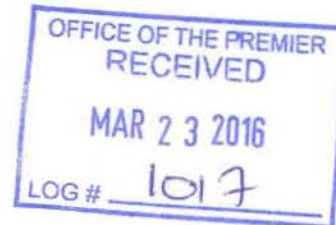


March 21, 2016

Office of Premier Peter Taptuna  
P.O. Box 2410  
Iqaluit, NU X0A 0H0



Dear Premier Taptuna,

Thank you for your letter dated March 10, 2016. On behalf of myself and members of the Canadian North senior leadership team, we sincerely appreciate the opportunity we were given to answer questions and address concerns regarding Northern air service before the Full Caucus of the Legislative Assembly of Nunavut on January 26, 2016. We have welcomed the interest shown by Nunavummiut towards the challenges faced by Canada's northern airlines and the steps Canadian North has taken to improve our own sustainability. Please be assured that we share your view that the availability of safe, reliable and efficient year-round air service is vitally important to all Northerners.

In your letter, you have highlighted some of the concerns which were raised during the aforementioned session. I would like to take this opportunity to address these concerns, as well as the other concerns we undertook to address that specifically pertain to Canadian North:

Undertaking	Requestor	Response
Request to provide fuel pricing information.	Honourable Peter Taptuna	We are pleased to provide fuel pricing information. As a preliminary example, as of January 26, 2016: <ul style="list-style-type: none"> <li>Ottawa jet fuel prices approximately \$0.50 per litre.</li> <li>Iqaluit jet fuel prices approximately \$1.56 per litre.</li> </ul>
Request to review whether fuel charges can be reduced on routes where a portion of the required fueling occurs at Southern airports.	Honourable Paul Quassa	With the price of fuel in Nunavut currently set at approximately 3 times the price of fuel in southern airports, we do not expect fuel charges to change. If the government of Nunavut is prepared to reduce the cost of fuel in the north Canadian North would be pleased to re-visit fuel charges.
Request to provide the percentage of total revenue earned from GNU contracts.	Member Pat Angnakak	This information is confidential and cannot be shared publicly.
<i>Continued</i>		

Undertaking	Requestor	Response
Request to review and provide a response to whether we would support an “Essential Air Service Program” similar to the U.S.	Member Pat Angnakak	Air service subsidy programs in other jurisdictions around the world have their pros and cons, however as discussed at length during the day of proceedings, the most productive use of funds relating to aviation in the north is to improve infrastructure such as paving gravel runways and improving aircraft approach facilities to arctic airports. This will reduce airline costs and improve reliability of northern airports which will benefit northern customers.
Request to consider reduction of price in winter, based on reduced damage sustained to aircraft from gravel runways during winter months.	Member Paul Okalik	Aircraft maintenance schedules, dictated by aircraft manufacturers, are the main drivers of aircraft maintenance costs. The maintenance schedules do not differentiate between a winter or summer operation on a gravel runway.
Request to modify all existing airports forms to include an Inuktitut version, as well as simplify their content.	Member Paul Okalik	Airport forms are currently being simplified and translated into Inuktitut as appropriate. This includes removal of the requirement for a ‘Justice of the Peace’ to verify documents.
Request to ensure demonstrations are being done during Inuktitut language flight safety recordings.	Honourable Paul Quassa	All aircraft are now operating with updated recorded Inuktitut safety announcements. Flight attendants are familiar with the new announcements and are able to effectively synchronize their demonstrations with the recorded audio.
Request to examine the pricing for flights between Hall Beach and Igloolik and explain why it is so high for a 15 minute flight.	Honourable George Qulaut	The flight time between Hall Beach and Igloolik, one of the determining factors for the cost of operating the aircraft, is a short 26 minutes, however to offer the service between these two communities, the airline must pay for the fixed costs of arriving and departing at both communities. These costs are significant and are incurred regardless of the length of flight.
Request to determine why cheques to Hall Beach and Igloolik are being delayed.	Honourable George Qulaut	Mail shipments receive the highest cargo priority on our aircraft. Any delays of mail shipments would only occur as a result of passenger loads, and irregular operations including weather, maintenance and airport operations. We have reviewed our operations on this specific routing and determined that any delays affecting mail shipments that have occurred have been attributed to irregular operations due to weather or maintenance.
Request to provide the PIVUT allotment for each flight.	Member David Joanasie	As with all fare products offered by Canadian North, PIVUT fare inventory is managed on a flight-by-flight basis. The proportion of PIVUT fares has not changed since the introduction of codesharing with First Air.

*Continued*



Undertaking	Requestor	Response
Request to work towards a single payment for interlined freight. An example was given where a customer shipping from Arviat to Iqaluit was charged in Arviat by Calm Air and then again in Rankin Inlet by Canadian North.	Honourable Joe Savikataaq	Interline or joint shipments should be a single combined price for both carrier's services, paid once by customers. We have been in contact with both our own agents and Calm Air to reiterate this. The situation noted would have been created incorrectly. In the event that this was a country foods shipment, it is conceivable that these shipments were incorrectly assumed to be no charge on both carriers. (Canadian North has a reduced rate for country foods, while Calm Air was offering free.)
Request to modify the Eastern Kitikmeot schedule. Concern that Canadian North and First Air currently go in the same direction on certain days and should go opposite.	Member Tony Akoak	Canadian North operates between Cambridge Bay and the three eastern communities of Gjoa Haven, Kugaaruk and Taloyoak as follows: <ul style="list-style-type: none"> <li>• Westbound from the communities to Cambridge Bay on Mondays and Fridays</li> <li>• Eastbound from Cambridge Bay to the communities on Tuesdays and Thursdays.</li> </ul> First Air operates its own schedules between these communities, however these are all non-codeshare routes, therefore we are not able to coordinate our schedule with First Air.
Request for an explanation of why shipping a Ski Doo to Pangnirtung is \$1600 while Pond Inlet is only \$1700 and is much further away.	Member Johnny Mike	Canadian North provides comparable, highly discounted rates for the shipment of snowmobiles from major centres to each of the communities we serve. This rate ensures that customers in the northernmost communities within our network can ship snowmobiles at a cost that is comparable to the cost to ship to communities situated closer to major centres. The examples given illustrate the comparability of snowmobile shipping rates for these two geographically distinct communities.

Thank you, Premier Taptuna, for your continued interest in the issues that affect air transportation throughout Nunavut. We share your commitment to improving air service for the benefit of all Nunavummiut and we will continue to engage with our customers and stakeholder groups to ensure that concerns are appropriately addressed.

I would like to take this opportunity to remind you that Cindy Twerdin, Canadian North's Iqaluit-based Director, Commercial and Government Relations, is available as a senior point of contact for all Members of the Legislative Assembly of Nunavut and Government of Nunavut departments. She can be reached via email at [ctwerdin@canadiannorth.com](mailto:ctwerdin@canadiannorth.com) or by telephone at 1.867.979.8245. I am also available to address your questions as required. Please do not hesitate to contact me if I can be of assistance.

Regards,



Steve Hankirk  
President











March 21-mi 2016-mi

Titiraqvianit Hivuliqhuqtip Peter Taptuna  
 Titiraqaqvikmi Qiyuqut 2410  
 Iqalukni, Nunavumi X0A 0H0

Haloqagit Hivuliqhuqti Taptuna,

Quanaqtit titiraqtaqnik March 10-mi 2016-mi. Uvamnit ilaayunilu Kaniitiakuni Tikmijiqiyinit atanguyanit ikayuqtiiriniit, quviahuktugut pivikhaqaqtitaugapta kiuyaagani apiqutinik uqauhirilugilu ihumalutauyut ukuniga Ukiuqtaqtumi tikmijiqiyinit ikayutauyunik Tamaita Maligaliuqtit hivuraani Maligaliuqviani Nunavut January 26-mi 2016-mi. Tuharumainaqtavut ihumagiyait Nunavumiut akhurutigiyainik Kanatami ukiuqtaqtumi tikmijutiliqiyinit apluriagutainiklu Kaniitiakuni tikmijiqiyit ihuaqhivaaliriagani nanminik aulainaqnikhavut. Quayimatiariti ihumagiyahi ihumagiyavulu qahikniginik aniqnaitut, tikiinaqpaktulu, aulaniqatiaqtut ukiuraaluk tikmijutiliqiyinit ikayutit ila atuqniqatiaqmat tamainit Ukiuqtaqtumiunit.

Titiraqtaqni, uqatiaravit ilaginin ihumalutauyunik uvani uqauhiutaqtumi katimaniqmi. Taja uqauhirilaguma-yatka ukua ihumalutauyut, ukualu ahiit ihumalutit havaariyavut pijutiqaqluaqtut Kaniitiakuni Tikmijiqiyinut:

Havaariyauyut	Tukhiqtuq	Kiujut
Tukhiqtuut piqariagani uqhukhat akiinik hivuniqihjutikhanik	Ihumagiyautiaqtuq Peter Taptuna	Quviahuktugut piyaagani ukhukhat akitunitinik hivuniqihjutikhanik. Hivuani ayikutaanik ila, January 26-mi 2016-mi: <ul style="list-style-type: none"> <li>• Atuami puvlaktuqtut uqhukhait akitunigit qanituaniitut \$0.50 atuni liitauyuq.</li> <li>• Iqalukni puvlaktuqtut uqhukhait qanituaniitut \$1.56 atuni liitauyuq.</li> </ul>
Tukhiqtuut ihivriuriagani uqhukhanut akiligakhat akikhivaaliriagani aulaqvikni ilaga aturiaqaqtuq ukhiqtuqtauyaagani Hivuraani tikmiaqaqvikni.	Ihumagiyautiaqtuq Paul Quassa	Akitunigit uqhukhat Nunavumi taja ihuaqhihimakmata pigahuiqtuqhuni akituniganit uqhukhat hivuraani tikmiaqaqvikni, nahuriyaqut uqhukhat akitunigit aalaguriagani. Kavamat Nunavumi akikhivaaliquiaqagit uqhukhat ukiuqtaqtumi, Kaniitiakuni Tikmijiqiyit quviahukniaqtut naunaiyafaariagani uqhukhanut akiligakhat.
Tukhiqtuut pipkariagani ilaganik tamaita maniliurutinik GNU-kuni katraguyunit.	Maligaliuqtini Ilauyuq Pat Angnakak	Una hivuniqihjut agiagiyauyuq uqauhiulimagitunilu aalanut inuknut.

<p>Tukhiqtuut ihivriuriagani kiujutiaqqlutiklu Ikayuqniariaptikni "Atuqluaqtunik Tikmijutitut Ikayutinik Havaamik" ajikutaanik Amialikat nunaani.</p>	<p>Maligaliuqtini Ilauyuq Pat Angnakak</p>	<p>Tikmijutitut ikayutinik akikhigiarutit havaat ahiini ataniqtuvikni hilaquyumi ihuaqniqaqtut ihuiniqaqhutiklu, kihiani uqauhiukhaaqtumi ubluani katimatilugit, ihuaqnikhaq atuqnginik manikhaat pijutiqaqtut tikmijutitut ukiuqaqtumi ihuaqhivaaliriagani piqutit ila qiqhuqtiqlugit milviit tikmijat ihuaqhivaaliquglu mitaqtuliraagata ihuaqutiluat ukiuqaqtumi tikmiaqaqvikni. Una akikhivaalirutauniaqtuq tikmijutin akituniganik ihuaqhivaalirutilunilu atuqnginik ukiuqaqtumi tikmiaqaqviit nakurutauniaqmat ukiuqaqtumi niuviktuni.</p>
<p>Tukhiqtuut ihumagiyaagani akikhivaaliriagani akitunigit ukiumi, ikikli-vaaliraagata ahiruqngit tikmijat hiuralianit milviknit ukiugutilugu tatqiqhiutini.</p>	<p>Maligaliuqtini Ilauyuq Paul Okalik</p>	<p>Tikmijat hanayauniginik atuinaqtut, atuquyaukmata tikmialiutit, aulapkailuaqtut tikmijat hanayauniginik akituniginik. Hanayauniginik aturiaqaqtut alagurutaugit ukiumi auyamiluniit aulaniginik hiuraliani milvikmi.</p>
<p>Tukhiqtuut nutaaguqti-riagani tamaita atuqtut tikmiaqaqvikni titiqaat ilaqariagani Inuinaqtut uqauhiqnik, nalunaitiaqlugilu titiraqngit.</p>	<p>Maligaliuqtini Ilauyuq Paul Okalik</p>	<p>Tikmiaqaqvikni titiqaat taja nalunaitiaqtauliqtut nuuptiqtavlutiklu Inuinaqtut ihuaqtumik. Una ilaqaqtuq ahivariagani aturiaqaqniga 'Nunalikni Apiqhuiyimit' nalaumatiaqnginik titiqaat.</p>
<p>Tukhiqtuut ayuqitutuq-tauyaagani inuit Inuinaqtut uqauhiq tikmiliqata aaniqtailjutinik nipiliuqhimayut.</p>	<p>Ihumagiyaquiaqtuq Paul Quassa</p>	<p>Tamaita tikmijat aulaliqtut nutaunighanik nipiliuqhimayunik Inuinaqtut aaniqtailjutinik uqauhiuyunik atuqhutik. Tikmiami kivgaktuqtinuit qauyimayut nutaanik uqauhiuyunik ayugitutiklu ayuqituyiaamikni tautuktutilutik aturumik nipiliuqhimayumik.</p>
<p>Tukhiqtuut ilituqharia- gani akitunigit tikmijutit Hanirayakmit Iglulikmut uqatiaqlutiklu huuq akituqpiamagaa 15-minitmik tikmiyaami talvatuq.</p>	<p>Ihumagiyaquiaqtuq George Qulaut</p>	<p>Tikminiga Hanirayakmit Iglulikmut, pijutauluaqtuq akituniganik tikmiyaagani, hivigituq 26-minitmik, kihiani atuqtitaagani tikmijutit ukungnakni malruk nunagiyaayukni, tikmijiqiyit akilighiyariaqaqtut iniriqhimayumik akituniganik tikitaami aulariamilu tamaknit nunagiyaayuknit. Ukua akitunigit agiyut akiligauvaktulu pijutiqaqtut hivituniganik tikmijutit.</p>
<p>Tukhiqtuut naunairiagani huuq manikhaak- hait Hanirayakmi Iglulikumilu kiguvariaq- pakniginik.</p>	<p>Ihumagiyaquiaqtuq George Qulaut</p>	<p>Titirakhaanik akyautit uhiyauluaqpaktut hivuliuvlutik tikmiaptikni. Kiguvaqngit titiqaat akyaqnginut atuqtauvak- tuq inugiakhigaagat uhitiktunik, atuqatagitulu aulanigmi ila hila pijutigivlugu, hanayauniginik tikmiaqaqvikumilu aulanigini. Ihivriuqhimayavut aulaniriyaqut talvuuna timijuhikmik nalunaiqtuqlu kiguvariaqngit titirakhat akyaqtauniginik taimaitut hilalukmat hanayautilugiluniit pitutit.</p>
<p>Tukhiqtuut pipkaqpa- giagani PIVUT-mut uhitirutikhaq atuni tikmijutini.</p>	<p>Maligaliuqtini Ilauyuq David Joanasie</p>	<p>Taimatauq tamaini tikmijutini atuqtitaini Kaniitiakut Tikmijiqiyit, PIVUT-mut tikmijutit munariyaayuk atuni tikmijutini. Ilagiyaa PIVUT-mut tikmijutit aalagugituq hatqiqaaqtilugu avanmut inikhaqaqtitijutit First Air-kulu.</p>



<p>Tukhiqtuut havaariyaa-gani atauhiqmik akili-gakhaqaqlutik aalatqii-nit tikmijiqiyinit akyautinik. Ajikutaa uqautauyuq kivgaqtugauyuq aalaqtitiyuq Aqvianit Iqaluknut akiliqhipka-gauyuq Aqviani Calm Air-kunit taitailu Kagiqliniqmi Kaniitiakuni Tikmijiqiyinit.</p>	<p>Ihumagiyautiaqtuq Joe Savikataaq</p>	<p>Akyaqatiriigutit atauhiinauyukhaugaluq akituniga tamakni akyuqtuknit ikayutini, akiliqtauluni atauhiiqlugu kivgaqtuqtayumit. Uqaqatigihimayavut tamaknik nanminik havaktivut Calm Air-kulu uqauhirifaaqhugu una. Qanuriniga kauyipkagauyuq ihuinagutauyunaqhiyuq. Pihimaniqat una niqainaknik aalaqtitijutauniqat, ihumanaqtuq ukua akyautit ihumainaruyauyunaqhiyut akiligakhaqaqilutik tamakni tikmijutikni. (Kaniitiakununi Tikmijiqiyit akikhigiaqhimagyumik akiliqtitivaktut niqainaqnik akyautinut, Calm Air-kutauq akiitumik akyaqpaktut.)</p>
<p>Tukhiqtuut ihuaqhiyaa-gani Kivaliqhiani Qitiqmiuni tikmijuhit. Ihumaluut Kaniitiakuni Tikmijiqiyit First Air-kulu taja tikmivaktut ajikiiknik turaaqviqaq-hutik ilagini ubluni avatiknuuqtukhaugaluut.</p>	<p>Maligaliuqtini Ilauyuq Tony Akoak</p>	<p>Kaniitiakuni Tikmijiqiyit tikmivaktut akungani Iqaluktutiam pigahulu kivaliqni nunagiyauyuni Uqhuqtuuvlu, Kugaaqyuvlu, Taluyuapplu ima:</p> <ul style="list-style-type: none"> <li>• Ualianut nunagiyauyunit Iqaluktutiamut Matimi Talimiummilu</li> <li>• Kivaliqhianut Iqaluktutiamit nunagiyauyunut Aipiumni, Hitamiummilul.</li> </ul> <p>First Air-kut atuqpagaat nanminik tikmijutigiyatik akungani ukua nunagiyauyut, kihiani ukua tamaita avanmut aturutaugitut aalaqviyuq, talvuna, ihuaqhilimagitavut tikmivikhavut First Air-kulu tikmijuhii.</p>
<p>Tukhiqtuut naunaitiariagani huuq aalaqtitiyaa-gani Sikiituuknik Pakniqtuumut 16-hanatalauyuq Mitimatalikmutauq 17-hanatalauginaqhuni ugahitqiyauvlunilu una.</p>	<p>Maligaliuqtini Ilauyuq Johnny Mike</p>	<p>Kaniitiakuni Tikmijiqiyit atuqtitivaktut ajikutavyainik, akikhi-vaaliquhimayunik aalaqtitijutinik sikiituunik agiyunit nunagiyauyunit atuni nunagiyauyunut kivgaqtuqtaptiknik. Una akituniga pijutaukmat ukua niuviktit tununganiitugahiknikhani nunagiyauyuni havakviptikni aalaqtitilaariagani sikiituunik akitunigaqaqlutik ajikutavyainik akituniganik aalaqtityagani nunagiyauyunut qaniniqhauyut agiyunit nunagiyauyunit. Taimaituk uqautauyuk naunairutauyuk sikiituuknik aalaqtitikpat akituniganik ukuknaknik nunami ajikiigitukni nunagiyauyukni.</p>

Quanaqtit, Hivuliqhuqti Taptuna, ihumagiinarapkin aktuqniqaqtut tikmijutinik humiliqaa Nunavumi. Iiktutauq akhurutigiyauq ihuaqhivaaliriagani tikmijutini ikayutinik nakurutauyaagani tamaini Nunavumiutanit upipkaqhimaqtinaqavut kivgaqtuqtavut ilaayulu ikayuqtiriit ukua ihumalugauyut ihuaqtmik havaariyauyaagani.

Uqautilagumayagit itqariaqni Cindy Twedin, Kaniitiakuni Tikmijiqiyit Iqalukni Hivuliqhuqti, Manikhaqhiuqtuni Kavamaniklu Havaqatiriigutini, qahainaqtuq atanguyauvluni uqaqvikhaq tamainit Ilauyunit Maligaliuqtini Nunavumi Kavamanilu havakviuyunit. Uqaqvigiyaalaaqtuq qaritauyakut titiqijutini uvani [ctwerdin@canadiannorth.com](mailto:ctwerdin@canadiannorth.com) hivayautikuluniit uvani 1-867-979-8245. Kiuginalaaqtatqalu apiqutigiyatit piyariaqaqat. Qanurunaqaqtailutit uqaqvigiyaamni ikayulaaqnruma.

Uvaga,



Steve Hankirk



Kanata, March 31, 2016

The Honourable Peter Taptuna, MLA  
Premier of Nunavut  
P. O. Box 2410  
Iqaluit, NU X0A 0H0



Dear Premier,

Thank you for your letter dated March 10, 2016.

On behalf of our shareholder, Makivik Corporation, and the entire team at First Air, I would like to thank you for the opportunity to address the full caucus of MLAs in Iqaluit and discuss concerns as well as answer questions regarding our two codeshare agreements and the sustainability of Northern air transportation.

As said during our session, First Air had continued operating losses since 2011. In fact, we have previously said publicly that Northern aviation has been in real danger as a result of overcapacity, limited market/revenue growth and poor infrastructure leading to high cost of operations. As you indicated in your letter, the change from the Food Mail Program to Nutrition North certainly had an impact, but there have been several other reasons contributing to the deteriorating financial performance at First Air. For example internal factors, such as the complexity of our fleet, too high a cost base and uneconomic routes not generating enough revenue impacted our sustainability. Others were externally driven, such as the decline of the resource/mining sector and no longer being able to cross-subsidize losses on the scheduled network in Nunavut with NWT charter revenue. This is why we started a major 3 year restructuring program in 2014. The resulting transformation has since led to us achieving our first turnaround objective in 2015. For the first time since 2011, First Air was able to post a profit, and importantly, to reinvest it entirely in improving our airline.

Continued profitability means that we can become sustainable again since sustainability requires growth and investment. A \$110M program is currently being implemented to integrate additional modern Boeing 737-400 and ATR 42-500 aircraft to our fleet, which will greatly improve services across Nunavut, and enable us to divest older aircraft. This \$110M investment maybe the largest ever reinvestment in northern air transportation by the private sector, and it will enable us to continue operating as an essential service provider in Nunavut.

[www.firstair.ca](http://www.firstair.ca)  
A Division of Bradley Air Services Limited



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We are committed to improving our service levels wherever we can, as long as changes make economic sense. This includes all issues raised in our meeting, which we will endeavour answering in face-to-face in meetings with the honourable members. In your letter you requested us to clarify freight charges for a skidoo from Iqaluit to Pangnirtung and from Iqaluit to Pond Inlet. Unlike comments made during our sessions that did create a false expectation, these rates vary quite considerably, due to the flying distance involved and as expected by the Members. We charge \$3.92/kg for a skidoo from Iqaluit to Pangnirtung and \$14.41/kg for a skidoo from Iqaluit to Pond Inlet.

As we celebrate our 70th anniversary this year, we would like to thank the Government and all Nunavummiut for your support, dedication and trust. Rest assured, we will continue to be The Airline of the North and remain at your disposal for any further questions.

Kind regards,  
FIRST AIR

A handwritten signature in blue ink, appearing to read "B Friesen".

Brock Friesen  
President & CEO









Kanata, Maatsi 31, 2016

Nan'ngariyauyuq Peter Taptuna, Maligaliuqti  
Hivuliqtuyut Nunavunmut  
P. O. Box 2410  
Iqaluit, NU X0A 0H0

Halu Hivuliqti,

Quana titirarakni titiraqhimayuq Maatsi 10mi, 2016.

Pitqutigiquplugu nanminiaqqtumit, MakivikKuapuriisinga, tamaitalu havaktut First Air-mi, quyagiumayatka uqaqmata katimatillugit Maligaliuqtuyut Iqalungmi uqaqmata ihumaalutigiyayunik kiuyuniklu apirhuutinik malruuyut tingmitit malruuk angiqatigiiktut nunguttailiningga Ukiuqtaqtumi tingmidjutikhainnik.

Uqaqtauyuq katimatilluta, First Air piqaqtuq aulapkaihimmiaqtumik maniiurutiyuq taimaa 2011mi. Ilaa, uqaqtuugaluuyugut Ukiuqtaqtumi tingmidjutingit ayurhaqpiiaqtut amigaidjuumiqpallaaqmat, mikhipluni niuviqvikhat/maniliurutikhanga nakuungittumiklu aulapkaidjutikhaanik pimat akituvallaaqmat aulapkaidjutikhaa. Naunaiqtat titiraqtaqni, himmautinga Niqinik Agyaqniq Pinahuarut Nutrition North-kunnut ayurhautipkaiqpiiaqtuq, kihimi qaffiuyut aadlat huuq tuniqhainiq nakuungiryuumiliqtuq maniliriitigut pidjutingit First Air-mi. Una uuktuutigillaklugu havakviup ihumaalutigiyanginnik, ukunatitut ayurhautigiyayut tingmitiptiknik, akituvallaaqmat tunngavinga unalu maniliurutiuknaiqtut tingmivaktaptiknut piliunginmallu maninik ayurhautipkaiyaa havakhimmaariaptikni. Aadlat hilataanit pipkaidjutiyuq, ikikliyuumiliqmat maniliurutingit/uyarakhiuqviit pilimaiqmallu akittuqhugit atauhiqmut taimaa ikikliyuumiriami akikhangit aadlamut maniirutiniq naunaiqhimayunut havaqatigiikniq Nunavunmi ukunanut Nunatsiaqmi chaatakkurutimut maniliurutinga. Taimaa aullaqtiqtavut angiyumik pingahunik ukiunik piliuffaarninnga pinahurutinga 2014mi. Qanuriliurutinga aadlangurninnga pipkaidjutiyuq pigiaptikni hivulliqpaavut himmautinganik 2015mi. Hivulliqpaaq taimaa 2011mit, First Air naunaiqtaa maniliuqtaminik, akhuuqtumiklu, maniliuriamilu tamaat ihuarhigiami tingmidjutivut.

Maniliuqhimmaaqniq imaatut ittuq ikayuutauffaariaptikni taimaa pihimmaaqninnga ihariahukmat angikliyuumikhanganik maniliuqnikhamikniklu. \$110M pinahuarut tadsa piliqtaa ilaliutigiami aadlamik nutaamik tingmitimik Boeing 737-400 uuminngalu ATR 42-500 tingmitimik havakviptiknut, taimaa akhuraaluk ihuarhinaqtaa tingmidjut tamainni Nunavunmut, atuqtiruriami utuqqat tingmitinik. Una \$110M maniliuqninnga angitqiyauniaruknaqhiuq taimaa maniliuffaaqninnga ukiuqtaqtumi tindmidjutikhat nanminiaqqtunit, aulapkaihimmaarutiniaqtaatigut ihariagiayuyumi tindmidjutikhaanik Nunavunmi .

[www.firstair.ca](http://www.firstair.ca)  
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Akhuuqtugut ihuarhigiaptikni ikayuutikhanik ikayuqtaarupta, taimaa aadlangurninngit maniliurniqmut pikpat. Una ilaliutiyuq tamaita ihumaalutigiyauyut uqaqtauyut katimatilluta, taimaa kiugiama katimatilluta nan'ngariyauyunut katimayunut. Titiraqtarni apiriyat naunaiquplugu hunavaluit agyaqtauyut akikhangit sikiitumik Iqalungmit Pangniqtuumut uumanngalu Iqalungmit Mittimatalikmut. Uqaqtaungittunit katimatilluta ppkaidjutiyuq ulapiqutiyumik ihumagiyauyumik, hapkuat akingit aadlauyut amihumik, tingmikmat unghiktumut ihumagiyauyut Ilauyunit. Akiliqyavut \$3.92/kg sikiitumik Iqalungmit Pangniqtuumut unalu \$14.41/kg sikiitumik Iqalungmit Mittimatalikmut.

Taimaa quviahuutiniaraptitku 70nguqtuq tikiutingmikmagu tingmidjutimut umani ukiumi, quyagiumayaqqut Kavamatkut taimaitalu Nunavunmiutat ikayuqpakkaptik, akhuuqtumiklu pigaffi ukpirivakkaptigullu. Ihumaaluguiqluhi, Tingmidjutihimmaarutiniaqtugut Ukiuqtaqtumi, upalungaiyaqhimaniaqqugut ikayuriaptikni apirhuutiqaruvit.

Pitiarnikkut,  
FIRST AIR



Brock Friesen  
Atan'nguyauyuq unalu Atanilluaqlu Tukimuaqti



March 28, 2016

The Honourable Peter Taptuna  
Office of Premier Peter Taptuna  
P.O. Box 2410  
Iqaluit, NU  
X0A 0H0



Dear Premier Taptuna,

Thank you for your letter of March 10, 2016. On behalf of Calm Air and our parent company, Exchange Income Corporation, I would also like to thank you for giving us the opportunity to address the Legislative Assembly on January 29<sup>th</sup> as well as Nunavut residents that watched the broadcast of that meeting (the "Public Meeting"). Despite the criticisms, we believe our transaction in the Kivalliq region is in the best interests of all stakeholders including the Government of Nunavut and all Kivalliq residents, and we appreciated the opportunity to explain the economics of why.

Mr. Premier, in your opening remarks on January 29<sup>th</sup> you mentioned many of the issues that were raised in the letter you sent the carriers dated October 6, 2015. As we indicated in our October 26, 2015 response to your October 6, 2015 letter, Calm Air had addressed each one of these issues. Issues like medical samples, freight delays, adding seats/sections for sports teams had all been addressed and acknowledged by your staff. We want to ensure that the residents of Kivalliq understand that we take these matters very seriously and have addressed the concerns raised by the Government of Nunavut ("GN").

During our presentation and subsequent questions by the MLAs, we committed to follow up on several items. As well, in your letter of March 10 you posed some additional questions. Our response to the undertakings arising from the Public Meeting and the additional questions raised in your March 10 letter are set out below.

#### Undertakings

1. Baggage claim forms – Our baggage claim form is only one page and typically filled out by our Customer Service Agent on behalf of the customer. No witness signature is required on our form. Upon review, we do confirm our claim form was only in English. We have now translated this form into Inuktitut as well. A copy is attached.
2. Inuit Employment – While nearly all our Customer Service Agents, Cargo employees and Ramp staff are Inuit, we had already committed before the January 29<sup>th</sup> presentation to the Kivalliq

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Inuit Association that we would be making every attempt to fill as many jobs with Inuit as possible. We have already increased the number of Calm Air Inuit employees by hiring two Inuit as maintenance apprentices, one reservation agent based in the Kivalliq region and we will be posting an advertisement for flight attendants in early April which we hope to fill entirely with Inuit residents.

3. Tariff Increases – We were asked in the January 29<sup>th</sup> presentation for a record of the last three years of tariff increases. They are:

Date	% increase
March 2013	6%
July 2013	4%
January 2014	2%
March 2014	4%
May 2014	3%
September 2014	4%
2015	0%

Please understand these increases are to our general tariffs and do NOT include any travellers who have fixed contract rates, which include the GN, or other corporate agreements.

Despite the fare increases in 2013 and 2014 and the changes we implemented to make our operations more efficient and reduce costs, Calm Air still incurred significant losses in each of those years. Appreciating that continued fare increases to address these economic realities were not in the best interest of the residents of Nunavut we looked for other solutions, ultimately culminating in the acquisition of First Air's Kivalliq non-aircraft assets.

We also want to reiterate that as part of our transaction in the Kivalliq region, we have signed an agreement with the Kivalliq Inuit Association ("KIA"), committing to no increases to our base rates for beneficiaries for a minimum of three years. Thereafter we agreed to consult with KIA on any proposed increase in rates.

Our agreement with KIA also includes:

- No changes to the number of Pivut or Beneficiary seats.
- No charges within the Calm Air network for shipping Country Foods.
- A substantial decrease in the cargo rate for Kivalliq Beneficiaries.
- An increase in the baggage allowance from 70 lbs to 120 lbs plus a carry-on bag.

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While not specifically stated in the KIA agreement, Calm Air has also not changed the number of Aeroplan seats, or the number and discount of our seats sales. In fact, we have added seats sales.

4. Sanikiluaq – We were asked by the MLA for Sanikiluaq to clarify comments about the weather reporting from the CARS operator in Sanikiluaq. I have responded to him directly confirming those details. We would be please to make a copy of the communication available if you are interested.
5. Town Hall meetings – Not only have I travelled to every community in the Kivalliq region to present and explain the transaction Calm Air has completed in the Kivalliq region, I have already began to conduct follow up meetings in the region. I am doing these presentations in conjunction with KIA and invitations to MLAs are also being extended for each meeting.
6. Seat Sales – From the closing of the transaction with First Air on July 3, 2015 to December 31, 2015 we have had 7 seat sales, which is more than in the prior year. As mentioned above, Calm Air has committed to doing no less than the same number of seat sales as we did prior to our transaction. We also reconfirm that we intend in 2016 to sponsor two events in each community (ex. hockey tournaments, fishing derbies, etc.), and that each event would be tied to a seat sale to encourage intercommunity travel.
7. Medical Professionals and their equipment – A question was raised about medical professionals and the amount of equipment they bring with them. As mentioned above, we have increased our baggage allowance to 120 lbs plus a carry-on bag. We have also requested the GN to notify our reservation specialist whenever it is booking a medical specialist, so we can put a note on the file that this person must travel with all their baggage even if it exceeds the 120 lbs allowance. Since we increased our baggage allowance with the signing of the KIA deal, we have not had one medical specialist exceed the 120 lb limit.

#### Questions and Comments Raised in respect Calm Air in the March 10<sup>th</sup>, 2016 Letter

1. Canadian North won the medical contract split with First Air as their competitor, not Calm Air, and then Canadian North sub contracted their award to Clam Air

Correct. The portion of the medical contract performed by Calm Air was originally awarded to Canadian North and then, with the consent of the GN, sub-contracted to Calm Air. However, whether the GN medical contract was awarded to Canadian North or Calm Air is irrelevant. The relevant point is that the medical contract was split between two carriers. The result was that the two carriers were forced to fly to all of the same communities and split the available traffic. We appreciate that for the residents of Kivalliq the result seems good not bad but the consequence was to create two uneconomical airlines as each airline maintained its full cost infrastructures but only retained half of the revenues.

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2. As of today, you will now get 100% of that market, as First Air pulled out as a result of the codeshare. Thus, your airline should return back to profitability.

Firstly, First Air pulled out of the Kivalliq region prior to (and not as a result of) the transaction being entered into between Calm Air and First Air which included a code share arrangement, a purchase of assets and a lease of First Air's 737. Secondly, we acknowledged in our presentation (see page #12 of the Transcript) that since our transaction to acquire the residual assets of First Air in the Kivalliq region Calm Air has become marginally profitable in the region. However the profitability is still the lowest yielding region within not only the Calm Air network, but the entire EIC Aviation Group.

3. The continued mantra from the three airlines was that flying in the North/Nunavut was not profitable and that only by lessening internal competition between each other, could the airlines be profitable.

The reality is that operations in the North are extremely capital intensive and require many communities with very small populations to be served. Splitting traffic between carriers creates significant excess capacity and leads to uneconomic operations. Had the transaction with First Air not occurred, one or more of the following outcomes were probable

1. Significant reduction to size of the aircraft being flown in the region and frequency of service;
2. Material increase in all Passenger fares and Cargo prices; and/or
3. Loss of one or both carriers in the Kivalliq.

We have been committed to providing air transportation service to the Kivalliq region for over 35 years and did not want to solve the economic realities of operating in the North over the last several years by materially increasing prices, reducing frequency or reducing the size of aircraft used to serve the Kivalliq residents. Instead, we chose to enter into a transaction with First Air, after it decided to cease operations in the region, pursuant to which Calm Air now provides all of the medical transportation. The result for us was to eliminate the losses and earn a modest return on our investment. The result for the residents of Kivalliq was to bring a number of benefits to the Kivalliq region and its people which include the following:

- Increase in the number of seats available across the Kivalliq region by 894 seats per week.
- Schedule change to integrate two daily 737 flights between Winnipeg and Rankin.
- Schedule change to incorporate direct flights to each individual Kivalliq community connecting to Rankin.

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- Replacement of multi-stop or multi-community flights to either direct or maximum one stop flights.
- Increase in freight capacity from Winnipeg to Rankin which is sufficient to fly all fresh, frozen and cooler food resulting in these goods reaching the communities up to three days faster.
- Relocation of our operating base to Rankin from Churchill.
- Lease of a new hangar (owned by KIA), to allow aircraft maintenance in Rankin.
- Construction of a new apartment for crew accommodations in Rankin.
- Increase in the size of our Winnipeg cargo operations.
- Fixed rate for beneficiaries for the next three years subject to fuel surcharge.
- Implementation of a freight discount to our lowest cargo rate for beneficiaries.
- Implementation of no charge freight on all Country Foods shipped within the Kivalliq region.

These benefits have been provided without increases to passenger fares or cargo rates.

4. Why have your airlines with a combined history of in the North of over 158 years so suddenly turned un-profitable and would seek to form partnerships through codeshare that have resulted in monopolies and non-competition.

Our unprofitability was not sudden. It began over 6 years ago with the culmination of a number of events including:

- o Splitting of the medical contract between two carriers
- o Going from small aircraft (such as King Air and Twin Otters) to larger aircraft with stand-up cabins, bathrooms and flight attendants (such as ATRs and Dash 8s).
- o Costs such as labour, fuel, aircraft parts and utilities rising at much higher rates than revenues.

Calm Air went to great lengths to make its operations viable in this environment. We reconfigured our whole fleet from SAAB aircraft into ATR combi aircraft in an attempt to fill the excess capacity with freight. We invested in warehouses, hangars, ground handling equipment and avionics to make the operations more efficient. We eliminated significant costs by reducing employees. We spent significant amounts to reduce the maintenance costs of flying in the harsh northern environment such as by designing and installing gravel deflector modifications to reduce aircraft damage on the gravel runways. The reality is that it did not work and the status quo was not sustainable.

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5. Was it, or is it just a coincidence, that Nutrition North replacing the old Food Mail Program which began in April 2011 is/was the beginning of the operating losses of the Northern Airlines

The change to the Food Mail system has had no impact on the carriers. Our contract rate to Canada Post simply transferred to the retailers. The subsidy was never given to the carriers, it was always received by either the customer or the retailer. In your March 10 letter you state that since cargo makes up almost 50% of the carriers Northern revenue you can only assume that the decrease in profits is tied to the Nutrition North program. Cargo is low yield revenue and represents less than 10% of the revenue on our scheduled flights and less than 25% of our gross revenues. To be clear the Nutrition North Program was not the catalyst to the economic issues faced by the carriers. We have described the circumstances that lead to the significant unprofitability in our response to Number 4 above.

It seems from the comments and questions in your March 10, 2016 letter that there is still a disbelief in the economic pressures that we began facing over 6 years ago. As such we reiterate the invitation we extended to you at the Public Meeting to come to Winnipeg to review our financial statements and all information we provided to the Competition Bureau, so that you can be satisfied that what we have said is in fact true. I am personally available any time after April 7<sup>th</sup> to back up our comments and demonstrate our transparency.

We thank you again for the opportunity of allowing us to participate in the Public Meeting and respond to the matters raised in your March 10<sup>th</sup> letter.

Regards,

A handwritten signature in black ink that reads "Gary Bell".

Gary Bell  
President & CEO  
Calm Air International LP

GB/gm

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