Employee and Stakeholder Information Update

15 December 2021

As we near the end of 2021, I want to take this opportunity to thank all of our employees for your continuing hard work and all of our stakeholders for your continuing support. I also want to provide an update on our efforts to navigate our way through the pandemic.

As I mentioned in my last update, our financial performance has improved significantly year-over-year. We showed a healthy profit in Q3 with no dependance on subsidy and although we will show a loss in Q4, and a significant pre-subsidy loss for the year, we expect to produce close to break-even post-subsidy results in 2021 with about half as much subsidy as 2020. The impact of COVID-19 on our business has been significant, turning a 2019 gross profit of $7.2 million into a 2020 pre-subsidy loss of $14.2 million and a post-subsidy loss of $4.2 million.

In terms of traffic, in November the Yukon scheduled service market showed a recovery to about 70% of pre-pandemic levels but our traffic exceeded pre-pandemic levels partly because we were able to grow our share of the Yukon gateway market and partly because the highway closures in BC produced a spike in non-Yukon market traffic. Going forward, and because we are a Yukon-based airline, we require either a significant share of our small Yukon market or we need to attract more non-Yukon market traffic in order to generate enough flying, traffic, and revenue to look after our overhead costs while continuing to provide affordable air transportation for Yukoners and for visitors to the Yukon.

AIR NORTH Yukon's Airline

Market share has always been a challenge for us because only about half of the Yukon market passengers are travelling to or from our primary gateway cities while the remaining market passengers are traveling to or from "beyond gateway" cities. Even with a major share of the gateway traffic, our share of the total market will always be constrained if we cannot effectively sell to beyond gateway travellers.

In order to increase our share of "beyond gateway" traffic we either need to fly to more places ourselves or we need to be able to work with other air carriers to provide travel to and from cities that we do not fly to. Interline agreements are one way to do this.

There is a business case for interline agreements, particularly in small markets or in periods of depressed demand. The Yukon market in November provides a great illustration. In November we operated 40 flights from Whitehorse to Vancouver only; 21 flights to Vancouver with continuing service to Kelowna; 10 flights to Vancouver including a stop in Victoria, and 20 flights to Edmonton and Calgary. In November, Air Canada operated 60 flights between Vancouver and Whitehorse. With both of us operating flights that, on average, were barely 50% full, there were lots of empty seats in the market and neither of us made any money. With a properly crafted interline agreement with Air Canada, I estimate that, with no impact on airfares, we could have reduced our secondary gateway capacity while, at the same time, marketing daily service to our secondary gateways as well as to other destinations through Air Canada's network. At the same time, we could have increased our capacity to YVR with the net impact being a 10% capacity reduction for us. With us feeding network traffic to Air Canada, there would be motivation for them to optimize their gateway load factors by reducing capacity and this would improve gateway market load factors to better than 75% for both of us. In terms of traffic, we would have moved about 2,200 less passengers (all non-Yukon market) and they would have moved about 2,200 more passengers (all non-Yukon market). In terms of financial performance, I estimate that our overhead contribution would increase by more than $250,000 and theirs would improve by more than $800,000. For the Yukon, an interline agreement would keep travel dollars in our economy and protect local jobs while giving Yukoners local access to more destinations. In terms of the environment, a reduction in empty seats would reduce overall greenhouse gas emissions by more than 25%.

The foregoing illustration shows how, in the Yukon market, an interline agreement between Air North and either or both mainline air carriers could produce an overall win-win-win-win for consumers, airlines, the Yukon economy, and the environment. With the numbers making such a compelling case in this market, one has to wonder why we are not seeing a proliferation of new interline agreements in the domestic Canadian market, particularly when they are so commonly used to protect the interests of Canada and Canadian airlines in the international marketplace. Air Canada lists 101 interline and/or code share partners on their website but only six of these partners are Canadian domestic carriers. Similarly, WestJet lists 49 interline and/or code share partners on their website but only three of these are Canadian domestic airlines.

PHOTO: SIMONBLAKESLEY.CA

The foregoing illustrates that the national airlines in Canada have undertaken to partner with airlines all over the world in order to better connect Canada with other countries, but it would appear that they could do a better job of facilitating community connectivity within Canada. Both Air Canada and WestJet serve larger regional markets through their affiliates or subsidiaries. Air Canada has a Capacity Purchase Agreement (CPA) with Jazz and also a minority equity interest in them and Encore is a wholly-owned subsidiary of WestJet. This leaves most of the smallest regional communities and almost all of the remote communities without meaningful access to the national and international air travel network. While the national carriers do list some domestic airlines as partners, these partnerships appear to be extremely narrow in scope and effectively leave many smaller communities disconnected from many of the larger communities in southern Canada simply because many regional airlines are not able to offer competitive connectivity to the national network.

We recognize that Canada's mainline carriers have a lot on their plates these days and interline outreaches from Air North are probably not unlike a mouse trying to get the attention of an elephant so we have reached out for help to our Territorial government along with Federal agencies with responsibilities for aviation, economic development, and Indigenous affairs. Governments have plenty of policy tools at their disposal and I feel that they should be using these tools in order to optimize outcomes rather than letting nature take its course or promoting a competitive free for all. We encourage governments to adopt "Canada First" COVID recovery policies that support Canadian air carriers and support connectivity between all communities in Canada and between Canada and the rest of the world.

With respect to regional domestic air service, we feel that the following five key touch points should resonate with all levels of government:

i. **Reconciliation –** Reconciliation is a key pillar in the current political agenda. Our Director, Greg Charlie recently reached out to Air Canada, pointing out that a meaningful interline agreement between Air North and Air Canada would address Chapter 22 provisions of the Vuntut Gwitchin First Nation Final Agreement. Air Canada is likely completely unaware of this consideration and we are hopeful that, by bringing it to their attention, they may see an opportunity to create some political goodwill for themselves at no cost;

PHOTO: PAUL JOSIE

ii. **Environmental Protection –** Environmental protection is also a key pillar in the current political agenda. In their 2020 Sustainability Report, Air Canada cites their goal of a 20% reduction in absolute Greenhouse Gas (GHG) Emissions by 2030 relative to 2019. We support this goal and would aim to achieve a similar reduction for our operation. In the same report, Air Canada acknowledges that 99% of their carbon emissions are from aircraft engine combustion, and we agree with this assertion, so with flying down by more than 50% during COVID, it stands to reason that both Air Canada and Air North have already surpassed the 2030 GHG reduction target. The challenge now becomes one of hanging on the COVID-forced gains as demand for air travel recovers and the best way to meet this challenge is to find ways to operate more efficiently. Working together to reduce route overlap through an interline agreement would produce significant gains in efficiency for all airlines in Canada;

iii. **Fiscal Prudence –** Fiscal prudence is also at the forefront of the political agenda and it would be difficult to find fault with any strategy that would make the North less dependent on a transfer payment. A locally provided transportation network helps the Yukon economy by employing northerners, retaining dollars in the North and bringing new dollars to the North. Additionally, for Air North, the integration of gateway and regional routes allows our overhead costs to be shared and amortized over a greater volume of flying thus helping to ensure affordable airfares for both regional and gateway travellers. Our record during the past twenty years speaks for itself in this regard. "Buy local" initiatives are springing up all across the country as a means to get local economies back on their feet and these initiatives are particularly relevant in the North;

iv. **Passenger Rights –** Air passenger rights and protection provisions have recently been introduced in legislation but, without interline agreements, regional communities and regional residents come up short. To illustrate, without a full interline agreement, there is no requirement for either mainline carrier to re-accommodate a misconnecting passenger or even to accept checked luggage from a connecting passenger originating in the Yukon. It seems reasonable to expect that passengers originating in northern and other regional communities should be afforded the same degree of legislated passenger protection as those passengers traveling between larger southern centres;

v. **Tourism Marketing –** The tourist industry has been devastated by COVID-19 and all regions in Canada are accelerating their efforts to attract domestic visitors. We recently announced our plans to link the Yukon to Toronto on a seasonal basis starting this spring. The rationale behind this is not so much an effort to expand our company, but rather an effort to generate incremental traffic by offering connectivity with Canada's largest airport. Prior to this, and in the absence of interline agreements, Air North would not appear as a competitive option for travel itineraries between Whitehorse and Toronto and air travel between Toronto and Dawson City would show as "unavailable."

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To summarize the foregoing discussion, we feel that cooperative working agreements between Air North and mainline air carriers are essential in order to ensure the sustainability of a locally provided, competitive, and cost-effective air travel network from, to, and within the Yukon. For the past 20 years, Yukoners and visitors to the Yukon have been able to travel by air at a fraction of the cost of air travel from, to, and within other northern regions and this has made the Yukon a better place to live, work and visit. COVID-19 has been challenging for everyone and it will be some time before its impacts are completely behind us so we need to take steps to ensure that we can operate sustainably on a smaller scale relative to the pre-COVID environment. Interline agreements and the continued support of Yukoners are both crucial to this.

On behalf of your Board of Directors and your senior management team I want to wish you and your families all the best during the holiday season.

Joseph Sparling, PRESIDENT
AIR NORTH, YUKON'S AIRLINE

2020 Travellers' Choice
Tripadvisor

Best Airline
Canada

Best Specialty Airline
North America

Vuntut Gwitchin First Nation

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