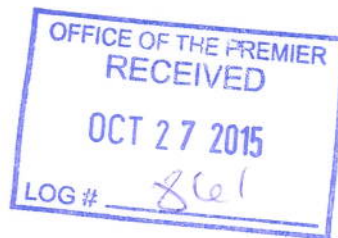




Kanata, October 22, 2015

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



Dear Mr. Taptuna,

Thank you for your letter dated October 6, 2015.

At First Air, we recognize the important role our industry plays in providing essential services in terms of food delivery, medical services and passenger transportation in Nunavut. We have carefully reviewed your comments and I'm happy to respond to the issues you've raised.

As you know, codesharing is not new among airlines. We have had a codesharing partnership with Air Greenland for many years, and we have interline relationships with Air Canada, Westjet and Cargojet to allow connectivity at southern gateways. These relationships allow for efficiencies, improved schedules and connectivity to customers. While we recognize that our two recently announced codeshare arrangements may be perceived by some as a radical change in the way we provide service, they are just the latest examples of a widely accepted industry practice.

We conveyed this message during the recent QIA AGM and during our successful meeting with the Department of Health and Social Services. Following that meeting, we have resolved issues raised in your letter related to health care workers and the delivery of medical supplies. We have repeatedly said that schedules and service standards are not set in stone; feedback allows us to make adjustments wherever economically feasible. Responding to the feedback we have already received has led to increased capacity on routes to Pond Inlet, Igloolik and Kugluktuk.

We will continue to review the performance of all routes we operate on a regular basis. Schedules will be adjusted to meet any new, increased or reduced demand as it occurs. We will include the examples you mentioned, such as our trans-territorial service. Managing capacity is something all successful airlines carry out on an ongoing basis, particularly relevant to First Air operating in the extremely thin markets that we serve. Our present aircraft utilization allows for additional flights as long as economically justifiable.

We will also continue to actively engage with our customers and the communities we serve, while we continue to further optimize our codeshare arrangements. At the same time, for the reasons detailed below, we need to operate a sustainable business to ensure the continuing provision of essential air transportation in Canada's north.

With regard to specific items identified in your letter, particularly the concerns over flights filling up, there were two key reasons why this occurred in August 2015, neither of which was caused by the codeshares:

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1. In July and August 2015, important runway work was carried out in Iqaluit. This work required the shortening and narrowing of the runway in Iqaluit and the loss of a significant number of the navigational aids. What this meant for First Air was an increase in the number of flight cancellations and weather related diversions. (The runway work cost First Air \$1 million in cancelled and diverted flights which was not offset by temporary extra charges.)
2. Pangnirtung weather in July/August 2015 prevented over 40% of flights from operating in a 30 day period, creating a backlog of passengers trying to travel as a result. While we prioritize medical travel patients, unfortunately these were also caught in this backlog.

The combination of weather and runway limitations certainly hindered operations at our busiest time of the year, and we recognize the inconveniences that were created for First Air's passengers and cargo customers during this time. It is, however, important to note that this is unrelated to the codeshare agreements in place.

We have carried out a detailed analysis of the performance of the new schedule and passenger/cargo loads on all sectors that First Air operates within Nunavut. Our results show that we operated fewer full flights in 2015 than we did in the same period in 2014. While the reduction in full flights means that customers have greater availability to purchase last minute seats (for medical or other travel), empty seats have a negative impact on First Air's bottom line.

Most carriers operate with load factors over 90% during the July/August peak months, thus providing returns to the airlines that allow them to cover losses during the lean winter months. At First Air we are still a long way off. Notwithstanding this, at this time we have no intention to increase our standard passenger fares or cargo rates, and we will continue to sell seats at the beneficiary rate.

In closing, I believe it's important to provide some context for the changes that we have made. In our view, consolidation in our industry is required. As we have said during multiple occasions, both in public as well as in private meetings, air transport in Nunavut has been in a very unhealthy financial state for the past several years. Overcapacity, high operating costs, limited market growth, weak airport infrastructure and harsh weather conditions make it almost impossible to operate a scheduled airline at a profit, while ensuring investment back into the company. We have often said that, in a country where federal government policy mandates a self-sufficient airline industry in all regions, we need to run First Air as a business. A business needs growth and investment in new aircraft and infrastructure. First Air has not been able to do so adequately since 2010.

We have battled for survival. As we started to implement our 3 year restructuring program in early 2014, we withdrew one of our poorest performing routes and destinations in our network, Repulse Bay. Without codesharing, First Air would have had to continue withdrawing from some communities, from the Western Arctic to Baffin Island, leaving entire communities without scheduled airline service. While we recognize that there is room to improve and make adjustments in our current schedule and codeshare arrangements, we firmly believe that our current partnership model better serves the communities. The alternative would be airlines withdrawing services from various communities.

I look forward to doing this together with all stakeholders. Please do not hesitate to contact me with any further questions you may have or feedback you would like to provide.

Yours sincerely,
FIRST AIR



Brock Friesen
President & CEO



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