Jazz Capacity Purchase Agreement

The Capacity Purchase Agreement

- Under the CPA, Air Canada purchases substantially all of Jazz's fleet capacity
- The CPA focuses Jazz on providing a safe and reliable operation, with superior customer service in a cost-effective manner
- Jazz is responsible for providing:
  - flight and cabin crew
  - maintenance
  - dispatch
  - Systems Operational Control
  - non-hub airport operations

The Capacity Purchase Agreement

- Air Canada is responsible for all commercial related activity including scheduling, inventory management, pricing, ticketing and marketing

- Jazz is responsible for managing those costs deemed to be within its control

- Air Canada reimburses costs which are largely uncontrollable

Controllable Versus Pass-Through Costs

The CPA splits costs into two groups:

Controllable Costs (paid by Jazz)	**Pass-Through Costs (reimbursed by Air Canada)**
✓ Salaries, Wages and Benefits	× Fuel
✓ Maintenance, Materials, Supplies	× NAV CANADA Costs
✓ Aircraft Leases	× Landing and Terminal Fees
✓ Building Rent	× Airport Security Fees
✓ Training	× Initial Station Provisioning Costs
✓ Communication Costs	
✓ Travel Costs	

Determining the Rates

Rates are developed based on projected costs (based on an operating statistics provided by Air Canada).

Block Hour Rates

- flight crew labour and benefits
- cabin crew labour and benefits
- maintenance heavy and line labour and benefits
- maintenance hourly driven costs

Cycle Rates

- SOC labour and benefits
- crew cycle costs
- maintenance cycle driven costs
- Jazz station labour and benefits
- external ground handling costs

NOTE: Rates are based on activity

Determining the Rates

Passenger Rates

- catering and commissary costs
- inconvenienced pax costs

Aircraft Ownership

- aircraft and spare lease costs
- interest and depreciation
- hull insurance

Overhead (Fixed Fee)

- everything else!

NOTE: Rates are based on activity

Rate Renewal & Expiry

- Expiry in December 2015, plus two five-year renewal periods

- Three-year rates are currently locked in for 2006 – 2008
    - rates for 2009 – 2011 will be negotiated in 2008
    - rates for 2012 – 2015 will be negotiated in 2011

The Operating Margin

- If Jazz is able to reduce costs from those contemplated in rates, Jazz keeps 50% of margin improvement
- Rates have been locked in for three years. Future (2009 and beyond) are to be based on negotiated levels of controllable costs.
- Rates for 2010 and beyond potential downward adjustment in margin related to benchmarking concept

CPA Benchmarking

- 12-month period ending June 30, 2007 serves as the baseline
- Measure Jazz adjusted CASM against Mesa, Pinnacle, Skywest, ExpressJet
- Measure again in 2009 — change between 2007 and 2009 Jazz CASM can be no worse relative to the median of the benchmark group
- If so, negative adjustment to our margin

Fleet Commitment

- Air Canada commits to aggregate levels in current fleet plan
- Fleet cannot fall below aggregate level without Jazz's consent
- Air Canada can change fleet mix while still maintaining overall count of 133
- >20% change within aircraft type triggers a rate review

Utilization Levels Commitments

Minimum Average Daily Utilization

- Daily hourly utilization by aircraft type
- Level does not change throughout contract term
- Provides Jazz with a minimum revenue level

Utilization Levels Commitments

Guaranteed Block Hours

- Level of this guarantee varies
- Base is the final seasonal schedule delivered three months prior to the start of the season
- 95% of the block hours in this six-month schedule window are guaranteed
- If actual flying hours are less than 95%, a true up payment is made
- If 95% of the block hours in the six-month schedule are less than the total block hours under the Minimum Average Daily Utilization Guarantee (MADUG), Air Canada pays the MADUG

Performance Incentive

- Jazz has the opportunity to increase profitability through achieving predetermined operational targets
- Four ranges allowing Jazz to achieve up to 2.36% of scheduled flight revenue
- All based on controllable activity
  - controllable OTP
  - controllable flight completion
  - PAWOBS (at Jazz fault stations only)
  - customer service satisfaction
    - ✓ airport check-in satisfaction at Jazz counters
    - ✓ inflight experience satisfaction on Jazz flights