredient in our economic prosperity, and our success as a nation.

We are proud that at Air Canada there are more than 60 different languages spoken among our employees and that 20 per cent of them belong to visible minorities. For the second year in a row, we have been recognized as one of Canada's Top Diversity employers.

To cite one instance of cultural diversity's real-life application, in 2016 we operated 13 flights to bring Syrian refugees to Canada. We were able to crew our aircraft with entirely Arabic speaking employees, easing a difficult journey for many.

We have found success in promoting women throughout the company and we didn't need a quota system to do it. Nearly half of our employees are women and they are found everywhere, from the airport ramp, to the flight decks of our aircraft, to the C suite offices. Forty-three per cent of managers are women and in 2016 women occupied some of the most senior roles at our company, including Chief Commercial Officer, Chief Information Officer, and Senior officers responsible for Human Resources, Inflight Service, Cargo, Corporate Secretariat and Corporate Communications.

Our customers are increasingly pleased with our bilingual service. Air Canada is also amongst the most bilingual private sector companies in

the country. We offer services in French and English throughout our network. Almost 50 per cent of our employees in customer contact positions are bilingual, materially in excess of national statistics on bilingualism throughout the country.

Ipsos Reid's 2016 survey of our customers found 94 per cent were satisfied or extremely satisfied with Air Canada's overall ability to deliver service in their preferred official language. In addition, the majority of both francophones and anglophones surveyed said they believed Air Canada had improved its bilingual service delivery in the past year.

Apart from being the right thing to do, promoting diversity is, for us, quite simply a huge advantage helping us to compete globally and to develop a more engaged and attractive workplace.

Leave the Room Better

Finally, global champions generally leave the room better.

We did that in Haiti rescuing orphans after the devastating earthquake. By creating the Air Canada Foundation committed to children's causes. Through Dreams Take Flight, bringing hundreds of sick and underprivileged children to Disney. With the Syrian Refugee Mission. And by supporting other groups such as the Children's Miracle Network, the Breakfast Club of Canada, and the Starlight Children's Foundation.

In 2016, the Air Canada Foundation, which turns five this year, continued to grow and raised 7 per cent more funds than it did in 2015 and increased its grants to Canadian charitable organizations by about 40%. As well, 6.5 million miles were donated to pediatric hospitals so children could travel for needed medical care.

So yes, I am quite proud of the things your company has done to leave the room better. And each year we produce a Corporate Sustainability Report so stakeholders can hold us accountable and measure our progress, such as, for example, the 40 per cent reduction in our carbon footprint achieved with new aircraft and processes.

We are being recognized globally for our Sustainability efforts. The Reputation Institute – the world’s leading reputation-based research advisory firm – listed Air Canada amongst the top 100 companies in the world for CSR reputation, one of the very few Canadian companies on the list.

Sustainability has other benefits too. Our performance has been recognized by our stock’s inclusion in the Jantzi Social Index. The JSI is a market capitalization-weighted common stock index. It consists of 60 Canadian companies that pass a set of broadly-based environmental, social and governance rating criteria. Such an index is used by institutional investors looking for ethical investments.

Share Success Stories

On this note of leaving the room better, I want to digress for a moment and turn to the overall role of corporations and of business leaders in society.

While private enterprise typically employs more than 75 per cent of all working people, there is a troubling business-bashing trend going on in the world. Surveys show that there is a global implosion in the level of trust in business leaders (along with media and politicians). This makes for some great sound-bites on the nightly news, in editorials, on social media, or during elections. Or for the justification to impose more constraints and more regulation on business.

The truth is, however, in Canada, our largest companies take much risk in deploying billions in capital, employ millions of Canadians, account for most of the value of Canadians' investment portfolios, contribute the largest share of corporate taxes, and are responsible for most of Canada's exports, most private-sector investments in research and development, and corporate philanthropy.

The onus is on us, in business, to not only deliver financially but to continue doing what really matters. And to tell our stories repeatedly to change this negative impression of business. So, here is part of the Air Canada story that I am proudest of.

Besides our record financial results, by taking measured risks, we saved and secured 26,000 jobs, created an additional 4,000, saved and secured pensions, increased salaries, paid profit-sharing bonuses to all employees, built a powerful new leisure carrier with all sorts of opportunities, and grew our international capacity dramatically directly

connecting Canada to the six continents of the world including many destinations not previously served. So, yes, I am proud of the footprint that your company is leaving behind.

Conclusion

Today, more than ever, Air Canada stands tall as an iconic, global brand. We have thrived through eight decades that have brought incredible change to our industry. Virtually everything – product, networks, markets and customer expectations – has been utterly transformed since our first aircraft took off from Vancouver for Seattle in 1937.

Yet, while we are much closer to that ideal of being a Global Champion, we are not expecting to put down the baton any time soon. Instead, we will continue to carry and pass it along, and we will change, improve, innovate and grow stronger, trying to stay ahead of the rest of the pack.

Certainly, an important contributor to our transformation process has been our devoted Chairman, David Richardson, who has been in that office for nine years, and a board member for 13. David is retiring after today's meeting and shareholders owe him a large debt of gratitude for his strong leadership of the Board, building consensus throughout. I would like to express my own, more personal thanks to David for his sound counsel, steadfast guidance and courageous support through some very difficult and challenging times at Air Canada, especially coming out of the 2008 financial crisis. Thank you, David, for your invaluable contribution to our great airline and we extend our very best wishes to you for the future.

Most of the members of our executive team are also with us today. I encourage you to seek them out – they are all wearing our distinctive Air Canada Rondel and they will be pleased to speak with you following today's meeting.

Finally, let me conclude by thanking all of our 30,000 dedicated employees for their hard work during the year taking care of our customers bringing them safely to their destinations while producing record results. I would also like to thank you, our shareholders, and our customers for your ongoing support and continued loyalty.

We have accomplished a tremendous amount since we huddled on that burning platform back in 2009, and I am convinced now – more than ever – that the best is yet to come.

Thank you.