

Air North, Yukon's Airline

Background

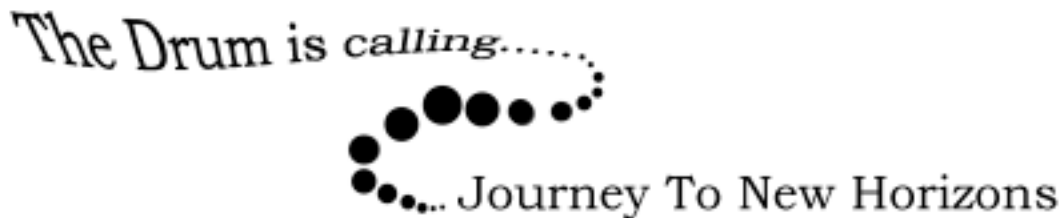
Air North was founded on Feb 1, 1977 by Joseph Sparling and Tom Wood. During its first years, the company participated in charter and flight training activities with Cessna products as well as float and ski equipped Dehavilland Beaver and Otter aircraft. In 1979 the company purchased 2 Douglas DC-3's primarily for charter work in support of the mining industry. In the mid 1980's Air North began providing scheduled air service from Whitehorse to communities in the Yukon and Alaska. By 1987 the fleet of DC-3's had grown to 5 and during that same year a Douglas DC-4 was acquired.

In 1996 the entire fleet of piston powered aircraft was replaced with 40 passenger turbo prop HS748's. In mid 2002, two Boeing 737 aircraft were acquired. Scheduled jet service between Whitehorse and Edmonton, Calgary and Vancouver commenced on June 7, 2002. Today, the company operates 2 Boeing 737-200's, 3 HS748's and 1 Beech 99 and it employs more than 60 people in the Yukon. Corporate, operations and maintenance headquarters are at the Whitehorse airport.

Air North, Yukon's Airline Ownership

Because the community of Old Crow has no road access, it generates a significant demand for air service on Air North's northern routes. The community relies on Air North for the transportation of passengers, mail, groceries, general freight, medical supplies, building materials and even fuel. Because of Old Crow's dependence on air transportation, the Vuntut Gwitchin First Nation identified Air North as a strategic investment for their development arm, the Vuntut Development Corp. In 2001, the Vuntut Development Corp. purchased a 25% interest in Air North from co-founding partner Tom Wood. In 2002, the Development Corp. increased their holdings in Air North to just under 49% by acquiring the remainder of Tom Woods' interest. Joseph Sparling remains the majority shareholder with just under 51%. In early 2003, the Vuntut Development Corp. increased their investment in Air North by way of a shareholders loan which was funded in part through the Department of Indian and Northern Affairs Major Business Expansion Program.

In addition to Sparling and the Vuntut Development Corp., there are today almost 600 Yukon residents who have purchased shares in Air North under the Yukon Small Business Investment Tax Credit Program. This is a Yukon Government sponsored program designed to encourage Yukoners to keep their investment dollars in the Yukon. It provides a Yukon tax credit equal to 25% of the value of the investment. Air North has created a special share class for YSBITC Program investors and is offering these Class



C shares at \$5000/unit. The company is paying 4% annual cash dividends plus 2 round trip flight dividends each year. To date Air North has issued, or has under subscription \$3.2 million in Class C shares. These shares have been purchased by a broad cross section of Yukon residents and the proceeds of the share offerings have been used to acquire the Boeing aircraft.

Air North, Yukon's Airline New Service

The acquisition of B737 equipment and the commencement of scheduled jet service to southern points was a major step for Air North. Prior to this, the Yukon never had the benefit of year round competitive air service and as a result, travel costs to and from the Territory averaged over \$.31/seat mile. This compares with travel costs over similar distances in the south of between \$.22/seat mile and \$.25/seat mile. Air travel in and out of the Yukon generates approximately 135,000 annual passengers and close to two million lb. of cargo. Air Canada's profit on the route was estimated at close to \$10 million annually. Air North's goal was to establish a locally based competitive service targeted at transporting approximately 44,000 passengers and 1 million lb. of cargo annually. Pricing was formulated to achieve an average passenger yield of \$.25/RPM.

Air North's marketing plan identified local market support as a key ingredient for success. It also identified a personalized product with a northern theme as a means to ensure the support and loyalty of local residents and visitors alike. The significant local economic benefits provided by the new service were identified as a means to ensure the help and support of the Yukon government, who happen to be the largest single purchaser of transportation in the market. Air North's new service has accounted for more than 30 new jobs and \$1.5 million in new annual payroll for the territory. The company spends over \$1 million each month on goods and services and it buys as much as possible locally. Yukon goods are featured as in flight products wherever possible. Yukon residents and visitors are now spending approximately 20% less for their air travel than they were previously in a monopoly market. This translates into more than \$6 million annually in funds that are now available to purchase other local goods and services. Travel purchases made with Air North stay in the Territory as do profits earned by the company. All in all, Air North's new service provides over \$10 million in local economic benefits each year.

With more than one year in the market, Air North's jet operation is now solidly established. One Boeing is now debt free and the 4th YSBITC equity offering is fully subscribed. Vancouver service was increased to six days per week effective May 15th, 2003. With the involvement of the Vuntut Gwichin First Nation along with almost 600 Yukon residents, Air North truly is the Yukon's Airline.