Welcome ladies and gentlemen to Montreal. I greatly appreciate that you have taken time to attend this annual general meeting of shareholders of Air Canada, my first as your new President and CEO.

I have been on the job as CEO of Air Canada for just over five weeks (after an absence of five years) and despite the formidable challenges ahead, I can say with all sincerity that it feels good to be back.

Before I begin my remarks I would first like to take a moment to recognize two special people with us today.

First, Mr. Claude Taylor, who was president and chief executive officer of Air Canada from 1976 to 1984 and then chairman until 1990. My association with Air Canada dates back more than twenty years when as a somewhat more impressionable young lawyer I worked with Claude on the privatization of Air Canada, which was then a federal Crown Corporation. Secondly, I would also like to acknowledge Pierre Jeanniot, who was Claude's successor as president and chief executive officer from 1984 to 1990 before becoming Secretary General and CEO of IATA and with whom I also worked closely during those years. Both of these men have overseen major changes in the airline industry and I'm sure I speak for many friends and long-time acquaintances in the room when I say, gentlemen, it is truly an honour and a privilege to have you both here with us today.

I would also like to introduce several other members of our talented, dynamic executive team. In the second row are:

Duncan Dee, Executive Vice-President and Chief Operating Officer;

Benjamin Smith, Executive Vice-President and Chief Commercial Officer;

Lise Fournel, Senior Vice-President, E-Commerce and Chief Information Officer;

Kevin Howlett, Senior Vice-President, Employee Relations;

David Legge, Senior Vice-President, Operations;

Susan Welscheid, Senior Vice-President, Customer Service;

And

Priscille LeBlanc, Vice-President, Corporate Communications.

The "Map of the Air Canada World" is special, diverse, highly complex yet always evolving. Looking over the last year, there is no doubt that 2008 was one of the most difficult and challenging in the company's history. Still, I want to begin by reminding everyone that despite the economic adversity, there are indeed many accomplishments to celebrate. The glass is, in my opinion, at least half full.

A major achievement was the substantial completion of the Extreme Makeover aircraft refurbishment program. Every seat on every aircraft is being replaced, the interiors refreshed, and an updated look adopted to make Air Canada into a 21st century airline. The centerpiece of this program is the installation at every seat of a personal entertainment system that delivers on-demand, digital quality movies and music.

Air Canada is the only Canadian carrier with a business class product. All of our mainline fleet offers a choice of two cabins and, for our international business class customers, our Executive First cabin now offers industry leading lie-flat suites - providing the ultimate in spaciousness, comfort and privacy. These enhancements have been instrumental in allowing the airline to maintain its share of a dwindling business travel market.

The refurbishment program has propelled us to the forefront of customer service in North America. And put us on par with the best global carriers. This is no idle boast. Late last year the influential travel magazine, *Business Traveler*, gave us three top awards for our service, including "Best North American Airline for International Travel."

During the year, Air Canada also completed most of its fleet renewal program. The airline took delivery of nine Boeing 777 aircraft, and today has 17, with the last one scheduled to arrive later this year. The final three Embraer regional jets also entered the fleet, giving the airline 60 of these fine and efficient aircraft. At year end, Air Canada had 200 aircraft in the mainline fleet, plus another 133 in the Jazz fleet.

One of our greatest strengths lies in the deep partnerships we have formed over the years. Most notably, with the Star Alliance, which is comprised of 21 carriers from around the world. These arrangements make us the leading Canadian carrier in terms of choice and ease of international connections. While giving our customers the ability to accumulate loyalty miles through Aeroplan, one of the world's leading loyalty companies. Air Canada continued to expand and deepen these relationships last year, reaching an important agreement in principle with Continental Airlines for a strategic commercial arrangement in anticipation of its admission to Star Alliance.

This agreement is a cornerstone of a proposed new joint venture on the Atlantic that will also include Lufthansa and United Airlines. Our agreement with Continental and our recently broadened codeshare and Aeroplan agreement with TAM, Brazil's largest airline, are expected to open doors to a host of new destinations and routings in the U.S. and Central and South America.

At the end of the day, however, customers judge and award their loyalty to an airline on the basis of reliable and consistent operations. The purest measure of this is On Time Performance. OTP is really a distillation of all aspects of an airline's operations because it requires all parts of the company working together to keep aircraft on schedule. In 2008, Air Canada reported an OTP for arrivals of 79 per cent, one of the highest among North American carriers by U.S. Department of Transportation standards.

This was achieved while carrying high passenger loads throughout the year. The airline recorded an average load factor of 81.4 per cent on a consolidated basis, including Jazz. That was the fifth consecutive year of annual record load factors which is a reflection of very effective capacity management. Most importantly, we transported our customers safely to their destinations and I would like to reiterate here that at Air Canada safety is and will always be our paramount core value.

One other accomplishment from 2008 I wish to highlight is in the area of corporate social responsibility. Although the recession has to some degree displaced the environment in public discourse, Air Canada remains fully committed to reducing its environmental footprint. New fleet and operational efficiencies enabled us to save 101 million litres of fuel in 2008.

This translates into a reduction of 260,000 tonnes of C02 emissions, or the equivalent of removing more than 65,000 cars from the road for a year.

However, while the glass is indeed at least half full, Air Canada nonetheless recorded a net loss of about $1 billion in 2008.

While passenger revenue rose four per cent from the previous year to $9.7 billion, the sharp escalation in the price of oil increased annual fuel expense by nearly $900 million, or 34 per cent, over 2007. The airline responded with fare increases and fuel surcharges but these were only partially successful in offsetting the huge and rapid spike in fuel cost. Excluding fuel, unit costs rose 1.7 per cent, reflecting higher aircraft ownership costs and the effect of decreased capacity, which left fewer seat miles over which to spread fixed costs.

Today, we released results for the first quarter of 2009 that provide further evidence of this recession's depth. The Company reported an operating loss of $188 million and a net loss of $400 million for the period ended March 31, during which revenue fell by $300 million or 13 per cent to $2 billion. Fundamentally, the industry and we are seeing a very challenging revenue environment.

While fuel has somewhat stabilized – in fact we expect to realize savings of nearly $1 billion on fuel this year – we continue to grapple with a deep and long-lasting recession. Although estimates vary and some economists appear to be jockeying to produce the most pessimistic forecast, the current consensus appears to be that GDP in Canada will fall 2.2 per cent in 2009, an almost unprecedented decrease. Some are now speaking of no meaningful recovery until 2010 and the extent of the impact of the current AH1N1 influenza outbreak is not yet known.

The airline industry is particularly sensitive to the economy. In fact I would say it is the harbinger of the state of the economy - as business travel correlates to business activity and leisure travel is a discretionary purchase. There is a multiplier effect by which travel is negatively affected disproportionately to the GDP decline, meaning airline unit revenues contract at a faster rate than the economy. To give you an example, while the U.S. GDP is projected to fall 3.1 per cent this year, the U.S. airline industry is bracing for revenue declines of 13 to 15 per cent, almost five times the GDP deterioration.

My first day at work was April 1. Since then, we have stayed extremely focused to address Air Canada's immediate priorities and have begun tackling them one at a time.

First and foremost, there is a pressing need to achieve an alternative pension funding solution.

With more than 25,000 employees, Air Canada is the largest transportation employer in Canada and indeed one of the largest private sector employers in the country. As a long-established company with origins as a Crown corporation and 72 years of operation, we also have some 25,000 retirees receiving benefits pursuant to our defined benefit pension plans which provide retirement benefits that are among the very best in the private sector. We are mindful of our obligation to employees and retirees and we are committed to finding a way to maintain our pension plans. Since 2004, the company has contributed more than $1.7 billion toward our pension plans. Yet, despite this significant contribution, the preliminary estimate of the solvency deficit now stands at approximately $2.9 billion. This massive deficit is reduced to approximately $500 million on a so-called "going concern" basis. This assumes the Funds continue indefinitely, which in turn depends on a strong Air Canada. The size of the solvency deficit, of course, has nothing to do with the performance of Air Canada but rather results from historically low interest rates and the decimation of equity markets in 2008.

The Government of Canada recognizes there is a problem with pension plan funding in general and for that reason has begun a national consultation to hear ideas on how to fix the system. Air Canada has joined other large Canadian companies in advocating for meaningful reforms that will make pension funding more predictable and affordable, so our plans will, at the end , be sustainable.

In the interim, we require more immediate action and we have therefore approached our unions for support in finding an alternative funding solution.

The alternative we have proposed calls for a moratorium on funding the deficit so as to establish certainty over the next several years. I have communicated to our unions and our employees that our objective is to maintain the current defined benefit plans without restructuring the pension benefit formula. We have also made it clear that the company's proposal to the unions does not contemplate a transition of the plans to a defined contribution plan design.

Our next priority is labour stability – collective agreements with Air Canada's unions come up for renewal next month and it is critical that all parties work together to ensure the airline navigates through this difficult period.

Third is Liquidity: Overarching all, of course, is the economy. And the question of when we will see the back of this recession and a recovery in business and leisure travel.
For now, we expect significant challenges from the decline in demand in 2009 and liquidity will continue to be a prime concern. Even after the airline's success in raising $641 million last year in the midst of the tightest global credit market in living memory, we will have to raise more financing.

We ended the most recent quarter with $1.1 billion cash on hand and we are discussing with lenders and other financiers new sources of financing. Our longer term goal is to build towards cash reserves closer to 15 per cent of revenue. There is no doubt that the credit markets remain very tight but Air Canada has significant assets of interest to lenders and a number of key corporate and commercial partners that derive benefit and expect to continue to benefit from a financially strong Air Canada. Creative solutions will be required, but I am hopeful we can get there with cooperation from key stakeholders.

Fourth: Cost management will have to be part of this equation. Our unit costs are simply not competitive in many respects and we have to do something about it. Our non-fuel unit costs are significantly higher compared to the major US network carriers'. Unit revenues at Air Canada have always surpassed our competitors' and while premium customers will continue to be a priority for us, we cannot rely on this market segment to fully cover our cost disadvantage.

We need to get the airline's EBITDAR margins to a more competitive and financeable 16% once we see the end of the recession. These are the kinds of margins needed to raise long term equity capital and allow us to produce appropriate returns on investment.

We have already identified more than $250 million in cost reduction opportunities that can be realized by 2011. Over the next two months this cost scrubbing exercise will be extended to all areas of the company and is expected to yield additional savings. An overriding consideration, however, will be the need to safe-guard our brand so we can take advantage of the economic recovery when it comes, which it surely will. This is not about massive layoffs or shrinkage, but about operating in a better, smarter, more effective way with a bench-marked matrix for "Best of Class" while not conceding market share.

Air Canada, together with Jazz, already serves more Canadians and more Canadian communities than any other airline. In both official languages. From coast to coast. Yet it is evident to me that we must get closer to our customers and become even more responsive to their needs. Therefore, as a Fifth Priority, the commercial and operational teams have been given the clear mandate to go and get additional revenue, by raising our award-winning level of service and further securing the loyalty of our customers in the face of increasingly aggressive competition.

Initiatives launched over the last month include a low fare guarantee, which assures customers they are receiving the very best deal for their Air Canada itinerary when they book at aircanada.com. and the elimination of the call centre booking fee. You can expect to soon see many other customer-friendly initiatives, some related to our frequent flyer program with Aeroplan. We have already made it easier than ever to redeem reward miles by making 250,000 more seats available to Aeroplan this year, which serves the triple purpose of raising cash for Air Canada, winning applause from our customers and offering an advantage the competition can't match. Among other things, we will look for ways to leverage our unique Super Elite product and broaden its availability to more customers.

As with our customers, we will also reach out to re-engage our travel trade partners. While the internet, consumer behaviour and other developments have transformed the travel industry's business, its members remain an essential part of the distribution network and an important channel by which we reach our customers. It is our intention to form closer relationships with travel trade partners and while we may not always agree with one another, we will listen and be sure to take their interests into account, seeking to create new value-added opportunities.

We will also put creativity to work to generate new sources of revenue during this downturn. While some contend we should retrench to shrink our way to profitability, that is not the solution and we have no intention to do so. The results of the First Quarter show that with our fixed cost base, this is not possible. The drop in higher yielding business traffic calls for different strategies, for example looking at new route opportunities.

While there has been a lot of attention given capacity reductions at Air Canada, we have actually added new routes domestically, such as Vancouver-Fort McMurray, on transborder routes, such as Calgary to both San Diego and Portland, Oregon, and internationally, such as Montreal to Geneva. In recent weeks we have added frequencies and destinations to our network, including additional flights between Vancouver and China over and above our original plan and three more flights between Toronto and Italy.

For Montreal alone, we will have increased capacity across the Atlantic by 35 per cent this summer. This brings the total destinations served from this city to 50.

The Sixth Priority touches on the organization's culture. One of my goals at Air Canada is to foster a culture where individual initiative and creativity is encouraged and rewarded. Where an empowering "just do it" attitude is embraced by every employee. I am firmly convinced there is a vast wealth of ideas circulating within our employee ranks and it is merely a matter of tapping these creative juices. In fact, we will soon be launching an employee suggestion forum called Creative Juices on ACAeronet, our employee portal.

I also wish to thank shareholders and investors for their commitment to our company, including ACE Aviation, our 75% shareholder. If I may be permitted, I would like to briefly offer some observations with respect to the Air Canada-ACE relationship and perhaps shatter a few myths that have sprung up around it, especially since the recession has taken hold.

When it emerged from financial restructuring in September 2004, the "old" Air Canada constituent parts were reorganized as separate business entities.

These included Air Canada, its regional feeder Jazz, its frequent flyer program Aeroplan, and its maintenance unit, now known as Aveos. ACE purchased these subsidiaries at fair market value from Air Canada, based on independent valuations.

The upshot is that Air Canada received $2.2 billion for its former subsidiaries. This money was then used to help pay for 76 new aircraft -- the 60 Embraer and 16 Boeing 777s of which I spoke earlier -- and other investments in the company including the extensive refurbishment program. Without these asset spin-offs Air Canada could not have renewed its fleet and would have been left in an untenable and uncompetitive position, coming out of its restructuring.

An interesting side note to this arrangement is that it effectively enabled Air Canada to also meet its pension obligations in full, pursuant to the arrangements reached with OSFI and the unions. As mentioned, since 2004, the company has contributed over $1.7 billion into its pension funds.

I have always believed that the key to success is to look ahead with eyes wide open to focus on what is constructive. Taking small incremental steps but quickly, steadily and confidently. During these turbulent times, it is more important than ever that our gaze be fixed forward to avoid potential pitfalls and to find new opportunities.

There is no doubt that Air Canada and our industry are being tested by this deep and unrelenting recession. It has decimated the equity and credit markets; it has created a massive solvency deficit for us; it has wiped out billions of dollars airline revenues in North America. However, your company has a wealth of attributes to carry it through the downturn and seize upon the inevitable economic recovery. We possess a new fleet, the country's best domestic and global network, well-situated hubs, one of the world's best customer loyalty programs, and strong and growing partners in Star Alliance who will help in expanding our Map of the World.

Most importantly, we have devoted and professional employees who are committed to the company's long term success. The feedback I have received from across all ranks of the company from all divisions and far-reaching corners of our network over the past weeks is very encouraging – they take personal pride in being part of Air Canada and simply want the tools and the means to offer the best possible service. I want to say a most heartfelt “thank you” to our employees for their ongoing loyalty and hard work.

Often from adversity comes the greatest strength. With your support and cooperation, we can focus on the future and position our great airline for sustainable success. I am confident that the best is yet to come.

I’m looking forward to seeing you again next year for an update on our progress.

Thank you.