



Good morning ladies and gentlemen and welcome to the 2011 Annual and Special Meeting of Air Canada shareholders.

For those of you who have travelled from out of town to attend our meeting let me offer you a warm welcome to Montreal. To those joining us virtually via webcast, I extend greetings. To all, I wish to say thank you for taking time to be with us today.

Next year, Air Canada will be celebrating its 75<sup>th</sup> birthday and I am especially pleased to see many of those who have contributed to our rich heritage in the room including two former CEOs of Air Canada - Claude Taylor and Pierre Jeannot. We also have with us a number of representatives from our partners including Aeroplan, Jazz and Aveos as well as our unions.

I would also like to introduce several of our key executives who are with us as well:



➤ Duncan Dee  
– Executive  
Vice-President &  
Chief Operating  
Officer

Duncan Dee, Executive Vice-President & Chief Operating Officer,



➤ Benjamin Smith  
– Executive  
Vice-President &  
Chief Commercial  
Officer

Benjamin Smith, Executive Vice-President & Chief Commercial Officer,



✈ Lise Fournel  
– Senior  
Vice-President,  
E-Commerce &  
Chief Information  
Officer

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



➤ Kevin Howlett  
– Senior  
Vice-President,  
Employee  
Relations

The image is a presentation slide for Kevin Howlett. It features a professional headshot of a middle-aged man with glasses and a mustache, wearing a dark suit, light blue shirt, and patterned tie. To the right of the photo is a red maple leaf logo. Below the photo and logo, the text identifies him as Kevin Howlett, Senior Vice-President, Employee Relations. The slide has a light blue background with a pattern of small white circles and a red border at the bottom.

Kevin Howlett, Senior Vice-President, Employee Relations,



➤ David Legge  
– Senior  
Vice-President,  
Operations

The image is a presentation slide for David Legge. It features a portrait of David Legge on the left, a Canadian flag logo in the top right, and his name and title on the right. The slide has a light blue background with a pattern of small circles and a red border at the bottom.

David Legge, Senior Vice-President, Operations





✈ Susan Welscheid  
– Senior  
Vice-President,  
Customer Service

The image is a professional headshot of Susan Welscheid, a woman with short brown hair and glasses, wearing a red blazer over a white collared shirt. She is smiling and has a small silver maple leaf pin on her lapel. The photo is set within a white-bordered frame on a light blue background with a subtle pattern of white circles and stars. To the right of the photo is a red maple leaf logo inside a red circle. Below the photo and text is a solid red horizontal bar.

Susan Welscheid, Senior Vice-President, Customer Service



✈ Nick Careen  
– Vice-President,  
Airports

The image is a presentation slide. On the left is a portrait of Nick Careen, a man with dark hair, wearing a brown suit jacket, a dark shirt, and a patterned tie. To the right of the portrait is a light blue background with a faint pattern of circles and stars. In the top right corner of this area is a red maple leaf logo inside a red circle. Below the portrait and text is a red horizontal bar with a pattern of red circles.

Nick Careen, Vice-President, Airports,



✈ Yves Dufresne  
– Vice-President,  
Alliances,  
International  
Operations and  
Regulatory Affairs

Yves Dufresne, Vice-President, Alliances, International Operations and Regulatory Affairs,



➤ Marcel Forget  
– Vice-President,  
Network Planning

The image is a presentation slide. On the left is a portrait of Marcel Forget, a man with dark hair, wearing a dark suit, a light blue and white striped shirt, and a brown patterned tie. To the right of the portrait is a light blue background with a faint pattern of circles and stars. In the top right corner of this area is a red maple leaf logo inside a red circle. Below the portrait and text is a red horizontal bar with a pattern of red circles.

Marcel Forget, Vice-President, Network Planning,



✈ Lucie Guillemette  
– Vice-President,  
Revenue  
Management

The image is a presentation slide for Lucie Guillemette. It features a professional headshot of her on the left, wearing a brown blazer and a pearl necklace. To the right of the photo is a light blue background with a pattern of faint white circles and stars. In the top right corner of this area is a red maple leaf logo inside a red circle. Below the text is a red decorative border with a pattern of white circles.

Lucie Guillemette, Vice-President, Revenue Management



➤ Chris Isford  
– Vice-President and  
Controller

The image is a presentation slide. On the left is a portrait of Chris Isford, a man with glasses, wearing a dark suit, light blue shirt, and patterned tie. To the right of the portrait is a light blue background with a faint pattern of circles and stars. In the top right corner of this area is a red maple leaf logo. Below the portrait and text is a red horizontal bar with a pattern of red circles.

Chris Isford, Vice-President and Controller,



→ Amos Kazzaz  
– Vice-President,  
Financial Planning  
and Analysis

Amos Kazzaz, Vice-President, Financial Planning and Analysis,



➤ Craig Landry  
– Vice-President,  
Marketing

The image is a presentation slide for Craig Landry. It features a professional headshot of a man in a dark suit, white shirt, and patterned tie. To the right of the photo is a red maple leaf logo inside a circle. Below the photo and logo is a red decorative bar with a pattern of white circles. The background of the slide is light blue with a pattern of white circles.

Craig Landry, Vice-President, Marketing,



✈ Priscille Leblanc  
– Vice-President,  
Corporate  
Communications

The image is a professional headshot of Priscille Leblanc, a woman with short blonde hair, wearing a black pinstriped blazer over a light pink collared shirt and a pearl necklace. The photo is set within a white-bordered frame on a light blue background with a subtle pattern of circles and stars. To the right of the photo is a red maple leaf logo inside a red circle. Below the photo and text is a red horizontal bar with a pattern of red circles.

Priscille Leblanc, Vice-President, Corporate Communications



➤ Scott Morey  
– Vice-President,  
Labour Relations

The image is a presentation slide. On the left is a portrait of Scott Morey, a bald man in a dark suit and red tie. To the right of the portrait is a light blue background with a pattern of faint white circles and stars. In the top right corner of this area is a red maple leaf logo inside a red circle. Below the portrait and text is a red horizontal bar with a pattern of white circles.

Scott Morey, Vice-President, Labour Relations,



→ Claude Morin  
– Vice-President,  
Global Sales

The image is a presentation slide for Claude Morin. It features a professional headshot of a middle-aged man with dark hair, wearing a dark suit, white shirt, and a patterned tie. The photo is set within a white-bordered frame on a light blue background with a subtle pattern of circles and stars. To the right of the photo is a red maple leaf logo inside a red circle. Below the photo and logo, the text '→ Claude Morin' is followed by '– Vice-President, Global Sales' on two lines. The slide has a red decorative border at the bottom.

Claude Morin, Vice-President, Global Sales,



✈ Zeina Gedeon  
– President & CEO,  
Air Canada  
Vacations

The image is a presentation slide for Zeina Gedeon. It features a portrait of her on the left, a red maple leaf logo in the top right, and her name and title on the right. The background is light blue with a pattern of white circles and stars, and a red bar at the bottom.

Zeina Gedeon, President & CEO, Air Canada Vacations



✈ Lise-Marie Turpin  
– Managing  
Director, Cargo

The image is a presentation slide for Lise-Marie Turpin. It features a portrait of her on the left, a Canadian flag logo in the top right, and her name and title on the right. The slide has a light blue background with a pattern of small circles and a red border at the bottom.

Lise-Marie Turpin, Managing Director, Cargo.

They will be pleased to speak with you following the meeting.

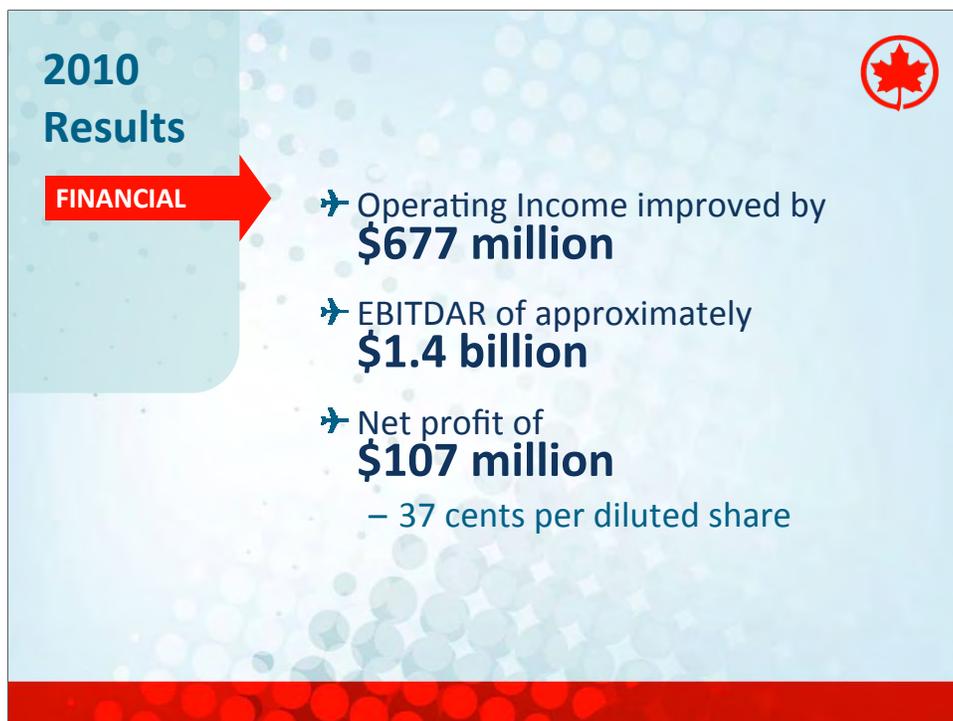


It is truly a special pleasure to stand before you today because we had a great deal to be proud of in 2010 and we have come a long way since the depths of 2009. We made significant strides on both the financial and operational fronts during the year and we achieved much success in each of the company's priority areas. Having also just released our financial results for the first quarter of 2011 this morning, I can also tell you that while fuel and other factors continue to take their toll on us, we are moving the company forward in a positive direction.

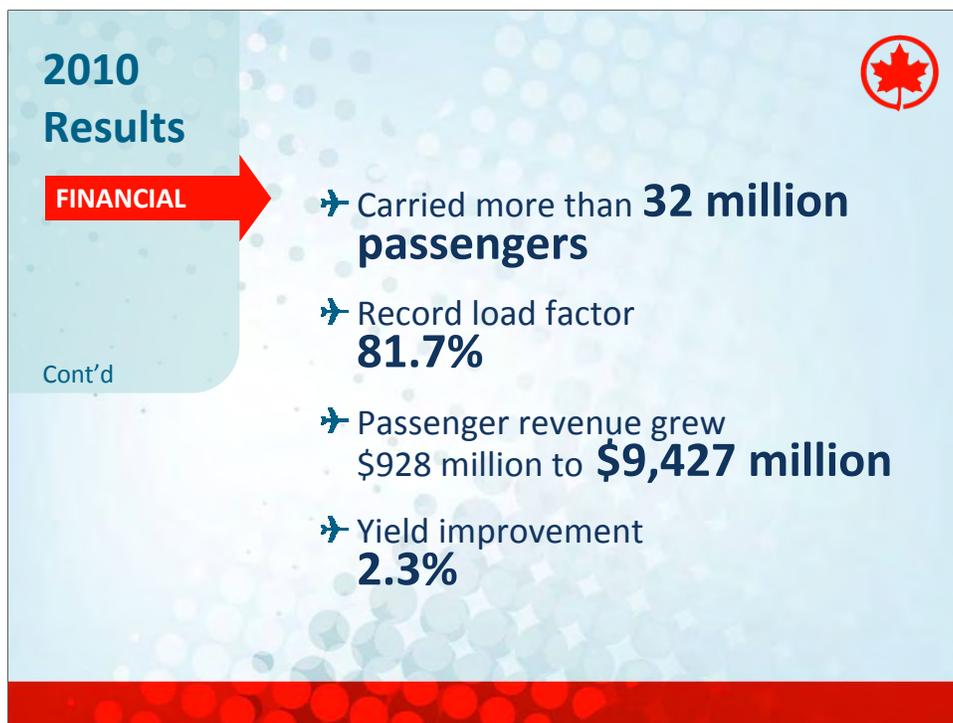


Let me begin by putting our 2010 results in context. After the biggest demand decline worldwide in the history of aviation in 2009, people started to travel and do business again last year. IATA estimates the industry earned \$16 billion in net profit last year, but only after losing a total of nearly \$20 billion in the two previous years.

Even with the sharp earnings turnaround, industry profit margins were less than 3% in 2010, somewhat feeble for a so-called recovery year. This underscores what a challenging business this is -- even when times are good.



In 2010, our operating income improved by \$677 million over 2009. We recorded EBITDAR of approximately \$1.4 billion. That is more than double that of 2009 and the highest in Air Canada's history. And importantly this is one of the main valuation benchmarks for airlines. We reported a profit of \$107 million or 37 cents per diluted share. This reverses a net loss of \$24 million or 18 cents per share a year earlier.



We carried more than 32 million passengers during the year and we had a record load factor of 81.7 per cent. Passenger revenue grew \$928 million or 1.9 per cent on 8.3 per cent higher traffic, resulting in a 2.3 per cent yield improvement.



**2010 Results**

**FINANCIAL**

Cont'd

- ✈ RASM increased by **3.6%**
- ✈ Strong RASM performance
  - Best operating revenue per available seat mile in North America
  - Stock price improved from \$1.26 to \$3.45 = **174%** return

With the stronger yield and higher load factor, our unit passenger revenue or RASM increased 3.6 per cent last year. This put Air Canada first among North American legacy carriers and our Canadian competition in terms of operating revenue per available seat mile.

It was evident the financial community liked these results. Air Canada's stock price improved dramatically during the year from \$1.26 on the first trading day of 2010 to \$3.45 on the last trading day of the year, nearly tripling. That was an annual return of 174 per cent.

We focused on our finances. We focused on our customers. We focused on our operational performance.



The slide features a light blue background with a pattern of small, semi-transparent circles. In the top right corner is the Air Canada logo, a red maple leaf inside a red circle. On the left side, there is a dark blue vertical bar containing the text '2010 Results' in white. Below this bar is a red arrow pointing right with the word 'OPERATIONAL' in white. The main content area contains a list of operational achievements. At the bottom right, there is a white box with the text 'Safety First' in red. The bottom of the slide has a red decorative border with a pattern of larger, semi-transparent circles.

## 2010 Results

**OPERATIONAL**

- ✈ **More flights and passengers** without adding one aircraft
- ✈ Summer 2010
  - **3,700** more flights
  - Cancelled 500 fewer flights
  - Flew **400,000** more customers

**Safety First**

In 2010 Air Canada posted some strong operational results with more flights carrying more passengers without adding one airplane to our fleet. Last summer, for example, using the same fleet, we operated 3,700 more flights than the previous year, cancelled 500 fewer flights and flew 400,000 more customers.

Most importantly, we did this with our collective attention firmly focused on safety, which is always our fundamental, core value. For this and our positive results during the year, I want to thank the many of our 26,000 employees who went “above and beyond” and express my gratitude for their hard work and commitment through the many challenges of 2010.



## Corporate Priorities

- ✈ Stayed **focused** on priorities
- ✈ Work in **progress**

We continue the drive for an Air Canada that is **sustainably profitable**  
for the long term

When I spoke to you last year, I described our many intertwined challenges of 2009 as a complex Rubik's Cube. And for 2010, we identified a focused number of priorities. Four Priorities, not 400. We followed through on those promises and pursued those priorities vigorously. Yet the transformation of our 75 year old company is a work in progress and so for 2011 we remain focused on our commitment to those priorities as we continue the drive for an Air Canada that is sustainably profitable for the long term.



## Corporate Priorities

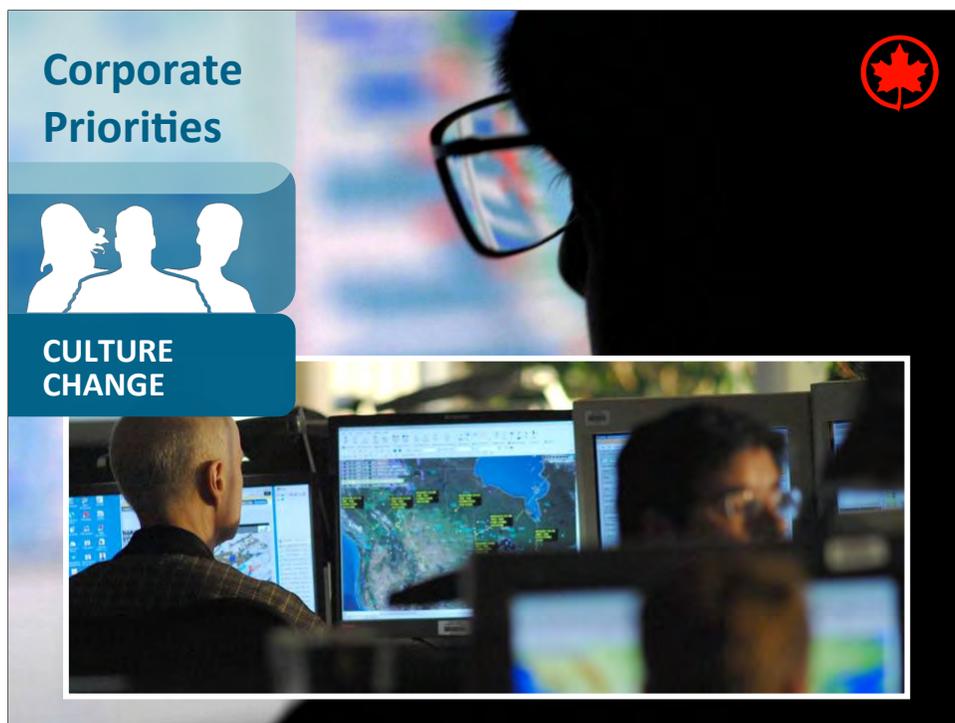


### CULTURE CHANGE

- ✈ More nimble
- ✈ Entrepreneurial spirit valued
- ✈ Individual initiative rewarded
- ✈ People encouraged to work together and share ideas
- ✈ Collaboration is key

There is a saying attributed to Ghandi that to change the world you must start by changing yourself. In this spirit, we have recognized that in order to change Air Canada's world we had to begin by changing our corporate culture. Our aim is to create a more nimble company where entrepreneurial spirit and performance are valued, where individual initiative is rewarded and where people are encouraged to work together and share ideas.

Collaboration is also key. We are already seeing positive results as silos dividing branches are coming down, fostering a more holistic approach to problem solving with the end result that our customers are better served.



Illustrative of this are the changes at our Systems Operations Control centre. It was redesigned to include representatives from maintenance, customer service, call centres and other branches to encourage input from all parts of the organization during irregular operations brought on by things like extreme weather or extraordinary events. Our entire operation is better coordinated as a result. To give but one important example, our baggage performance has vastly improved.



The slide features a light blue background with a pattern of small, semi-transparent circles. On the left, there is a dark blue vertical bar containing the text 'Corporate Priorities' at the top, a white silhouette of three people in conversation in the middle, and the text 'CULTURE CHANGE' at the bottom. To the right of this bar, the text 'New training courses for managers' is followed by two bullet points: '- Continuous improvement' and '- Change management'. Below these, the text 'Just Do It attitude' is preceded by a small airplane icon. In the upper right corner, there is a large blue 'U' logo and a red maple leaf icon inside a red circle. A red decorative border with a circular pattern is at the bottom of the slide.

**Corporate Priorities**

**CULTURE CHANGE**

- ✈ New training courses for managers
  - Continuous improvement
  - Change management
- ✈ Just Do It attitude

Culture Change will remain a priority this year. We have instituted a new leadership program for managers referred to as AC U. The focus will be on continuous improvement and change management, with best practices drawn from other successful companies such as Nissan. It provides MBA-style training in a very cost-effective manner.

At all levels of the company, other measures are also being taken to foster a sense of ownership and a Just Do It attitude.



**Corporate  
Priorities**

**CULTURE  
CHANGE**

- ✦ Performance rewarded
  - Over \$51 million to front-line employees
  - Approximately \$13 million in shares granted to eligible employees

In order to reinforce the link between corporate performance and individual reward, we distributed over \$51 million to front-line employees alone in 2010 in extraordinary bonuses. This included a special one-time Employee Recognition Award of approximately \$13 million in the form of share grants to eligible employees in order to encourage proprietary interest in the company by making them truly owners.



**Corporate Priorities**

*Corporate social responsibility*

**Community Investments**

- ✈ Works in partnership with various children's organizations
- ✈ Supports the **Hospital Transportation Program**
  - 15 paediatric hospitals receive Aeroplan Miles to fly a child and parent for medical treatment

**CULTURE CHANGE**

One way a corporate culture reveals itself is in how it meets its corporate social responsibilities. Moreover CSR is rapidly becoming a driver of corporate performance and value creation. Also we seek to support our employees in their eagerness to help others, whether that help is needed across town or across the world.

Through our community investment program, we support and work in partnership with charities and non-profit organizations that focus primarily on the well-being of children.

We also support a unique Hospital Transportation Program: 15 Canadian paediatric hospitals receive Aeroplan miles to fly a child and parent (when the family can't afford the cost of air travel) for medical treatment not available in the child's community.

In addition, we also contributed to the fundraising efforts of a wide-range of national and local or grass-root charities.

**Corporate Priorities**

*Corporate social responsibility*

**Community Investments**

- ✈ Six relief flights to Haiti
- ✈ Helping KANPE organization to raise \$2 million

**CULTURE CHANGE**

**KANPE**  
HAITI REBUILDS ONE VILLAGE AT A TIME.

In 2010 we operated six relief flights to Haiti following the earthquake on the island. These flights were crewed by volunteers while thousands more of our people donated time and money to fundraising for relief efforts. We have now partnered with the agency KANPE – which means “Stand Up” in Creole – helping the organization in its goal to raise \$2 million for a comprehensive program for the most vulnerable families in the village of Thomonde in Haiti.

**Corporate Priorities**

*Corporate social responsibility*

**Environmental programs**

✈️ Aircraft weight reduction  
– Increased fuel efficiency by 30% since 1990

**CULTURE CHANGE**

**Immediate goal** > to improve fuel use by another 25% by 2020

**Future goals** > to reduce CO<sub>2</sub> emissions by 50% by 2050

As for our carbon footprint, while airlines are heavy consumers of jet fuel, we have kickstarted various environmental programs at the company. Through new aircraft initiatives such as our aircraft weight reduction program and other fuel management initiatives Air Canada has increased fuel efficiency by 30 per cent since 1990. To do this, we took measures such as flying on more direct navigational flight paths to reduce engine-use intensity and we acquired lighter cargo containers expected to save us 2.8 million kilograms of fuel and reduce carbon emissions by 9,000 metric tonnes a year. Our goal is to improve fuel use by another 25 per cent by 2020 and we have further pledged to reduce CO<sub>2</sub> emissions by an ambitious 50 per cent from 2005 levels by the year 2050.

**Corporate  
Priorities**

**Employee engagement**

✈ Significant progress  
– 20% improvement

**CULTURE  
CHANGE**

No one underestimates the Herculean task of undertaking a major overhaul of a corporate culture in a legacy corporation such as Air Canada. What we are striving for will not take place overnight. But we are making significant progress. A recent independent survey found a 20 per cent improvement in our employees' engagement last year over the two years prior.

**Corporate  
Priorities**



**CULTURE  
CHANGE**

✈️ **9/12** months in 2010 our employees **beat** our Customer Satisfaction Index **targets**





There are many anecdotal indicators of this increased employee engagement. In Calgary employees designed and entered an Air Canada float into the Stampede parade for the first time and took home the award for most popular float! In Vancouver employees organized a flashdance mob in the airport at the height of Christmas pressures. But perhaps most importantly, in nine of 12 months in 2010 our employees beat our Customer Satisfaction Index targets, a direct measure of how well we met and exceeded our customers' expectations.



The graphic features a light blue background with a pattern of small, semi-transparent circles. On the left, there is a dark blue vertical bar with the text 'Corporate Priorities' at the top, a white checkmark icon inside a speech bubble, and 'CUSTOMER SERVICE' at the bottom. To the right of this bar, the text reads: '✈ Air Canada is the preferred airline of 71% of Canadian Business Travellers' followed by '– 3rd year of improvement'. A red maple leaf logo is in the top right corner, and a blue checkmark icon on a notepad is on the right side. A red decorative bar with a pattern of circles is at the bottom.

**Corporate Priorities**

✈ Air Canada is the preferred airline of 71% of Canadian Business Travellers

– 3rd year of improvement

**CUSTOMER SERVICE**

This brings me to our second priority, improving customer service and leveraging the reputation of our strong brand. Customers have been noticing that we have raised our game and we constantly receive emails and Tweets complimenting our staff who go the extra mile, doing such things as running through airports to return forgotten phones or papers and showing extra sensitivity when travel issues arise. An Independent Ipsos-Reid survey found that Air Canada is the preferred airline of 71 per cent of Canadian Business Travellers, the third consecutive year of improvement in Air Canada's ratings in this national survey.

## Corporate Priorities



CUSTOMER  
SERVICE

## Best Airline in North America



✈ Awards

- Best Flight Attendants in North America,
- Best In-flight Services in North America,
- Best North American Airline for Business Class Service,
- Best North American Airline for International Travel
- Best Airline Web Site.



Best Flight Attendants in North America  
Best In-Flight Services in North America  
Best North American Airline for Business Class Service  
Best North American Airline for International Travel  
Best Airline Web Site



Best Airline in North America



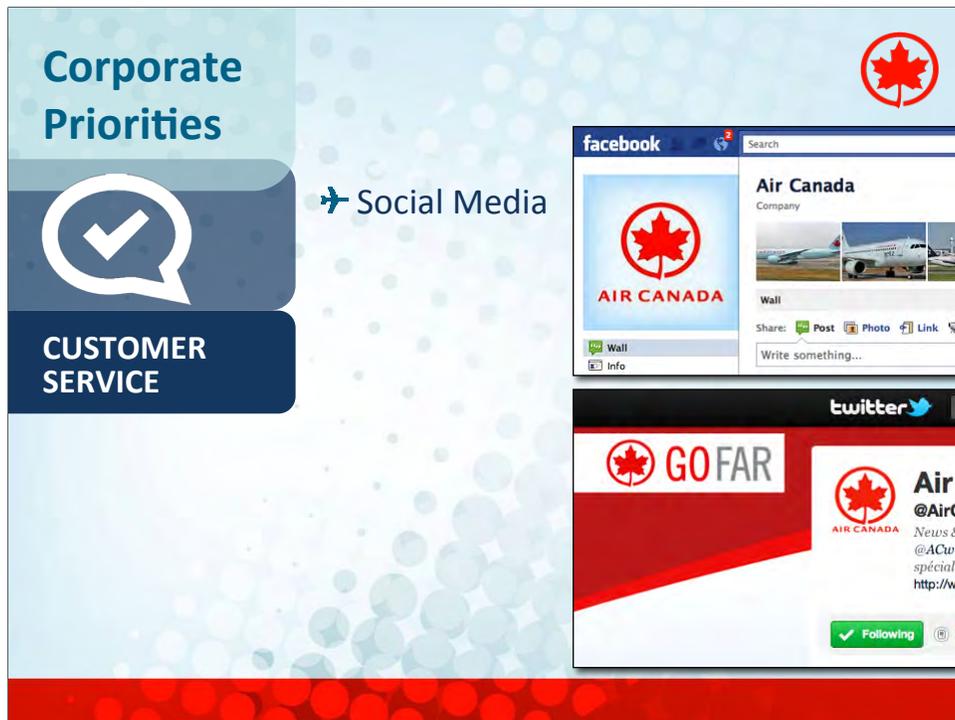
Best Airline North America

We also won numerous industry awards in 2010. These included Best Airline in North America from both the Skytrax World Airline Awards and Global Traveler Magazine. In addition, Business Traveler magazine recognized Air Canada with five awards, the most of any carrier in the world, for the second consecutive year. These included:

Best Flight Attendants in North America,  
Best In-flight Services in North America,  
Best North American Airline for Business Class Service,  
Best North American Airline for International Travel  
and Best Airline Web Site.

These awards were not accidental. They were earned and well-deserved. Part of our success is due to our commitment to improve communication with our customers.

As our Best Airline Web Site award shows, we are an industry leader in using technology to communicate with our customers. Our online and mobile services are cutting edge and we continue to add new functions to our airport kiosks.



Additionally, we have moved aggressively into social media via channels such as Twitter and Facebook to interact with our customers and respond in real time.

We are not perfect – not yet – but we have shown our customers that we can compete with the best in breed.



I have always believed that Air Canada is one of Canada's great global brands – there is a certain pride that is automatic when we see our Maple Leaf in China, in Peru, in London. And I find that what most engages, excites and instills pride in both our employees and our customers is the fact that Air Canada is a strong international airline. This is why our third priority must remain building on our position as an international powerhouse.

Along with Canada's advantageous geographic location, Air Canada has a vast network supported by a wide array of bilateral authorities that enable us to fly virtually anywhere in the world. Last year, we launched new routes to Copenhagen, Brussels, Barcelona, Athens and Geneva. We have added new service to Rome and Mexico City from Montreal and Vancouver. Virtually all these flights returned double-digit margins.



After increasing an amazing 22 per cent last year, our Pacific traffic is already up another 16 per cent year-over-year in the first quarter of 2011 and this summer we will be flying more than 60 flights a week on 10 routes between Canada and five major Asian cities.

Put another way, we have invested and are deploying more than \$2 billion in aircraft assets exclusively to our Asian routes. Imagine any manufacturer building a \$2 billion factory in China. That size investment would be a major deal and certainly would get everyone's attention. And while aviation services are different from bricks and mortar, the financial commitment is the same, arguably more daunting with the fragile airline game. The dedication of such significant resources to one market demonstrates we are serious about serving this important market through our Toronto and Vancouver global gateways.



The slide features a light blue background with a pattern of white and light blue circles. On the left, there is a vertical sidebar with a dark red header 'Corporate Priorities' and a dark red section containing a white globe icon with an airplane and the text 'INTERNATIONAL POWERHOUSE'. A red maple leaf logo is in the top right corner. The main content area lists 'Star Alliance' with four bullet points. At the bottom right, the 'AIR CANADA' logo and 'A STAR ALLIANCE MEMBER' text with a small star icon are displayed. A red decorative bar with a bubble pattern is at the very bottom.

## Corporate Priorities

- ✈ Star Alliance
  - 27-member
  - Largest and most extensive alliance
  - 1200 airports
  - 180 countries

**AIR CANADA**   
A STAR ALLIANCE MEMBER 

We have also learned about the exponential power of partnership. We are supported in our international initiatives by the 27-member Star Alliance, the largest and most extensive alliance of its kind in the world. Through Star we can seamlessly connect passengers with carriers that fly to nearly 1,200 airports in 180 countries, vastly expanding our international product offerings while at the same time feeding our domestic network with inbound traffic to Canada drawn from all over the world.



To further boost the benefits of Star we have formed a new Atlantic revenue-sharing alliance with our partners Lufthansa and United Airlines that we call A++. We sell seats on one another's flights and share revenue to Europe and over the Atlantic as if we were one large airline with a single network. In effect, we strive for "metal neutrality", so that over time we will become indifferent as to which carrier is flown over the Atlantic as long as it is one of the three.

Last year, we announced a similar venture in the Canada-U.S. market with United and we are currently awaiting regulatory approvals. We believe this agreement can be transformative because while we presently fly to 59 U.S. cities, United flies to 210 U.S. airports. You can easily see how this has the potential to broaden the range of routings and destinations we will now be able to offer customers.

**Corporate Priorities**

**INTERNATIONAL POWERHOUSE**

→ YYZ – Building a global hub

– Smooth transit for **connecting customers** and their baggage

Taken together, the Star Alliance, Atlantic ++ and our proposed cross-border venture with United will reinforce yet another prong of our international strategy, which is to make Canada a global air transport hub. As I said, Canada's geography puts it at a cross-road of international travel. In addition to strong hubs in Vancouver and here in Montreal, our main hub and gateway of Toronto serves as the key pivot point for this high-yielding connecting traffic. Building a global hub requires service, network and geographic location and in Toronto we have all three.

The Greater Toronto Airport Authority has made several improvements to help us achieve this goal, including terminal investments and improved logistics and infrastructure to capture connecting traffic. Most importantly, all our operations and those of our Star partners, now operate under a single roof, thereby facilitating transfer traffic.

Connections are seamless and crossing international borders is virtually as easy as transiting from a domestic to an international flight. New baggage rules will soon be implemented to smooth the transit of connecting customers who will no longer be required to retrieve their baggage for entry into the U.S.



Our Toronto hub is located in the heart of one of the most populous regions of North America. It is in the centre of a large catchment area of potential customers and, as one of the most multi-cultural cities in the world, Toronto is also a destination for large numbers of business and leisure travelers.

Remarkably, a quarter of Canada's total population is located within 160 km of Toronto and its airport is within a one-day drive or a short-haul flight for 150 million people -- more than 40 per cent of the U.S. population.

**Corporate Priorities**

**INTERNATIONAL POWERHOUSE**

- ✈ Toronto Pearson Airport – Centre of catchment area
  - Shorter flight times to Pacific
  - Better weather
  - Less traffic congestion

**“It’s a good strategy. It’s just a matter of educating travel buyers.”**

M. Cardella, director of air consulting, BCD Travel in Wall Street Journal (May 3, 2011)

Flight times from Toronto to Tokyo or Beijing, for example, are shorter or the same as from the major U.S. eastern hubs such as New York and Chicago. In addition, Toronto has better weather and none of the air traffic congestion that often disrupts travel in many parts of the U.S. So Toronto can and does compete, not only with leading North-Eastern American hubs, but with the gateway airports of the world. There is no reason it cannot rival other major international hubs, including Amsterdam, Singapore, Atlanta and even Dubai, which all attract levels of air passenger traffic that are many multiples of what the local population alone can generate.

Already, we have had significant success exploiting these attributes to market Toronto in the U.S., particularly to those passengers who must connect from secondary U.S. cities for international flights. We saw this traffic, which tends to be higher-yielding, grow by more than 100 per cent over 2009 and we believe we can capture much more incremental global flow traffic, which connects from international flight to international flight. We are starting to see some returns from the significant investments we have made over time both in the development of the Toronto airport and the building of our global network.

Of course none of these priorities will matter very much for either shareholders or employees if Air Canada cannot make money on a sustainable basis.



The slide features a light blue background with a pattern of small, semi-transparent circles. On the left side, there is a vertical stack of three colored boxes: a light blue box at the top with the text 'Corporate Priorities', an orange box in the middle containing a white icon of a dollar sign inside a triangle with arrows, and a darker orange box at the bottom with the text 'COST TRANSFORMATION'. To the right of these boxes, the text 'Challenge to compete against Low Cost Carrier dynamic' is displayed in a dark blue font, with a small blue arrow icon to its left. Below this, the text '- No legacy obligations' is shown in a lighter blue font. In the top right corner of the slide, there is a red maple leaf logo inside a red circle. The bottom of the slide is a solid red bar.

**Corporate Priorities**

**Challenge to compete against Low Cost Carrier dynamic**

- No legacy obligations

**COST TRANSFORMATION**

This brings us to the fourth major priority for our company, Cost Transformation.

Like all legacy carriers, Air Canada faces an extraordinary challenge competing against the low cost carrier dynamic. LCCs have sprouted up everywhere in the world endowed with such advantages as no debts, no pension plans, no collective agreements, no bad legacy habits and typically enjoying a 30-40 per cent cost advantage over incumbents.

**Corporate Priorities**

- ✈ Unit cost fell 4.5%
- ✈ On track for \$530 million
- ✈ 125 initiatives

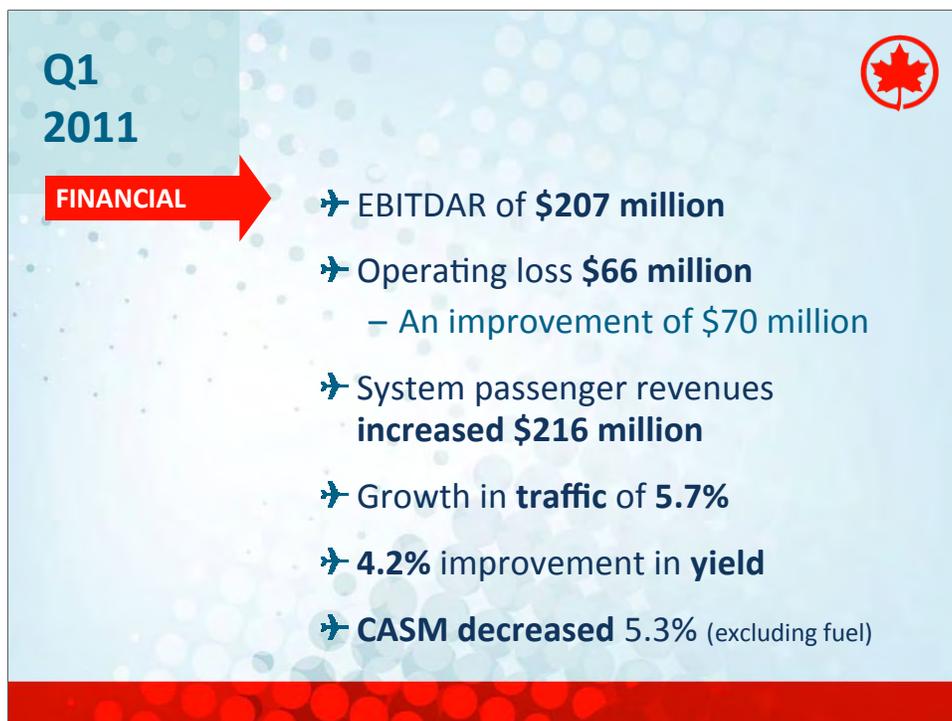
**COST TRANSFORMATION**

**Needed for sustainability**

In response to this challenge, we launched our Cost Transformation Program in 2009. It was originally aimed at achieving \$500 million in sustainable annual cost and revenue improvements by the end of 2011. In 2010, unit costs, excluding fuel, fell 4.5 per cent from the prior year, and we are on track to hit \$530 million in annual recurring improvement by the end of 2011.

These gains are being achieved through some 125 specific initiatives including redesigning processes, mutually reworking contracts with suppliers and finding new sources of revenue – no wage or benefit reductions were sought. We have further committed that we will maintain this cost discipline even at the expense of growth. We have resisted the urge to add aircraft to our fleet and we will not do so unless we have a compelling business case for new aircraft growth and a competitive cost structure.

Having achieved the first phase of our cost transformation, our efforts are now changing to focus on more complex cross-branch processes for cost savings, including through the use of new technology. Ultimately, we aim to imprint an obsession with cost control within our DNA and make it a permanent feature of a sustainably profitable Air Canada.



As we move through 2011, we will retain our sharp focus on these four key priorities. Today, we released our results for the first quarter of the year.

We recorded EBITDAR of \$207 million, an increase of \$57 million from the first quarter of 2010. While we reported a first quarter operating loss of \$66 million compared to an operating loss of \$136 million in the first quarter of 2010, this represents a \$70 million improvement. System passenger revenues increased \$216 million or 10.3 per cent from the first quarter of 2010 on 5.7 per cent growth in traffic and a 4.2 per cent improvement in yield. Excluding fuel expense, CASM decreased 5.3 per cent year-over-year.

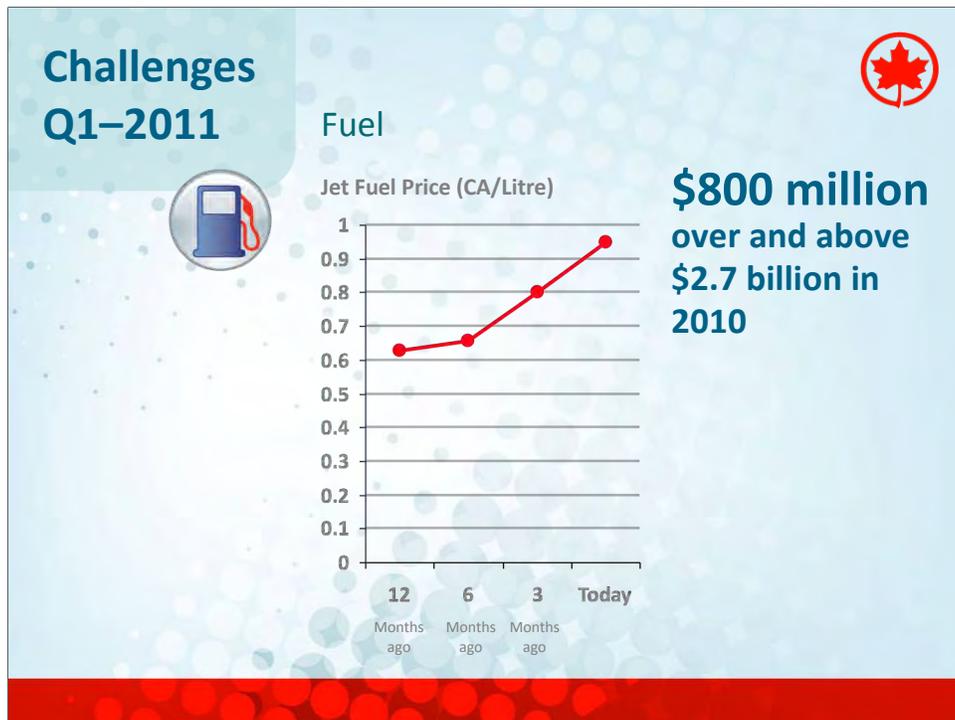


**Q1  
2011**

→ **Positive momentum**

- Focus on our  
**corporate  
priorities**

Although the first quarter is historically weak due to seasonal factors, these results are evidence that the positive momentum of last year has continued into 2011 and we continue to improve our performance year over year. This is critical as numerous challenges have emerged that threaten to upset both our company's and our industry's fragile recovery.



The first of these is the price of fuel, which is estimated to add \$800 million to our costs in 2011 over and above our already \$2.7 billion of fuel costs in 2010.

## Challenges

Pension obligations

- \$2.1 billion deficit
- \$320 million in payments 2011
- \$550 million in payments by 2014

Second, there are our pension obligations.

As of January 1 this year our pension deficit stood at \$2.1 billion based on preliminary estimates. While this is a decrease of more than \$600 million from a year earlier based on a strong performance of the Fund in 2010, it continues to represent an unsustainable burden in the medium and long term for the company. In 2010, the Company paid \$180 million into its domestic registered pension plans and with the expiry last December of a moratorium on past service payments, assuming no change to current deficit levels, we are now looking

at \$320 million in payments this year. Moreover, by 2014 for example, Air Canada could be required to make \$550 million of payments for both current and past service



## Challenges

Labour

- ✈ Foundation of mutual respect and understanding
- ✈ Shared financial information
- ✈ Impact on stock price

Our third challenge is the status of our labour negotiations. We have expended significant effort over the past few years attempting to build a foundation of mutual respect and understanding with our unions. Through regular quarterly meetings we have transparently shared financial information and plans.

As many of the investors and industry analysts here today like to remind me, union negotiations are a drag on stock price, a risk to future bookings – and in the view of some people, a liability. However, despite the normal give and take one can expect in any contract negotiation, I am confident we can reach mutually beneficial agreements with all our labour groups.

For our part, I have encouraged management to view the union leadership as strategic partners rather than adversaries in the belief this will position us to work together to forge a better company for everyone. We must acknowledge that union leaders, many of whom are here today, have a duty to represent employee interests just as we have a fiduciary duty to our shareholders and other stakeholders as well as to our employees. This should create a respectful dialogue that will result in a stronger Air Canada, which is in everyone's long-term interest.

I believe that we have shown over the past two years what we can achieve and how quickly we can achieve it when we all work together. It may be wishful thinking when I say that we can avoid 70's style labour negotiations, rhetoric and tactics – be they slogans, wrist bands, videos, rallies, book-offs, work-to-rule campaigns, etc. We have worked hard to be transparent with labour over the last two years, and I am hopeful that this will translate into responsible decision-making during labour negotiations – so that everyone's hard work does not end up for naught.



## Challenges

### Competition

- ✈ Low Cost Carriers (LCC) enjoy 30%-40% advantage
- ✈ International competition from state-owned carriers
- ✈ Rates and charges restrict growth

A fourth challenge is competition. As I mentioned, competitors with lower cost structures are pressing us on every front – domestically, on the transborder, to sun destinations, internationally. In addition, we face challenges in international markets from full service airlines, some of whom are supported by governments in their home markets. While competition is normal and healthy, it is imperative that Air Canada not be prevented from competing on even terms by either its own legacy encumbrances or external factors, such as uncompetitive government aviation policies, rates or charges unique to Canada.

Challenges





### Competition

- ✈ LCC necessary tool for growth
  - Profitably operate in **leisure markets**
  - Create jobs: more than **450** new pilot jobs by 2015
  - Long-term sustained profitability

But we will not proceed unless it is truly low cost

This brings me to something that has captured much media and consumer interest of late. At present we are in negotiations with our unions to form a Low Cost Carrier at Air Canada that would eventually operate 50 aircraft serving leisure markets in Europe and sun destinations. We will only proceed with it if we are satisfied it has the scale and scope to truly remain low cost - and truly compete with the LCC's from work rules to pay rates, to aircraft configuration.

Many carriers, including Air Canada nearly a decade ago, have attempted this LCC strategy and few – Qantas' Jetstar being the most notable example – have been successful. However, we believe such an evolution is a necessary ingredient for meaningful growth. Leisure markets present strong opportunities that we can and should access based on our franchise but that we are leaving behind because of our legacy cost structure. While we are in early stages and have not announced any specific routes, we are studying all Sun markets as well as high-volume, lower-yielding routes such as Amsterdam, Dublin, Nice, Manchester, Lisbon and Casablanca.

At the same time, we believe an LCC will create more jobs at Air Canada and allow for more robust job and salary progression opportunities than currently exist at the company. Our preliminary estimates are that it would generate more than 450 new pilot jobs by 2015, maybe three times as many positions for flight attendants and additional new opportunities for airport and maintenance employees.

For us, lowering our cost structure meaningfully is more than a "Nice to have". I am increasingly convinced that a LCC should be a key driver in our toolkit. We need to seize this opportunity as an important means to achieving our ultimate goal of long term, sustained profitability.

We know our traditional model works well in good times when the economy is strong and we can justifiably earn premium revenue through our service and amenities. But we need to develop new tools that will allow us to compete just as effectively in different markets and of course in leaner times, which everyone knows are unavoidable in our highly cyclical industry.



## Radical transformation since 2000

- ✈ Saw emergence of
  - well-capitalized domestic low cost competition
  - post 9-11
  - post SARS
  - CCAA restructuring by Air Canada
  - sale of Aeroplan, Jazz, Maintenance arm–AVEOS
  - recession

Since 2000, our Company and indeed the Canadian industry have experienced a radical transformation, starting with a major merger of the two legacy carriers – Air Canada and Canadian Airlines – and the disappearance of several smaller airlines that did not have sustainable business plans.

We then saw the emergence of new, well-capitalized domestic low cost competition followed by the post 9-11, post SARS, CCAA restructuring of Air Canada, the carve-out and sale of Air Canada's loyalty program Aeroplan, our regional carrier Jazz and our maintenance arm Air Canada Technical Services (which became AVEOS). And then our 2009 recapitalization, revitalization and turnaround following the recession.

We now have both a company and a Canadian industry that are, relatively speaking, in good shape but those of us who wish to not only survive but thrive must continually adapt, innovate and create our own opportunities for success.

So be assured that Air Canada will not sit on its hands and watch – we will continue to innovate, to experiment, to compete and to lead over this next cycle.



I wish to thank the board of directors and shareholders for their support. I also want to thank Air Canada's 26,000 employees for their hard work, professionalism and, above all, their commitment to safety in delivering our customers to their destinations day-in, day-out.

I look forward to the opportunity to report to you again next year.

Thank you

