

About Air North, Yukon's Airline

Our History- A message from the President to our Employees & other Stakeholders

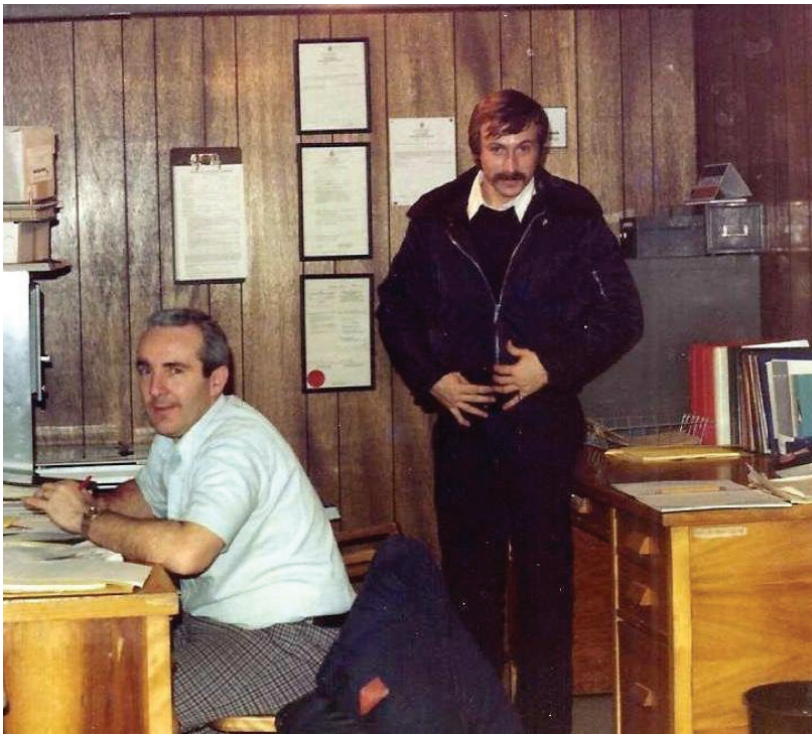


Our 40 year journey has been nothing short of remarkable. Thank you for your support!



This year marks the 40th anniversary of Air North, Yukon's Airline and having grown from two employees in 1977 to more than 600 employees today. I thought that some might find it interesting to hear a bit about how we got to where we are today. With forty years under Air North's belt that means forty years under mine as well and the accompanying memory loss may mean that I could be slightly off on my recollection of some of the dates and/or events in the following paragraphs but I have done my best to be accurate. I have also done my best to identify our longest serving current employees. My apologies if I have missed anyone.

On February 1, 1977 Tom ("Ace") Wood and I purchased the assets of Globe Air for \$50,000 from its owner Ed Phillips (also known as "Fast Eddie"). Our purchased assets included a well-used Cessna 206, C-GLIZ, a Cessna 150 C-GCOO, and a small office trailer. We assumed the leases on three Cessna 172's, C-GASK, C-GWYU, and C-GWKA. My equity in the company was my 1963 Cessna 172, CF-NFA and Tom's equity was a 1958 Piper Apache, CF-MTF plus an interest in some Vancouver real estate.



L to R: Ed Phillips a.k.a. "Fast Eddie" and Joe Sparling, February 1, 1977 at Air North HQ YXY

Tom "Ace" Wood circa 1977

My role in our new operation was finance and charter flying while Tom's role was to look after our maintenance. We had two employees, Nash Jiwa, our Chief Flying Instructor and we hired Ed Phillips as our Chief Pilot so that he could acquaint me with the business.

We had to decide what to call our new venture and, as neither Tom nor I was very creative, the best we could come up with was "Air North". Because we had to incorporate Federally, this name was challenged by Northward Airlines and Nordair and perhaps a couple of others. Being stubborn as well we got our name by tagging on what we did so we were officially incorporated as "Air North Charters & Training Ltd.", a name which we soon outgrew, but worked for us as we did business as "Air North".



Tom, "Ace", Wood circa 1998 (with a clean desk just for the photo)

During our first year of operation, we generated about \$100,000 in total revenue and we managed to achieve a small profit. Our profitability was a bit misleading however as neither Tom nor I were able to take much of a paycheck. Caron Diamond Drilling was one of our biggest customers in 1977 and a big event for me was getting checked out in the 206 to go to Howard's Pass. Jim Stephen was with me on my first trip and I'm pretty sure that he was a bit nervous flying with a rookie.

We were fortunate to find the Yukon's mining sector in a boom cycle during the late 1970's and this presented some opportunities for us. We soon parted ways with Chief Pilot "Fast Eddie" (that is another story) and purchased a twin-engine Britten Norman Islander C-GKMJ. The Islander and the 206 were great airplanes for mining work with good payload and short field capabilities. We hauled lots of groceries, people and machinery into Yukon mining airstrips like Livingstone Creek, Claymore, Ten Mile, Casino and others. We also had a fuel bladder for the Islander which allowed us haul bulk fuel for our customers.



Air North's Britten Norman Islander C-GKMJ at YXY Base 1980's.



Air North's Beech 18 C-FRSX at the Whitehorse Airport March 23, 1986.



De Havilland DHC-2 Beaver on floats at Schwatka Lake float base.



De Havilland DHC-2 Beaver C-FMAS on skis



Air North's first aircraft C-GLIZ Cessna 206 at the Whitehorse Airport (1977).

We soon decided that mining support work was our core business so we sold our flying school and bought a charter base in Mayo Yukon from Trans North Turbo Air. The work out of Mayo was pretty much all floats in the summer and skis in the winter so we needed to acquire some float/ski aircraft. We leased DHC-2 Beaver C-FMAS from Al Beaulieu in Vancouver and we began to look for a large float equipped aircraft. At that time, the DHC-3 single Otter was the industry aircraft of choice for this type of work but, being the bean counter and knowing that we were short on cash, I was having a tough time justifying the \$175,000 purchase price for an Otter. Tom found a Fairchild Husky in Saskatchewan for \$50,000 that, on paper, could do almost everything that an Otter could so we elected to buy the Husky instead of an Otter.

This decision turned out to be a disaster which I like to describe as the “dumbest purchase ever”. We lost an engine and wrecked a set of floats just getting the aircraft from Saskatchewan to the Yukon on floats during the winter (that is also another story) and by the time Fast Eddie (yes, we hired him back) parked the aircraft beside Kathleen Lake north of Mayo we were on our third engine in just 125 revenue hours. We then bought a single Otter C-FQOQ which is, of course, what we should have done in the first place.

With our expansion, we needed to hire some good people so we got Darol Stuart and Mike Stockstill to join Tom in the maintenance department and Rick Nielsen became our first float pilot. This was Rick’s first flying job but he had more float time than I did so he became our float pilot.

With mining activity in the Mayo area booming we were having a tough time keeping up with all of the fuel drums and drill equipment that needed to be moved so we started to look for even bigger aircraft. We bought two Douglas DC-3’s, CF-CUG and CF-OVW, along with some spare parts, from Eldorado Aviation in Edmonton for \$239,000. With the DC-3’s we could move more than 5000# at a time onto airstrips that we cleared on frozen lakes next to the mining camps.



DC-3 CF-CUG over Windy Arm, Yukon.

The DC-3 is perhaps the most famous aircraft ever built and this aircraft really got us into the airline business. Over the years we operated a total of 5 DC-3’s, CUG, OVW, ZOF, IMA, and GHL.

We also built Hangar A in 1980. At 9600 sq ft this was a big move for us, representing, at more than \$300,000, our first major investment in non-aircraft infrastructure.



Fairchild Husky C-FMAN at Schwatka Lake float dock in Whitehorse. Joe Sparling in front. L to R Darol Stuart, Mike Stockstill, Jean Violette and Tom Wood. The Husky was our "dumbest purchase ever"



Winter operations DHC3 single Otter C-FQQQ.



Summer operations DH3 single Otter C-FQQQ and Cessna 185 C-GZVJ at Schwatka Lake float base YXY.



Preparing a runway at Fairchild Lake for arrival of a DC-3 with up to 5,000 lbs. of groceries, fuel drums, building material, and diamond drilling equipment.



Flying fuel drums for Yukon mining companies was a mainstay of our early days. Airstrip at Mile 204 Dempster Highway. Destination Rusty Springs YT.



Our crew warming up over a barrel fire during cold winter operations (mid 1980's). Mile 204 Dempster Highway.



DC-3 at Kiwi Lake, north of Mayo YT.



Flight Attendant Melanie Heynen at work on a DC-3. Note the historical Yukon aviation photos on the forward partition. We played Hank Karr and Al Oster music for the tourists and we also played a Yukon aviation history audio tape.



DC-3 CF-CUG over icefields enroute from Whitehorse to Juneau, Alaska.



DC-3 CF-OVW at Whitehorse. Typical winter operations 1980 – 1998.



Our in-flight service onboard the DC-3 was modern and a big improvement for Yukon travelers.



We served a hot pancake breakfast from the Edgewater Flight kitchen on our northbound flights between Whitehorse and Dawson City.



Air North HQ and Hangar A mid-1980's. Fleet of DC-3's, our leased DHC-4 Caribou, and our staging area for cargo.

Right after acquiring our new aircraft and building our hangar the bottom really fell out from beneath the Yukon economy. At the same time interest rates skyrocketed and this really made life difficult for us as we had taken on a fair bit of debt financing. One of our good customers, Archer Cathro and Associates came to the rescue with an unsolicited offer to pay us \$35,000 in November for a fuel haul to be completed with the Otter on skis in March. Their cash up front helped to ensure that we were still around in March!

One of the most memorable moments from those years was the advice that we received from a business consultant who was doing an evaluation of our business on behalf of our lenders. His suggestion was to "liquidate boys before it is too late". Rather than follow this advice, we chose to put our heads down and work through the tough times and in doing so we learned some valuable lessons about hard work, perseverance, and business risk. We decided that in future we would endeavor to own our assets and to use debt sparingly even if that meant forgoing some growth opportunities. I regard these times as one of three "significant events" that helped to shape this company.

One of the major challenges with charter flying in the Yukon is the seasonal nature of demand. With lots of flying in the summer and not much flying in the winter it was difficult to keep our employees working year-round and it was difficult to pay for all of our aircraft and our hangar. For this reason we started to look at scheduled service flying as a means to smooth out the peaks and valleys.

Our first scheduled service flights were between Whitehorse and Fairbanks in the mid 1980's. These flights were initially operated during the summer only in support of a Holland America tour program. We subsequently added Dawson City to our network followed by Old Crow and we made the service year-round. While the DC-3 was the mainstay of our scheduled service, we also flew smaller aircraft like the PA-31 Piper Navajo and the Beech B-80 Queenair. We also flew to Juneau Alaska, Watson Lake, and Mayo although we did not find these routes to be sustainable.

In 1988 we acquired a Douglas DC-4 which, at that time, was the largest aircraft that we had ever operated. The DC-4 was a 4 engine, 57 passenger aircraft with an 18,000# payload. We operated the DC-4 in full passenger, combi, and freighter configuration. I found the DC-4 to be a wonderful aircraft although the engines were not terribly reliable. Fortunately it flew quite nicely on three engines.

From 1977 until 1998 all of the aircraft that we flew were powered with piston engines. We have a number of employees with us today who started their careers at Air North during this time including Lorenzo Roberti, Dan Quaile, Sandy Roussel, Brad Schmidt, Brian Van Hasselt, Sharon Miller, Dan Poelman, Mike Beaman, Dan Tonner, Roxanne Stanley-Lyslo, Bruce Thomson, Phyllis Frost, Debra Ryan, and Benjamin Ryan. Kirsty Thompson, who was our one women accounting team for many years retired in 2016.

In 1998 we entered the turbine age with the purchase of 2 HS-748 aircraft (ZK-MCP and ZK-MCJ) from Mount Cook Airline in Christchurch New Zealand. We flew these aircraft to Canada where they were imported and



Whitehorse Airport – Air North Check-in April 15, 1994. Photo: L to R Tracey Wolfe (PSA), Paul Vinson (Pilot), Jane Bendera (Flight Attendant).



Tourism Industry Association of Yukon charter to Alaska Visitors Association conference in Alaska April 15, 1994.



Jimmy Mann organizer of NHL Legends charter to Alaska mid 1990's via DC-3 Lady Lou CF-CUG. Crew: Cpt. Joe Sparling, FO Don Bergren and Flight Attendant. That's Eddie Shack in the cowboy hat, Guy Lafleur in the tie, and Red Storey in the ball cap.



Douglas DC-4 in freighter operation with groceries and general cargo for Old Crow Yukon.



Beech 99, C-FRQI with DJ, DQ, Carol, Antje, Mike, Dan, Brian and Dave. Mike seems to be paying particular attention to Antje!



Hawker Siddeley 748 C-FYDU in Mount Cook Airline, NZ colors at YXY circa 1998.



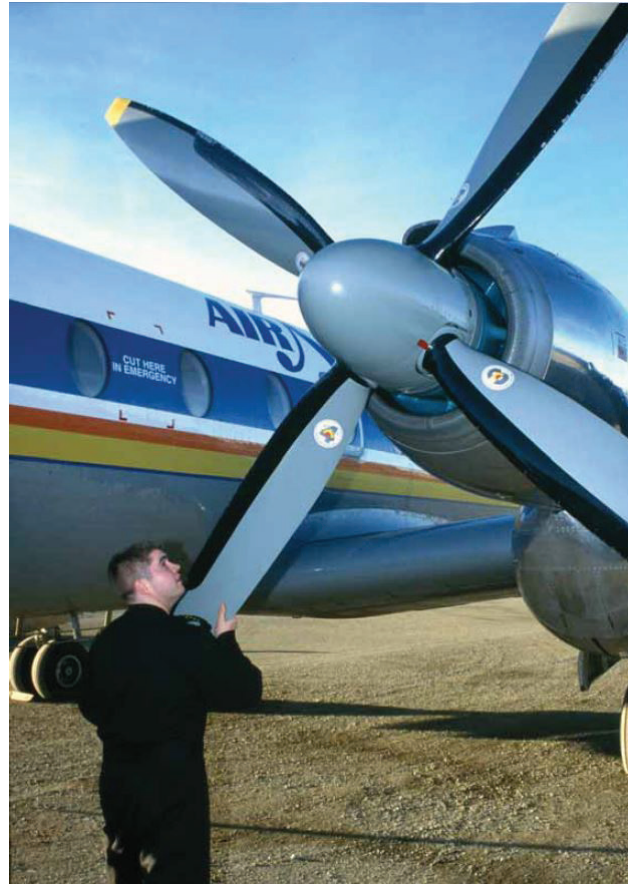
YXY Base. Photo: L to R Greg Charlie (Director), Murray Leitch (Director), Andrew Richardson (Pilot), Joe Sparling (President and Pilot) and Tom Wood (Director and founding Partner)

registered as C-FYDU and C-FYDY. The HS-748's fly faster and higher than the DC-3's and they are more reliable. With double the payload of a DC-3, the HS-748's represented a huge product improvement and they allowed us to add Inuvik to our scheduled service network. We subsequently added C-FAGI, C-FCSE, and C-FANA to our HS748 fleet.

By 1999, Tom Wood and I had been equal business partners for 22 years and we didn't even have a shareholder's agreement! We got along well and arrived at all decisions through consensus even if it took a bit of arguing to reach consensus. After all this time though, Tom was looking to pursue other interests.

One evening in Old Crow, after we had finished hauling fuel for the day, Greg Charlie approached me and told me about recent developments at the Vuntut Gwitchin First Nation. The VGFN were among the first Yukon First Nations to achieve their land claims settlement. Greg told me that after a self-imposed moratorium on their investment funds, they had now formed a development corporation and they were seeking out strategic investments. They identified Air North as their first strategic investment. With no road access, the VGFN community of Old Crow relies on air transportation for the movement of people, groceries, mail, consumer goods, building materials, and fuel for heating, vehicles, and power generation. Greg expressed that, by investing in the airline that was a lifeline to their community, they could have some say in the decision making and they could share in the success of the airline. Their investment would ensure that some of the money being spent on air transportation would be retained in or returned to the community for, not just the current generation, but for future generations as well.







HS748 departing Old Crow Yukon (gravel runway) circa 1998.



Legendary northern hospitality onboard one of our HS-748's. Note the Mount Cook mural made from New Zealand wool on the rear partition.



Unloading a DC-4 freighter in Old Crow mid 1990's. Training Captain Axel Duch



Fuel haul in Old Crow via HS748.

My initial response to Greg was to point out that the airline business is notorious for providing above average risk and below average returns but given the First Nation's position as a major customer and their long-term community considerations, it made sense to continue the discussions. With Tom wanting to sell and the First Nation wanting to buy, my role was to facilitate a transaction whereby Tom initially sold a 30% interest in the airline to the VGFN followed by another 19% one year later. While Tom is no longer a shareholder he continues to serve on our Board as does Greg Charlie. I regard the investment by the VGFN (and later by almost 2000 other Yukoners) and in particular, the logic behind these investments, as the second "significant event" that helped to shape the airline.

One evening in Whitehorse during a casual discussion with local businessman Bill Drury, the subject of aviation came up, as it often does in the north, and Bill said to me "you don't know it Joe, but one day you will be providing jet service to Vancouver". While the idea seemed pretty far-fetched at the time, it did stick with me.

Grant McConachie's Yukon Southern Airways provided the first scheduled air service to and from the Yukon in 1937. Yukon Southern Airways evolved into Canadian Pacific Airlines which later became Canadian Airlines International which was ultimately purchased by Air Canada.

While CP Air was very popular with Yukoners, by the time Air Canada took over there was a growing appetite for lower airfares and some competition. While the initial thoughts from the community were that this could only be achieved by encouraging another mainline carrier to serve the Yukon, buoyed by the logic behind the VGFN investment in Air North, and Bill Drury's comments, we knew that Yukoners would be best served by a locally provided product and we were confident that we were up for the challenge.

While we were confident in our ability to acquire aircraft and operate a gateway jet service successfully, we did have two major challenges that needed to be resolved before we could move ahead. Firstly, we felt that we needed to have the support of the Territorial Government in order to be successful. The Yukon Government was and still is the largest single direct purchaser of air transportation in the gateway market. In addition to their direct purchasing, they facilitate many more travel purchases through their Tourism department. With their complete support our success would have been almost guaranteed while with no support from them, our chances of success would have been very slim. While we were unable to get any bankable commitments from the Territorial Government, our discussions with them gave us sufficient comfort that their direct purchasing in combination with their purchasing facilitation would provide us with reasonable baseline purchases.



Phyllis Frost—Passenger service with a smile in Old Crow, Yukon.



Our first Boeing 737-200 jet aircraft (C-FJLB) arrives YXY all white.



Boyd Benjamin, Flight Attendant welcomes crowd at YXY during arrival event.



Even though the arrival wasn't advertised hundreds of locals came out to meet the aircraft upon arrival. This was an exciting day that marked the end of high airfares and limited schedule and the beginning of affordability for Yukoners to travel and business to grow.

The second challenge was that the events of September 11, 2001 caused the bank financing for our aircraft to evaporate overnight. We were dealing with US Airways Sales and Leasing with respect to the purchase of one Boeing 737-200 aircraft at a cost of around \$10 million. Right after September 11, 2001, US Airways Sales and Leasing sold their entire fleet of aircraft to a wealthy Texas businessman. The President of the company went with the aircraft so we at least had some continuity in our contacts. At the same time, the market changed dramatically and aircraft were trading at about 50% of their pre-Sept 11 values. It took just a few phone calls to negotiate short term purchase financing for one Boeing and an ability to make interest only payments on a second aircraft with a provision to pay an hourly rate if we flew it. Luck was on our side in this case because an arrangement like this would probably not have been possible through a traditional aircraft finance company.

With these two major challenges behind us we were good to go and we started to make plans to launch our new service in June 2002. We knew that we had to come up with take-out financing for the aircraft within a year or so but figured that we could take our chances with that.

In early 2002, Murray Leitch, one of our Directors identified a Yukon Government sponsored local equity program called the Yukon Small Business Investment Tax Credit Program (YSBITC). This program is designed to encourage Yukoners to keep their money in the Yukon by making local equity investments. The program provides a one-time tax credit against Yukon taxes equal to 25% of the value of the investment. I was skeptical as I felt that local investors would feel there was too much risk associated with an investment in an airline that was about to compete with the largest airline in Canada. Under the circumstances though I felt that we had little to lose by giving it a try.

I soon learned that I had completely underestimated the interest that every day Yukoners had in their gateway air service. Over and over again people expressed to me the same logic that underpinned the VGFN investment in the airline. Today, with almost 1,500 YSBITC shareholders, about one in fifteen Yukoners holds an equity stake in this airline and as a result we have raised almost \$12 million in equity capital in our small community of about 37,000 people. This is truly remarkable and as expressed previously, something that I regard as a defining moment for the company.



Air North Boeing 737-200 livery 2002. C-FJLB came to us after flying for US Airways and then Canada 3000.

We took delivery of C-FJLB in the late spring of 2002 followed by C-GNAU. Meeting the regulatory requirements went right down to the wire with our Air Operating Certificate (AOC) and our Canadian Transportation Agency (CTA) License arriving less than two hours before our first scheduled departure on June 6, 2002. I should point out that both our Transport Canada Principal Operations and Maintenance Inspectors as well as the Canadian Transportation Agency Inspector went "above and beyond" to make sure that we were ready to go by the time the first passenger checked in.

We launched our gateway jet service on June 6, 2002, and we were not in the gateway jet business for long before our name came back to haunt us again. We soon discovered that few people outside of the Yukon had ever heard of us and there was nothing in our name that gave any indication of where we flew. We felt that the best way to grow our jet business would be to first market the region so overnight we became "Air North, Yukon's Airline". To further increase brand awareness we eventually painted all of our tails orange and while I didn't agree with this choice of color at first, Deb Ryan and Stephanie Churchill soon convinced me that this was the best choice. At first our rebranding was confined to the tails only for pure economic and expediency reasons. We were able to rebrand all six tails of our aircraft within about two months for less than the cost of repainting one jet!

In our original gateway service business plan we contemplated operating six gateway flights each week with two B737-200 aircraft and we projected that we would transport 44,000 gateway passengers/year at an average airfare of \$250. Our annual gateway service revenues (including cargo) were projected to be \$12 million and our gateway load factor was projected to be 65%. Our gateway service revenue/available seat mile (RASM) was forecast to be \$.18 and our gateway service cost/available seat mile (CASM) was forecast to be \$.16.

Competing with the big guys proved to be pretty tough. Air Canada is the largest airline in the country at one hundred and fifty times our size with a diverse route network, a frequent flyer program, and most importantly, an ability to withstand losses on Yukon gateway routes almost indefinitely. As if it wasn't enough to compete with Air Canada, in 2012 WestJet, at fifty times our size and the industry leader in terms of cost control and efficiency, decided to take a run at the Yukon gateway routes as well. We soon learned that both mainline carriers were "all business" and while we understood that in order to compete, we had to be "all business" as well in terms of cost control, we also knew that in our small community, with all of our local shareholders, "all business" was not going to be good enough.

We found that our engagement with our local community was something that our competitors could not duplicate and a factor that produced a level of support for our product that we could never have imagined.

During 2016, we averaged 18.7 gateway flights each week and our jet fleet is now comprised of four B737-500's, one B737-400, and one B737-200C. During 2016 we transported almost 195,000 gateway passengers and our average southern gateway airfare was \$192. Our total gateway service revenues in 2016 were almost \$44 million and our south gateway route load factor was 67%. Our south gateway route RASM was \$.15 and our south gateway route CASM was \$.12.

The year before we launched our gateway jet service our mainline competitor transported about 110,000 passengers and the average gateway airfare was more than \$310. Last year mainline carrier gateway traffic was



Cpt. Dan Quaille and First Officer Dan Poelman prepare for flight in one of Air North's HS-748 aircraft.



estimated to be about 128,000 passengers.

The foregoing statistics really speak for themselves. With airfares down by about 40% travel has almost tripled and we have achieved the lion's share of traffic growth. Clearly we have made it possible for more people to travel and for people to travel more often. We beat our original projections by far more than I could have ever imagined and in doing so we are well on the way to creating a sustainable model which represents a win for the company, a win for our customers, a win for our employees, and a win for the Yukon. This is far and above, the most significant and defining event of these past forty years and what makes it extra special is that its significance reaches far beyond the airline.

While it is easy to see how the company wins if it is making money and it is easy to see how consumers win if they save money, the employment and territorial aspects warrant more discussion.

The Yukon covers 186,000 square miles and has a population of just 37,000. In comparison, Alberta occupies 255,000 square miles and has a population of 4.2 million. The 2016/2017 Yukon Territorial Government budget is about \$1.3 billion, and about \$1.1 billion of this will be paid from a Federal transfer payment, about \$50 million will come from other sources of funding and only about \$150 million will come from taxes and other internally generated revenues. There are about 20,000 people employed in the Territory with about half working in the private sector. Between the Department of Tourism and the Department of Economic Development the Yukon Government spends more than \$50 million each year in an effort to attract new jobs and increase visitor spending in the Territory.

With respect to employment, we knew that we would need to expand our workforce when we launched our gateway service. I projected that we would grow from 28 to 56 employees but I soon learned that I had underbudgeted significantly. By the third quarter of 2002 we had more than 100 people working for us, almost all local Yukoners. During 2002 we added Andrew Richardson, Ryan Kinney, Dan Kenny, Clayton Baker, Kim Dolkjar, Ella Patay, and Sonia Leger to our team and the growth did not stop there. Today we have more than 250 Yukoners working for us, many of them in jobs that did not exist in the north before we launched our gateway service. We are now one of the largest private sector employers in the Territory, accounting for about 2.5% of all private sector jobs.

It is interesting to note that out of the 132 employees we listed in our 2003 Annual Report, 41, or 31% are still with us or back with us today. Other than those previously mentioned in this year's report, the following employees are also still with us: Patrick Anderson, Pamela Cochrane, Darren Kinney, Janice Lockington, Jordan Robins, Laszlo Nagy, Alex Fox, Mark Bowen, Debra Frost, Erica Craft, Jude Hoeden, Gerald Steinhagen, Corie Hermanson, Laurent Avril, Antje Beaman, Nola Munro, David Mountain, Roxanne Stanley-Lyslo, and Derric Lewis.

With respect to visitor spending, in 2001, prior to us launching our gateway service, there were about 35,000 annual air visitors to the Yukon and they spent approximately \$28 million here. During 2016 we estimate that more than 75,000 visitors came to the Yukon by air and they spent about \$80 million here.

Clearly our new gateway product has proven to be good for northerners and good for the north but the market has responded in a way that far exceeded our expectations and I think that there is more to this than just pricing, jobs, and visitor spending. We are a small airline operating in a small community and while this presents some distinct disadvantages, like limited growth opportunities, diseconomies of scale, and lack of network, to name a few, this factor also offers some advantages for us, which we might have underestimated.

Because this is a small community and because we are headquartered here and so many of our employees live here, we have been able to engage with our customers in ways that no large non-local carrier could possibly duplicate and I believe that the pay-back for this engagement has been huge. We have distinguished ourselves by not being a faceless and emotionless provider of minimum standard service and our customers are clearly responding to this. We certainly do our best to put together an "A" team of employees who are congenial, outgoing, and customer oriented and, given the size of our community, our employees often find themselves interacting



Call Centre and Administration Building – 150 Condor Road, Whitehorse, Yukon.



Air North Administration Building 150 Condor Road, Whitehorse, Yukon.

with their friends and neighbors. This has helped to create a friendly and service oriented culture that is not only infectious, but also easily noticed by new customers who are not familiar with our product.

With our growth in flying came a need for additional infrastructure. In late 2002 we added another 14,400 square feet of hangar space when we built Hangar B for just under \$300,000. We subsequently invested another \$300,000 in Hangar B to provide a concrete floor, heating system, and offices. In 2004 we invested more than \$600,000 in a 4300 square feet Administration Building, which houses our Call Center, Human Resources, Finance and Accounting, Commercial Development, and Executive personnel.

Our ability to price stimulate the market would have been and will be severely hampered if we did not and do not have our costs under control. My observation is that we are likely the only northern air carrier that has a cost structure that will allow us to compete with mainline air carriers. Although the other northern carriers do not publish their costs, we have observed that they have generally been forced to retreat when faced with mainline competition while we have thusfar been able to hold our own. This is partly because we have been able to do a pretty good job of holding on to our customers, but it is also as a result of our efforts at cost control. Our CASM's typically are right between those of WestJet and Air Canada, but closer to those of WestJet and this has made it possible for us to withstand, what has been at times during the past fifteen years, a very difficult competitive environment in the gateway market.

Diversification is a major element in our cost control strategy. We currently incur about \$1.5 million in overhead costs each month and while our scheduled services look after most of our overheads, we also rely on charter flying, ground handling, and commercial fuel sales to make a contribution. Overhead contributions from other business units makes our core scheduled flying business less vulnerable to challenging competitive dynamics.

Charter flying is pretty straightforward for us because it is where we started our business. The big difference now is that most of the charter demand for our jet aircraft comes from outside of the Yukon. Last year charter flying accounted for about 21% of our total revenues and about 20% of our total overhead contributions. It is significant to note that there is a big difference in the cost of providing charter services from an established aircraft and crew base and the cost of providing those services from a remote base. During 2016 our charter CASM was 52% higher than our sked CASM and despite the fact that our service culture produced a product that was very well received by our customers, price still proved to be king and we lost most of our Suncor flying to WestJet. Despite this, we are still forecasting charter activities to account for 16% of revenues and 16% of overhead contributions in 2017.

Our venture into ground handling was precipitated by our frustration with the inability of contract ground handlers to provide us with the product we wanted. Above the wing we were seeing different passenger service agents for every check-in and this made it impossible to provide any level of customer recognition or personalized service. Below the wing, I remember seeing bags tumble off a belt loader and watching the contract ground handlers "high five" one another. I also remember instances of bumped cargo which could easily have fit if the cargo holds had been packed properly. With limited frequencies it was difficult to justify hiring our own people but once our YVR frequency increased to two flights/day, it started to make sense for YVR. We soon found that our service oriented culture, which started in the Yukon, easily spread to our new employees at YVR and others noticed this as well. Before we knew it we had other airlines asking us to handle them and today we are providing various ground handling services for United Airlines, American Airlines, Aero Mexico, All Nippon Airlines (above wing), Alaska Airlines (wheelchairs), WestJet (south terminal charters), Encore (short-term below wing), and CargoJet (lav services) at YVR, KLM (above wing) at YEG, and Condor (seasonal), and Air Canada (catering and maintenance) at YXY. Today we have more than 300 ground handling employees, representing about 65% of our total workforce. Ground handling is a very labour intensive and low margin business unit but nonetheless is projected to account for 15% of revenues and 6% of overhead contributions in 2017.

We got into the fuel business simply because we knew that we needed to do what we could to make sure that we were buying our jet fuel at the best possible price. Fuel has been our largest single cost for thirty-seven out of our first forty years although payroll has surpassed fuel in each of the past two years and is expected to do so again in 2017. We expect to buy close to 27 million litres of jet fuel during 2017 and almost 50% of this will be purchased at YXY. At one time there was only one airport fuel supplier at YXY so we found that we needed to invest in fuel infrastructure in order to develop competitive options. In order to help pay for our infrastructure it made sense to sell fuel as well. Today our fuel for YXY is purchased from a refinery in the Pacific Northwest, barged to Haines Alaska, and then trucked to YXY. We supply our tank in YDA and product for our quarterly fuel hauls to YOC using the same supply chain. We currently operate four airport fuel trucks and have about 350,000 litres of fuel storage. For 2017 we expect commercial fuel sales to account for about 7% of our total revenues and 4% of our overhead contributions.

One cannot afford to sit still in any business, especially the airline business. As time goes on and as the operation grows it is necessary to upgrade and modernize our aircraft fleet and to add infrastructure to support the operation. During 2016 we added another winglet equipped B737-500 (C-FANF) to the fleet at a cost of \$3.5 million and we acquired 2 ATR-42's (C-FVGF and C-FVGP) at a cost of \$6.5 million. The Vuntut Gwitchin First Nation and the



Call Centre and Administration Building – 150 Condor Road, Whitehorse, Yukon.



Old Crow agent Ethel Frost

Kluane First Nation jointly provided financing for the ATR purchases as well as for engine replacement purchases for the Boeings.

We also invested \$250,000 renovating Hangar A and our Catering Building. This modification increased floor-space for each of Catering & Grooming, GSE Maintenance, and Cargo. Concurrently, we started construction on a 11,700 square feet building at a cost of \$2 million to accommodate secure spare parts storage along with office space for Flight Operations & Maintenance personnel.

During 2016 we also completed construction of Hangar C. This beautiful building, at more than 40,000 square feet and a cost of \$3.4 million represents the largest heated hangar facility in the north and in combination with Hangar B, gives us more than 55,000 square feet of hangar space. We plan to renovate Hangar B this summer to provide insulation and new fabric along with other improvements.

I am sometimes asked about our "vision" or our "values". I am not much on "mission statements, vision statements, or value statements" mainly because I have never found one that really suited. Instead, the somewhat lengthy history in the preceding paragraphs, and in particular the three "defining events" that I have identified in our history, should convey a pretty good idea of what this company is all about.

The foregoing data provides pretty good indication that our successes during the past fifteen years have come largely as a result of our ability to price stimulate our gateway market and our success in engaging our community, our customers, and our employees. Our ability to price stimulate is largely dependent on cost control and operational efficiencies while our ability to engage our key stakeholders has been facilitated by the fact that we are a small company operating in a small community. This gives us an edge over our much larger competitors and while they would find it pretty much impossible to duplicate our "small town advantage", we need to recognize that this advantage will disappear pretty quickly if we grow too big or if we venture too far from the north.

The level of engagement that we have been able to achieve with our community and our customers would not be possible if we did not have an "A" list of employees representing us at every interaction but as the company grows it becomes more challenging to engage with all of our employees. Twenty years ago it was much easier because I worked with and/or interacted with all of our employees regularly. This is not possible today, so as you know we are currently taking steps, which are aptly described as the "Engage" initiative, to better engage our employees. Rick is leading this project, which started eighteen months ago, and we are confident that it will produce some great results.

I hope that you have all found this review of our history to be an interesting read and one which hopefully provides some insight into how we see ourselves as a business. As we enter our forty first year, I am confident that we will continue to do well so long as we continue to work hard and pay close attention to what got us here. Our 40th Anniversary seat sale produced results that exceeded our wildest expectations as we sold more segments in two days than we did in the whole month of February last year. This volume also represented 50% of our total sales in all of 2002! Once again, our community supported us in spades but this year more than half of our bookings were from outside the Yukon and that is a great indication that our reach is growing.

In closing I want to take this opportunity to thank all of our employees and other stakeholders for your help in achieving our past and current successes and in shaping our future. It takes an "A" team to succeed and I am so proud and thankful to have all of you on the Air North, Yukon's Airline team!



Joseph Sparling, President



Arctic Indigenous Award 2016
Aboriginal Business of the Year



Celebrating arrival of the 2010 Olympics torch relay onboard Air North B737 charter.



First B737-200 flight into Old Crow November 2009 with Olympic Torch onboard