

**Title:****CAPITAL EXPENDITURE  
POLICY****Approved By:****JOHN R. NASH  
CHIEF FINANCIAL OFFICER(CFO)****Effective Date: FEB. 11, 2005****Page No: 1 of 6****1. PURPOSE**

To provide the guidelines under which capital expenditure will be approved and treated in the Financial Statements of the Company.

**2. SCOPE**

These policies and procedures shall apply to all capital expenditure including:

- all vehicles including ground service equipment, tractors, forklifts, etc.
- all computer and software expenditure in excess of \$2,000USD. All computer equipment and software expenditures under \$2,000USD are to be expensed to the department/business unit ordering the equipment.
- purchase of aircraft.(excludes all aircraft parts purchases. Aircraft parts purchases are to be charged to the aircraft consumable parts inventory).
- all rotatable aircraft parts that will be charged to fixed assets(excludes all major components such as nose gear, apu's, c-check costs, cargo doors, rvsm, taws, etc, that will be charged to the aircraft maintenance reserves)
- all other capital items with a purchase price in excess of \$2,000USD.
- All Leasehold Improvements

**3. ACCOUNTING POLICY****3.1 Definition**

Capital expenditure is defined as being the expenditure on items which are expected to produce future economic benefits for the Company, with a useful life in excess of twelve months and carry an acquisition cost in excess of \$2,000USD.

Items of capital expenditure include computer equipment and software, aircraft, plant and machinery, office furniture and equipment, vehicles, trucks, ground service equipment, and buildings and improvements, including leasehold improvements.

As identified above in the SCOPE section, the following expenditures are not to be treated as a capital expenditure: Purchases of aircraft parts(consumables are an inventory item), purchases of major aircraft components and c checks(these are to be treated as on-going maintenance reserves), computer software and equipment under \$2,000USD.

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**3.2 Accounting Treatment**

3.2.1 This policy applies to those items as defined in the Scope, section 2.

3.2.2 Capital expenditure, as defined in section 3.1 above, will be charged to the relevant area of responsibility within the established GL posting account. For purposes of consolidated management and year end reporting these items will be treated as Fixed assets.

**3.3 Budgeted vs. Unbudgeted**

The Company prepares a Capital Expenditure Plan as part of its annual budgeting process. Each department within Amerijet and ITN are asked to prepare a Capital Expenditure Plan, each plan is reviewed and either approved or disapproved by the authority of the Chief Financial Officer and the Chief Executive Officer. Only those items that are approved are allowed Capital Expenditures. The Company may approve Unbudgeted Capital Expenditures if certain circumstances warrant it such as unplanned legally required capital expenditures or in the event of an acquisition, facility move, etc.

1. The Capital Expenditure Plan details:

- Specific property related capital expenditure; and
- A general allowance for miscellaneous capital expenditure.

2. As indicated above, the Company may approve unplanned or unbudgeted capital expenditure items, depending on the circumstance.

For purposes of this policy, unbudgeted capital expenditure is defined as amounts which are in excess of:

1. Amounts detailed in the Capital Expenditure Plan;
2. New capital expenditure items that were not included in the annual budget. The Company will review new unbudgeted capital items based on the circumstances and the need.

**3.4 Leasing and Buy-out Options**

Leasing arrangements are subject to the same approval process as purchases of capital equipment. Leasing is deemed to be an alternative financing mechanism. References within this policy to "purchase price" also infer "lease value".

Equipment currently under lease subject to a "Buy Out" option are also subject to the same approval process as purchases of capital equipment.

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POLICIES AND PROCEDURES**

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**3.5 Sunk Costs**

Sunk costs represent expenditure incurred in the preparation and evaluation of major capital projects. Sunk costs are to be included in the cost of a project being submitted for authorization and shown separately. Once a project has been approved, then sunk costs are capitalised as part of the project and posted to the balance sheet. If a project is not approved, then sunk costs are to be expensed.

**4. CAPITAL EXPENDITURE APPROVAL**

**4.1 Documentation**

The approval process for the purchase or lease of items of a capital nature will require completion of a Capital Expenditure Approval Request form [refer attachment 1]. Non-conformance with any aspect of the form or associated procedures will result in submissions being returned to the originator for completion. Under no circumstances will payment be made for an unapproved capital expenditure.

When completed and the appropriate approvals obtained, the original should be retained by the Accounting/Finance department, with a copy being forwarded to the Originating departmental Director/Vice President.

Each form will contain the following details:

- Identification as to the business unit and department seeking approval.
- Justification for the expenditure which will fall into one of the following categories:

Statutory	- required by Government Agencies(FAA/DOT/EPA/OSHA)
Income Generation/ Cost Reduction	- generates income or delivers operational expenditure savings
Replacement	- replaces an existing asset. Purpose of asset is to be outlined.

- Description of the item to be purchased and the supplier including additional information in support of the justification.
- Details of the cost of the project which will also include delivery, installation, setup and any other associated costs such as training and service costs.
- Timing of expenditure.
- The terms of payment ie. cash on delivery or progress payments.
- The signature of the requestor and the signature of the authorising director/vice president.

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The Capital Expenditure Plan request is to be reviewed with the Senior Director-Financial Analysis and Planning before being submitted to the Executive Management Team for review. The Senior Director will provide assistance to the requestor and review to insure that the requested item is in the Annual Capital Plan and completeness of the request form.

The Capital Expenditure Plan request will be reviewed by the Senior Management team of the Company. The Executive Management team is comprised of the following positions: Chief Executive Officer, Chief Financial Officer, VP-Business Development, VP-Cargo Operations, and the VP-Airline. Approval of a Capital Expenditure request requires the signature of the Chief Executive Officer or the Chief Financial Officer. If the Capital Expenditure request does not have the authorizing signature of the CFO or the CEO, it is NOT an authorized request.

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## 4.2.1 Approval limits for Capital Expenditures:

Capital Expenditure Amount	Director	Vice Pres.	CFO	CEO	Board of Dir.
Up to \$49,999 - Budgeted	Y	Y	Y		
Up to \$99,999 - Budgeted		Y	Y		
Up to \$200,000 - Budgeted			Y	Y	
\$200,000 and Over - Budgeted			Y	Y	Y
Up to \$100,000 - Unbudgeted			Y	Y	
Greater than \$100,000 - Unbudgeted			Y	Y	Y

## 4.3 Timing of Approval Process

Capital Expenditure Approval Requests will be reviewed by the Executive Management Team during the Monday staff meetings or on an as needed basis depending on the priority and merits of the request. The Executive Management team will communicate their approval or disapproval to the originator of the request. A Capital Expenditure Request is deemed to be approved when the form is approved and signed for by the Chief Financial Officer and/or The Chief Executive Officer as per the authority limits outlined in 4.2.1 above.

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**4.4 Supporting Documentation For Major Projects**

For projects greater than \$50,000, formal documentation analysing the capital project will be required to be completed by the Originator with support from the Senior Director-Financial Analysis and Planning, as a supplement to the Capital Expenditure Approval Request form. This analysis of the project does not replace the request, but is in addition, to enable a more complete evaluation of the project. As a minimum, details to be included in this analysis are:

- Key assumptions used in the justification of the project.
- Basic discounted cash flow analysis.
- Safety implications, those relating to Occupational Health issues.
- Details of expenditure which replaces existing assets.
- The amount of sunk costs.
- The financial payback to the Company relating to the purchase of the particular capital item/project (applicable to the Cost Reduction/Income producing justification category only).

The Senior Director-Financial Analysis and Planning will assist the requestor with the financial analysis of the project.

**4.5 Cost Overruns**

An overrun of \$10,000 or 10% (which ever is the lessor) of the original approved capital expenditure, is to be subject to further approval.

**5. OTHER**

**5.1 Post Implementation Reviews**

A post implementation review may be completed by the finance department to review cost justification or revenue generating capital expenditure requests. The objective is to complete an analysis to determine if the Company was cost effective by implementing these new programs or if the revenue generating project was successful.

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The results of the reviews are to be reviewed by the CFO to ensure that these major capital projects have complied with the established guidelines.

5.2 Safety and Insurance

The safety of the Company staff, customers, contractors and visitors is a key criteria in the assessment of capital expenditure. No capital project should be undertaken without appropriate consideration to safety. Suppliers and contractors must also be able to demonstrate their commitment to safety through accreditation with recognised safety organizations. In addition, all contractors must be able to show documentary proof of public liability and workers compensation cover prior to placement of a purchase order/instructions to commence work. It is recommended that spot checks be undertaken from time to time to ensure compliance with this instruction. The Manager of Risk Management can assist with this evaluation

END OF POLICY

REVIEW DATE: