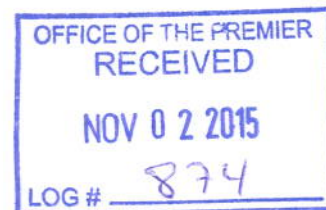




October 26, 2015



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

Dear Premier Taptuna,

Calm Air did not receive your letter to the three Nunavut carriers, but a copy has been provided to us.

At the outset, we would like to clarify two points: first, while Calm Air is aware that First Air and Canadian North have entered into a codeshare arrangement in connection with areas of Nunavut outside of the Kivalliq region, Calm Air is not a party to that arrangement. Accordingly, any concerns that relate to services outside of the Kivalliq region do not pertain to Calm Air.

Second, while it is true that since the early summer, Calm Air has become the only carrier in the Kivalliq region, Calm Air did not buy First Air's operations in the Kivalliq. In June, First Air made a unilateral decision to withdraw from the region. It sold its turbo prop aircraft and sought to lease its 737. In July, Calm Air entered into an agreement with First Air to lease its 737 and acquire its residual assets in the region (i.e., customer lists and certain ground assets). (Calm Air did not buy First Air's turbo-props.) As part of these arrangements, First Air retained the ability to sell an agreed-upon number of seats on Calm Air flights in the Kivalliq region pursuant to a code share agreement. Because First Air sets the prices of these seats, the arrangement maintains a degree of competition that would not otherwise have existed following First Air's decision to withdraw. In other words, there has been no consolidation in the Kivalliq region, but rather a unilateral decision to withdraw from the region by First Air. In that context, Calm Air has sought to improve the service provided to communities in the region by offering more direct flights, faster freight delivery and improved customer service.

The balance of this letter addresses points you raised in your letter that pertain to Calm Air, specifically:

1. Number of seats available;
2. Sports teams and special events;
3. New schedule (connections and fewer stops);

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4. Food shipments to the communities;
5. Medical and water samples;
6. Prices;
7. No direct competition in the Kivalliq region;

Since Calm Air announced the transaction with First Air, it has intended to provide better service going forward than existed at the time in order to be accepted by the customers in the Kivalliq region. We carefully considered frequency, routing and connectivity when we designed the current schedule. We also met with members of the medical and transportation departments in October in Iqaluit.

Since July, the number of seats across the Kivalliq Region has actually increased. Please see the attached summary of the combined seats before the transaction and the number of seats post-transaction. I would point out that the load factors since our July 2nd implementation date are 62% within the Kivalliq Region and 57% between Winnipeg and Rankin, which shows how much available capacity there is.

When sports teams, conferences, government sponsored clinics, etc. take place, the organizers simply have to let us know in advance, and if there are not sufficient seats available, we will add another frequency at no additional cost. We have made the medical department aware of this for future medical clinics to avoid unavailable seats on regularly scheduled flights.

With higher passenger loads, we were able to reduce the number of multi-stop or multi-community routes to either direct routes, or maximum of one stop (one neighbouring community). This reduces the amount of time on the aircraft materially and opens up seats for each community to fly direct. We were also able to commit to an additional aircraft to be based in Rankin at all times. This aircraft serves as redundancy to our current schedule and is available for charters or extra charters.

The schedule was also designed around twice a day (13 times per week) Boeing 737 service between Winnipeg and Rankin. The Boeing 737 is faster than Calm Air's Dornier jets and has the capacity to haul more people but also a large amount of freight on each flight, whereas the Dornier's had virtually no freight capacity.

This added freight capacity from Calm Air leasing First Air's Boeing 737 has created enough additional capacity to fly all of the fresh, frozen and cooler food, including milk, bread and eggs to the entire region. Not only have the store managers noticed the improvement in food quality, but so have the communities. During my community meetings, elders and residents have thanked us for this delivery method as the food now arrives up to three days faster in the Kivalliq region. All of this is done at no additional cost to the residents of the Kivalliq region.

With the transition of our Hub from Churchill to Rankin, we did incur several growing pains and disruptions to service. Our ground handler in Rankin, which is owned by Sakku Investments and the Kivalliq Inuit Association worked very hard to hire dozens of new staff in a very short period of time, and has done an excellent job getting them up to speed quickly. Unfortunately there were some growing pains during the learning process which led to at least two medical samples and one water sample not being flown in a timely manner. These delivery failures by us are simply unacceptable and we apologize. We have since addressed these issues and continue to improve every day. We have developed a new procedure to avoid these special shipments being misplaced, and we will continue to work with the

medical departments and municipalities to develop an email notification system to create redundancy in our procedure.

Since July, Calm Air has not increased any passenger fares or cargo rates. We have also not changed or reduced our beneficiary fares or Aeroplan program. In fact, we have offered the Government of Nunavut, the North West Company and Arctic Coop Ltd. long term contracts at existing fares. Also in response to queries made by the MLA's in our region, we have made commitments in a written letter and signed a new long term contract with the Kivalliq Inuit Association which provides the following:

- A fixed rate for beneficiaries for the next 3 years subject to fuel surcharges.
- A freight discount to our lowest cargo rate for beneficiaries (which did not exist previously).
- An increase in our baggage allowance from two bags to a maximum of 70 lbs to three bags to a maximum of 120 lbs, plus an additional carry-on.
- No charge on all Country Foods shipped within the Kivalliq region.

We have stated to the Nunavut Legislature and to all the communities we serve that our deal is not about increasing prices, but rather decreasing expenses.

Your letter also refers to the Government of Nunavut being deeply troubled by no direct airline competition in the Kivalliq Region. The reality is that airline operations in the Far North are extremely capital intensive and require many communities to be served with very small populations. Splitting traffic between carriers creates significant excess capacity and leads to uneconomic operations that cannot be sustained or forces significantly higher prices. The withdrawal by First Air from the Kivalliq region and our subsequent transaction with them has made it viable for Calm Air to now provide service to the Kivalliq region without price increases and has enabled Calm Air to pass on benefits to the people in the Kivalliq Region.

These benefits include more direct flights at the same prices, improved the delivery times (by up to three days) of fresh and frozen goods, better connectivity to other flights, ability to station a redundant aircraft in Rankin, greater employment opportunities for those living in the Kivalliq by virtue of the Calm Air hub being moved to Rankin and further enhancing pricing to beneficiaries through the long term agreement we have entered into with the Kivalliq Inuit Association. The agreement has resulted in a long term fixed passenger rate, lower cargo rates, increased baggage allowances and no charges for shipping Country Foods. However, Calm Air's ability to continue to do so is dependent on the current state of affairs, most notably receiving all of the medical traffic, remaining unchanged.

We understand the importance of aviation in the Far North as we have had the opportunity to serve the Kivalliq region for over 35 years. We want to provide the Government of Nunavut with a long-term, economic and viable airline to be able to continue to service the people in the Kivalliq region for years to come.

On behalf of Calm Air, I want to thank you for your letter, and welcome the opportunity to meet with you and/or the entire Legislature to discuss these issues further. Moreover, should you have any further concerns with Calm Air's level of service please direct them to me.

Regards,

A handwritten signature in cursive script that reads "Gary Bell".

Gary Bell
President & CEO
Calm Air International LP

GB/gm

KIVALLIQ REGION

OLD AIRLINE SCHEDULE

NEW AIRLINE SCHEDULE

Origin	Destination	Flights per Week			Seats per Week		
		FA	CA	TOTAL	FA	CA	TOTAL
Arviat	Rankin Inlet	10	12	22	220	264	484
Rankin Inlet	Arviat	10	13	23	220	286	506
Baker Lake	Rankin Inlet	11	11	22	242	242	484
Rankin Inlet	Baker Lake	11	12	23	242	264	506
Chesterfield Inlet	Rankin Inlet	4	7	11	88	154	242
Rankin Inlet	Chesterfield Inlet	4	7	11	88	154	242
Coral Harbour	Rankin Inlet	4	8	12	88	176	264
Rankin Inlet	Coral Harbour	4	7	11	88	154	242
Repulse Bay	Rankin Inlet	4	8	12	88	176	264
Rankin Inlet	Repulse Bay	4	10	14	88	220	308
Whale Cove	Rankin Inlet	4	8	12	88	176	264
Rankin Inlet	Whale Cove	4	10	14	88	220	308
Winnipeg	Rankin Inlet	7	12	19	402	272	674
Rankin Inlet	Winnipeg	7	12	19	402	272	674

VARIANCE

Flights per Week	Seats per Week
TOTAL	TOTAL
-3	-18
-4	-40
-2	4
-3	-18
2	92
2	92
0	12
1	34
4	100
4	100
0	48
-2	4
-5	242
-5	242

