

YXS Prince George Airport Authority 2004 Annual Report



The Northern BC Gateway



the freedom to fly.

Prince George Airport Authority

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our mission.

The Prince George Airport Authority supports the provision of efficient and safe facilities, reflecting the airport's vital role in the region's economy.

The PGAA promotes sustainable development with due consideration for the environment and future growth potential.



Report of the Chair

I have the privilege of reporting on the accomplishments of the Prince George Airport Authority (PGAA) in this first full fiscal year of operation of the airport, after transfer from Transport Canada in March 2003.

The Board, in partnership with the General Manager and his staff, oversaw the completion of Phase I of a major renovation of the Airport Terminal Building. The new architectural face on the exterior of the Terminal and the interior design of the Departures Lounge have deservedly received rave reviews. Phase I is visually stunning and has received the Canadian Wood Council's 2004 Award as Best Design of a Commercial Building in British Columbia. Add to that a state-of-the-art Hold Bag Screening Area and the communities that we serve have a right to boast about the completion of the first big step in renovation. Our architects, mcfarlaneGreen Architecture + Design, are to be congratulated for their innovative approach. At time of press, we learned mcfarlaneGreen were honoured with another top award; "Medal of Excellence in Architecture" at the 2005 Lieutenant-Governor of BC Awards for their design of the Prince George Airport Phase I Renovation and Addition. This is only awarded to members of the Architectural Institute of British Columbia (AIBC).

We were mindful that success would be short lived if we failed to include our employees in a collective agreement that made fiscal sense to both the Authority and the Public Service Alliance of Canada. We reached an accord in a five year Collective Bargaining Agreement after six months of negotiation.

We have also reached an Accord with the City of Prince George during the year.

The Board's strategic planning session defined our key thoughts (vision) to be:

- "We will become a major community economic driver";
- "We will move from a regional airport to an international airport"; and
- "We will have 1 million passengers in 2015".

The session identified key opportunities for the airport to evaluate as:

- Cargo/Distribution
- Refuelling
- Charters
- Trans-border service
- New Routes
- Related Industries

Our plan for the future includes the dream that we become a truly international airport. This is not a plan for the faint of heart as it includes the need for more capital through partnerships and contribution agreements to further expand the Airport infrastructure, and number of airlines. In particular, we are pursuing Transborder flights, refueling and Cargo opportunities.

Passenger travel increased over 2003 and there were signs at the end of the year that traffic was starting to return to pre-September 2001 levels. Total airport revenues exceeded expenditures marginally for the year. Operating expenditures are anticipated to decline significantly in 2005 as all startup costs of operating the airport have now been incurred.

I am pleased to report that we were successful in convincing Nav Canada not to close the control tower, a recommendation that had come out of their Level of Service Review across Canada. While this was the good news, we were also informed by Nav Canada that, if the control tower were to remain open, then the Flight Service Station would be closed. We will continue our efforts to convince Nav Canada that the growth potential of the airport is such that this decision should also be reversed.

The airline industry continues to be extremely fragile with the loss of WestJet's service to Victoria and Calgary and the recent demise of Jetsgo. Air Canada Jazz removed jet service to Vancouver but increased the number of daily flights using Dash 8 aircraft resulting in an increase in traffic. Central Mountain Air (CMA) added a number of new routes during the year with services to Calgary, Fort Nelson, Fort St. John and Kelowna.

The Airport General Manager (AGM) and I continue to support the activities of the Canadian Airports Council. We are strongly supportive of the CAC's efforts to try to eliminate airport rents and chattel payments required by the Federal Government. Smaller National Airports, such as Prince George, will not be viable entities if the government continues to maintain its current policies on rent and chattels. We are also advocating that the Canadian Border Services provide equitable treatment to airports initiating new international services with that previously given to existing international airports.

The Authority welcomed two new members of the Board in 2004; Les Waldie, long-time community member and currently Vice President Human Resources at Northern Health, and Don Gould the retired former President of Pas Lumber Company Ltd (now Winton Global) were nominated by Initiatives Prince George and the Provincial Government respectively. Regrettably the terms of Dr. Valerie Giles and Scott Pollard expired at the end of the year. We are extremely appreciative of the service they provided to the Authority and the community over the past four years. Both were instrumental in negotiating the transfer of the airport from Transport Canada and in developing the plans for the air terminal building expansion. ■

Jim Blake
Chair, Prince George Airport Authority

Report of the General Manager

On September 1, 2004 with the assistance of federal conciliators a tentative agreement was reached between negotiators representing the Prince George Airport Authority and the Public Service Alliance of Canada (PSAC).

There were previously two agreements representing airport employees. One representing operational employees and one representing administrative employees. The new agreement covers sixteen individuals employed with the Prince George Airport Authority.

The collective agreement has resulted in several new and innovative clauses that are responsive to our local needs and allows us to improve operational efficiencies, while providing our employees with competitive benefits and good working conditions.

During the past year, the Prince George Airport has worked at developed business cases to take advantage of opportunities open to us. A cargo study was completed that defined our advantages and opportunities compared to other locations. We identified the airlines that could benefit economically by re-fuelling in Prince George and developed a business case to attract such service. The recent completion of Canadian Border Service Agency (CBSA) facilities provides a key element to attracting smaller cargo and business aircraft for re-fuelling and we are currently completing a project definition report that will evaluate the best options for a runway extension.

Our location on the strategic great circle route from the Americas to Asia offers refuelling alternatives to cargo and business aircraft and our role as a gateway to a large part of northern British Columbia offers a population base capable of supporting the next level of air services to points beyond our Province.

We developed a comprehensive picture of travel to and from our region by conducting a ticket analysis, complemented with personal and telephone surveys. This study defined our key targets for route development and identified opportunities for trans-border services. A key finding was that one-third of all regional

travellers to the US and beyond drive to the southern communities of Vancouver, Abbotsford and Seattle and then fly. This creates an opportunity for an airline to provide direct service to a US center and capture this "leaked" travel by offering convenient and timely service. The completion of Phase I of the Air Terminal Building, with enhanced passenger and hold bag screening, provides one component of the required facilities and services to support such service. The addition of an international arrival area, including the CBSA facility, completes the structural requirements. We have marketed this air service to a number of airlines and expect to see a trans-border service within a year.

The PGAA worked closely with existing airlines to identify strategic market opportunities and worked to introduce new regional connections to communities throughout the north. The business development team focussed on replacing two key markets lost early in 2004.

The Airport Authority negotiated a level of service agreement with the new CBSA that increased the coverage to 16 hours per day, seven days a week. This enhanced service was necessary to attract new re-fuelling business and to enable business aircraft to access our community on a non-stop basis. This capability was desired by tourism operators such as heli-ski operators whose clientele were arriving from international departure points as diverse as Eastern Europe and the Caribbean, and the film industry serviced primarily from California. The first weekend with extended CBSA coverage demonstrated the need for this service by clearing aircraft from the Czech Republic and the Cayman Islands.

The opening of the International Arrivals Area will provide the CBSA with a new facility, capable of handling the largest international aircraft. We are working with the CBSA to provide this service on a basis comparable with the other BC national airports.

During 2004 the PGAA was successful in developing a number of partnerships that resulted in the enhanced development of Phase II of the Air Terminal Building. The PGAA received support for its vision as a Northern Gateway from many

of the region's communities, tourism organizations, tour operators, tourism product providers, business groups and native bands. With strong support from such diverse groups and our local Members of the Legislature, Shirley Bond and Pat Bell and municipal politicians, especially Prince George Mayor Colin Kinsley, funding was successfully obtained from the Provincial Transportation Partnership Program (TPP) and from the Softwood Industry Community Economic Adjustment Initiative (SICEAI). This additional funding, totalling \$4.85 million, enabled the expansion of the Phase II project to add the CBSA facilities as per national guidelines and ensured that these services would be provided at the Prince George Airport.

The year was challenging but ended on a number of positive points. The regional economy has shifted into growth mode, reflected in very good growth in passenger numbers; we enjoy the support of our community, residents and elected officials; and the airline industry appears to have strengthened and stabilized. Our team is looking to the future with optimism. ■

Stieg Hoeg

General Manager, Prince George Airport Authority

SPECIAL NOTE:

On June 7, 2004 Mr. Ben Guillames, a long time member of the Prince George Airport Flying community and airport supporter perished when his Cessna 182 crashed while attempting to take off.

In August 2004, Gil Chevrefils a longtime airport employee passed away while on duty. Both will be missed by their many friends and associates.





Growth and Development

The Prince George Airport Authority (PGAA) has an unprecedented opportunity to play an important strategic role in the economic development of Northern BC.

In 2003, enplaned/deplaned passenger traffic at YXS increased 4% exceeding industry forecasts suggesting a positive turn for the commercial aviation industry, as well as for the regional economy.

Air Canada's recent fleet rationalization and increase in frequency has seen their overall load factor increase. WestJet remains consistent with their growth and with the introduction of a new generation of aircraft new route opportunities will open up. CMA continues to be the workhorse of our region connecting our northern communities with frequent, affordable air services. This airline has expanded their network and continues to work with the airport authority in developing new services to Northern BC.

Throughout 2004 over 20 airline meetings took place regarding domestic, transborder, sunspot and international opportunities. Airport representatives also met with 17 cargo airlines to present the advantages and opportunities YXS offers to the Cargo industry.

PRINCE GEORGE'S STRATEGIC ROLE IN AVIATION: As the urban hub of Northern BC's developing economy, Prince George is well positioned to become a strategic aviation center in the province. With aircraft movements approaching 50,000 and over 390,000 scheduled and charter passengers annually moving through the airport, there is more traffic at YXS than at any airport in BC north of the lower mainland and the Okanagan, evidence of the airport's important economic role in the resource rich 'heartlands' of BC. In recent years, Prince George's consolidation as BC's northern business center, the University of Northern BC's growth in students and programs including the new Northern Medical Program, industrial growth in mining exploration, hopefully increased certainty over softwood lumber, a strong small business sector, growing forestry high tech sectors and a developing tourism industry are all signs of a strong base economy poised for growth.

Re-structuring within the commercial aviation industry reinforces the emerging importance of regional hubs such as Prince George. InterVISTAS Consulting Inc., a prestigious aviation market research firm, predicts that as low cost carriers focus on large origin/destination markets and network carriers such as Air Canada withdraw from smaller markets, Prince George has strong potential for developing as a significant regional hub.

Prince George Airport Authority's role as a major economic driver in our region is being defined daily. Our future and that of our region is dependant upon the choices and directions we follow today. We have carefully weighed each opportunity that has been presented and are confident that the course we have mapped will enable Prince George to become the true gateway to Northern BC and beyond. Transborder/International Aircraft will now be able to fly directly into Prince George allowing for greater accessibility to and from our region – opening the door for greater tourism and business opportunities for Northern BC. ■



Overview of Operations

Considerable effort has been expended since ratification of our collective agreement to establish a new and innovative human resources career development plan. This plan will see the integration of emergency response and maintenance staff into multi-tasking Airport Operations Specialist (AOS) job roles. Operations staff have been challenged to endorse this concept and have responded by accepting team assignments to carry out duties that will assist in keeping operations costs minimal, while at the same time enhancing their knowledge and skills in airport operations. Central to the success of this initiative is the development of the AOS training plan which is being prepared for implementation this year and will see cross training of firefighters and maintenance workers for the first time and also provide the opportunity for staff to work toward and obtain trades certifications. An Apprentice Heavy Duty mechanic was hired. This position will provide both general maintenance duties and mechanical services to the Airport Authority.

In the summer of 2004, following renovations to the Air Terminal Building, all administrative personnel were relocated from the terminal to the Combined Services Building. This move has resulted in improved administrative and operational efficiencies. At the same time a major renovation was completed on the Combined Services Building equipment bay doors.

SAFETY & SECURITY: The expanding Air Terminal Building and increased number of air travelers has resulted in significant changes in the provision of security services at the airport. Technological advances in access control and surveillance procedures are being incorporated into the renovation design to allow the Airport Authority to meet strict regulatory requirements at reduced cost. Increased security screening staffing at the site by the Canadian Air Transport Security Authority (CATSA) will ensure that passenger, non-passenger, and baggage screening requirements will be met with minimal inconvenience to passengers, airlines, and airport workers.

ENVIRONMENT: Following the completion of an Airport Environmental Gap Analysis, the airport has committed to the development of an Environmental Management System (EMS) as part of the airport Environmental Program. The

Airport Authority commissioned EBA Engineering to complete an Environmental Management Plan for the site and this plan has provided the strategy and direction to deal with current environmental issues and ensure sound environmental stewardship as we move towards the EMS implementation.

In support of the environmental policy a number of initiatives have been undertaken on the airport to ensure airport operations have a positive effect on neighbouring properties and the adjacent Prince George community. These include, among other things, a strict adherence to aircraft de-icing glycol runoff restrictions into the airport surface water drainage system, mitigation of surface drainage infiltration into the site sewer discharge works, effective and humanitarian wildlife control procedures, and a user friendly and recycling plan.

Sound environmental planning and careful attention to the property on which the airport operates is a management commitment that will be enforced, strengthened, and continued indefinitely. ■





Audited Financial Statements

YEAR ENDED DECEMBER 31, 2004

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AUDITORS' REPORT

To the Members of
Prince George Airport Authority Inc.

We have audited the statement of financial position of Prince George Airport Authority Inc. as at December 31, 2004 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2004 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants



February 25, 2005

Member of
Deloitte Touche Tohmatsu

PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF FINANCIAL POSITION
as at December 31, 2004

	2 0 0 4	2 0 0 3 (restated - Note 15)
CURRENT ASSETS		
Cash (Note 3)	\$ -	\$ 277,821
Restricted cash (Note 4)	-	1,924,250
Accounts receivable (Note 5)	1,488,229	579,956
Inventory	41,419	78,283
Prepaid expenses	140,573	120,307
	<u>1,670,221</u>	2,980,617
CAPITAL ASSETS (Note 6)	<u>13,821,902</u>	6,023,060
	<u>\$ 15,492,123</u>	<u>\$ 9,003,677</u>
CURRENT LIABILITIES		
Bank indebtedness (Note 3)	\$ 204,500	\$ -
Bank demand loan (Note 7)	800,000	-
Accounts payable and accrued liabilities (Note 8)	2,279,715	1,331,126
Deferred revenue and deposits	82,126	7,354
Current portion of long-term debt (Note 9)	100,000	100,000
	<u>3,466,341</u>	1,438,480
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 10)	<u>6,534,962</u>	2,040,930
LONG-TERM DEBT (Note 9)	<u>4,245,909</u>	4,345,909
	<u>14,247,212</u>	7,825,319
COMMITMENTS (Note 11)		
NET ASSETS		
Invested in capital assets (Note 12)	943,102	232,040
Restricted airport improvement fee (Note 13)	929,309	-
Internally restricted (Note 14)	-	1,068,900
Unrestricted	(627,500)	(122,582)
	<u>1,244,911</u>	1,178,358
	<u>\$ 15,492,123</u>	<u>\$ 9,003,677</u>

APPROVED BY THE BOARD:

 Director
 Director



PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF OPERATIONS
year ended December 31, 2004

	2004	2003 (restated - Note 15)
Revenue		
Landing fees	\$ 1,463,503	\$ 1,568,722
General terminal charges	756,659	743,669
Concessions	168,888	106,997
Parking	441,609	359,474
Rentals	441,156	324,272
Other	151,059	250,144
Amortization of deferred contributions	68,062	-
	3,490,936	3,353,278
Expenses		
Salaries and employee benefits	1,713,219	1,414,784
Services, supplies and administration	1,861,494	1,494,457
Property taxes	352,186	255,316
Amortization	618,391	476,788
Utilities	203,693	132,456
	4,748,983	3,773,801
Operating deficiency	(1,258,047)	(420,523)
Other revenue		
Airport improvement fee (Note 13)	1,222,974	469,070
Transport Canada subsidy (Note 14)	-	1,068,900
Gain on sale of capital assets	101,626	60,911
	1,324,600	1,598,881
EXCESS OF REVENUE OVER EXPENSES	\$ 66,553	\$ 1,178,358



PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF CHANGES IN NET ASSETS
year ended December 31, 2004

	Invested in Capital Assets (Note 12)	Restricted Airport Improvement Fee (Note 13)	Internally Restricted (Note 14)	Unrestricted	Total 2004	2003 (restated - Note 15)
Balance, beginning of year						
As previously reported	\$ 232,040	\$ -	\$ 1,068,900	(30,689)	\$ 1,270,251	\$ -
Prior period adjustment (Note 15)	-	-	-	(91,893)	(91,893)	-
As restated	232,040	-	1,068,900	(122,582)	1,178,358	-
Excess (deficiency) of revenue over expenses	-	1,222,974	-	(1,156,421)	66,553	1,178,358
Capital asset additions, net of related debt	1,362,565	(293,665)	(1,068,900)	-	-	-
Capital asset disposals, net book value	(101,174)	-	-	101,174	-	-
Amortization of capital assets	(618,391)	-	-	618,391	-	-
Amortization of deferred contributions	68,062	-	-	(68,062)	-	-
Balance, end of year	\$ 943,102	\$ 929,309	\$ -	\$ (627,500)	\$ 1,244,911	\$ 1,178,358

PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF CASH FLOWS
year ended December 31, 2004

	2004	2003 (restated - Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 66,553	\$ 1,178,358
Items not affecting cash		
Amortization	618,391	476,788
Gain on sale of capital assets	(101,626)	(60,911)
Amortization of deferred contributions	(68,062)	-
	<u>515,256</u>	<u>1,594,235</u>
Changes in non-cash operating working capital		
Accounts receivable	(139,031)	(569,676)
Inventory	36,864	(78,283)
Prepaid expenses	(20,266)	(120,307)
Accounts payable and accrued liabilities	10,193	666,523
Due to Initiatives Prince George	-	(18,205)
Deferred revenue and deposits	74,772	7,354
	<u>477,788</u>	<u>1,481,641</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(261,863)	(4,484,573)
Construction in progress expenditures	(8,256,544)	(1,841,133)
Proceeds on disposal of capital assets	202,800	70,000
	<u>(8,315,607)</u>	<u>(6,255,706)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	800,000	-
Long-term debt proceeds	-	4,263,027
Repayment of long-term debt	(100,000)	-
Increase in construction in progress payables	938,396	655,554
Deferred contributions related to capital assets	4,562,094	2,040,930
Increase in contributions receivable	(769,242)	-
	<u>5,431,248</u>	<u>6,959,511</u>
(DECREASE) INCREASE IN CASH	(2,406,571)	2,185,446
CASH, BEGINNING OF YEAR	2,202,071	16,625
CASH, END OF YEAR	\$ (204,500)	\$ 2,202,071
Cash is defined as cash plus restricted cash less bank indebtedness.		
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 5,671	\$ -
Cash received during the year for interest	\$ 62,089	\$ 18,509

PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

1. NATURE OF OPERATIONS AND TRANSFER OF AIRPORT OPERATIONS

The Prince George Airport Authority Inc. (the "Authority") is incorporated under Part II of the Canada Corporations Act as a non-share capital, not-for-profit corporation and all earnings from operations are reinvested in airport development.

The Authority signed a 60-year ground lease with Transport Canada effective March 31, 2003 ("Canada Lease") and assumed responsibility for the management, operations and development of the Prince George Airport.

The lease provides for an option to extend the term a further 20 years.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting:

The financial statements of the Authority are prepared in accordance with Canadian generally accepted accounting principles.

Inventory:

The inventory of consumable supplies is recorded at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value.

Canada Lease:

The Canada Lease (see Note 1) is accounted for as an operating lease.

Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method at the following annual rates:

Leasehold improvements:	
Terminal building	4%
Parking facilities and roadway systems	5%
Other	5%-33%
Office furniture and equipment	20%
Computer hardware and software	33%
Vehicles	10%
Runway and other equipment	10%-20%

Construction in progress is not amortized until the project is substantially complete.



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition:

The Authority follows the deferral method of accounting for contributions whereby unrestricted revenue is recognized when received or receivable if the amount received can be reasonably estimated and collection is reasonably assured.

Revenues are recorded when services are performed, the facilities are utilized, or the amounts are earned pursuant to the related agreements. Airport Improvement Fee revenue (Note 13) is recognized when passengers depart the terminal building.

Government Contributions:

Contributions towards capital expenditures are deferred and brought into income on a basis consistent with the amortization of the related capital assets.

Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

3. CASH (BANK INDEBTEDNESS)

	2004	2003
Bank overdraft	\$ (207,490)	\$ (214,577)
Cash and term deposits	<u>2,990</u>	<u>492,398</u>
	<u>\$ (204,500)</u>	<u>\$ 277,821</u>

The Authority has a \$500,000 operating line of credit bearing interest at the prime-lending rate (December 31, 2004 – 4.25%). The operating line of credit is secured by a demand collateral first mortgage of the Authority's leasehold interest and assignment of rents for an unlimited amount.



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

4. RESTRICTED CASH

	2004	2003
Internally restricted revenues for outstanding capital expenditure payables and unspent amounts	\$ -	\$ 1,068,900
Externally restricted contributions for outstanding construction in progress payables and unspent amounts	-	855,350
	<u>\$ -</u>	<u>\$ 1,924,250</u>

5. ACCOUNTS RECEIVABLE

Trade receivables	\$ 491,834	\$ 478,477
Contributions receivable	769,242	-
GST recoverable	227,153	57,467
Accrued interest on term deposits	-	44,012
	<u>\$ 1,488,229</u>	<u>\$ 579,956</u>

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
Leasehold improvements				
Buildings	\$ 5,264,843	\$ 79,032	\$ 5,185,811	\$ -
Parking facilities and roadway systems	199,382	80,519	118,863	156,380
Other	10,887	2,359	8,528	10,696
Computer hardware and software	76,698	43,332	33,366	44,830
Vehicles	29,540	6,893	22,647	28,555
Runway and other equipment	4,161,171	686,475	3,474,696	3,941,466
Construction in progress	4,977,991	-	4,977,991	1,841,133
	<u>\$ 14,720,512</u>	<u>\$ 898,610</u>	<u>\$ 13,821,902</u>	<u>\$ 6,023,060</u>



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

7. BANK DEMAND LOAN

	2004	2003
CIBC demand loan - interest only payments at prime (4.25% - December 31, 2004) for a two year period to October 2006, with principal payments to commence October 2006 at \$4,444 per month or \$13,333 per quarter plus interest or alternatively blended payments, subject to the mutual agreement of the bank and the Authority, with the final instalment due July 2021. The maximum facility available is \$5,000,000, and is secured by a general security agreement and a first leasehold mortgage by way of a sublease over all the Authority's assets	<u>\$ 800,000</u>	<u>\$ -</u>

A waiver to the right to demand repayment of the bank demand loan for a period of more than one year from the balance sheet date has not been provided. In accordance with Canadian generally accepted accounting principles the full balance of above bank demand loan has been disclosed as a current liability. Had a waiver to the right to demand repayment of the bank demand loan been provided, the principal payments required in each of the next five years would be as follows:

	2005	2006	2007	2008	2009
	\$ -	\$ 13,333	\$ 53,332	\$ 53,332	\$ 53,332

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003 (restated - Note 15)
Trade payables	\$ 485,400	\$ 524,481
Construction in progress payable	1,593,950	655,554
Payroll accruals	200,365	151,091
	<u>\$ 2,279,715</u>	<u>\$ 1,331,126</u>



**PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS**

year ended December 31, 2004

9. LONG-TERM DEBT

	2 0 0 4	2 0 0 3
Transport Canada note payable, non-interest bearing, repayable in seven equal annual instalments of \$595,844 commencing January 2008, secured by specific assets.	\$ 4,170,909	\$ 4,170,909
Regional District of Fraser Fort George, unsecured, non-interest bearing, due July 2006	75,000	75,000
Western Economic Diversification, unsecured, non-interest bearing, due in four equal semi-annual instalments of \$50,000 commencing April 2004.	100,000	200,000
	<u>4,345,909</u>	<u>4,445,909</u>
Current portion	100,000	100,000
	<u>\$ 4,245,909</u>	<u>\$ 4,345,909</u>

Principal payments required in each of the next five years are approximately as follows:

	2005	2006	2007	2008	2009
	\$ 100,000	\$ 75,000	-	\$ 595,844	\$ 595,844

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions represent the unamortized balance of contributions received from government and other entities to fund capital projects, including the interest earned on unspent monies.

	2 0 0 4	2 0 0 3
Opening balance	\$ 2,040,930	-
Contributions received from		
B.C. Government - Ministry of Transportation	1,024,000	-
Canadian Air Transport Security Authority	2,498,749	-
Community Futures Development Corporation - SICEAI	1,023,847	-
Transport Canada	-	2,000,000
Interest earned	15,498	40,930
Amortization	(68,062)	-
	<u>\$ 6,534,962</u>	<u>\$ 2,040,930</u>



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

11. COMMITMENTS

Transport Canada lease:

The Canada Lease provides for lease payments to Transport Canada, which are calculated under a formula including annual airport revenue, passenger volumes, operating costs and capital expenditures. The lease provides for a rent-free period until January 1, 2011.

Airport terminal building expansion:

The current phase of the airport terminal expansion project is to be completed in 2005 at a budgeted aggregate cost of approximately \$8,000,000. As of December 31, 2004, costs incurred amounted to \$4,977,991.

12. INVESTED IN CAPITAL ASSETS

	2004	2003
Opening balance	\$ 232,040	\$ -
Capital asset additions, including construction in progress	8,518,407	6,325,706
Less: Long-term debt, accounts payable and deferred contributions related to additions	(7,155,842)	(5,791,020)
	<u>1,362,565</u>	<u>534,686</u>
Capital asset disposals, net book value	(101,174)	(9,089)
Amortization	(618,391)	(293,557)
Amortization of deferred contributions	68,062	-
Closing balance	<u>\$ 943,102</u>	<u>\$ 232,040</u>

13. AIRPORT IMPROVEMENT FEE ("AIF")

On January 30, 2003 the Authority entered into an agreement (the "AIF Agreement") with the Air Transport Association of Canada and major air carriers serving the Prince George International Airport. The AIF Agreement provides for a consultation process with the air carriers on airport development as well as the collection of an AIF by air carriers. AIF revenues can only be used to pay for airport passenger service facilities' development and related financing costs. Effective May 01, 2003 the Authority introduced an AIF in the amount of \$5 per local boarded passenger. Effective May 01, 2004 the AIF increased to \$10 for anticipated capital expenditures. Earned AIF is net of the 8% handling fee withheld by the airlines.



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

14. TRANSPORT CANADA SUBSIDY

Pursuant to the transfer agreement, Transport Canada agreed to subsidize a portion of the Authority's expenditures by way of a subsidy in the amount of \$1,068,900. In 2004 this amount was used to fund capital expenditures.

15. PRIOR PERIOD ADJUSTMENT

As a result of an error in not recording a write-down for obsolete inventory in the amount of \$68,395 in 2003 and not accruing payroll liabilities in the amount of \$23,498 at December 31, 2003, the balance of net assets at January 1, 2004 was overstated by \$91,893.

The following restatements to the December 31, 2003 financial statements have been made:

- Salaries and employee benefits increased by \$23,498
- Services, supplies and administration increased by \$68,395
- Inventory decreased by \$68,395
- Accounts payable increased by \$23,498

16. PENSION

The Authority sponsors a pension plan on behalf of its employees, which has defined benefit and defined contribution components. The defined contribution component of the pension plan has two current participating employees. The Authority pension expense for the defined contribution component was \$6,946 in 2004. The defined benefit component applies to employees employed by the Authority on the date of airport transfer, including former Transport Canada employees who may elect to transfer their pensionable service credits under the Public Service Superannuation Act plan to the Authority plan. Assets will be transferred from the federal government to support the pension liabilities assumed by the Authority plan in respect of former Transport Canada employees who elect to transfer their entitlements to the defined benefit component of the plan. As of December 31, 2004, no assets had been transferred from the federal government to the Authority plan.

Based on an actuarial valuation as at December 31, 2004 of the Authority's defined benefit plan under CICA Handbook Section 3461, the net pension expense is as follows:

	2004	2003
Service costs	\$ 122,000	\$ 105,800
Interest cost on accrued benefit obligation	14,000	-
Expected return on assets	(15,000)	-
Amortized actuarial loss	13,000	-
	<u>\$ 134,000</u>	<u>\$ 105,800</u>
Pension expense	<u>\$ 134,000</u>	<u>\$ 105,800</u>

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2004 is as follows:



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

16. PENSION (continued)

	2 0 0 4	2 0 0 3
Market value of plan assets	\$ 295,000	\$ 128,000
Accrued benefit obligation	(323,000)	(141,000)
Deficiency of plan assets	(28,000)	(13,000)
Unamortized net actuarial loss	15,000	13,000
Net pension liability	\$ (13,000)	\$ -

The defined benefit net pension liability has been included under accounts payable and accrued liabilities on the statement of financial position.

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are as follows:

	2 0 0 4
Discount rate	6.25%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	4.00%
Rate of inflation	2.50%

Other information about the Authority's defined benefit plan is as follows:

	2 0 0 4	2 0 0 3
Employer contribution	\$ 122,000	\$ 105,800
Employees' contribution	46,000	34,400
Benefits paid	-	-
Plan assets consist of:		
Canadian equity securities	30.1%	
Foreign equity securities	29.8%	
Fixed income securities	<u>40.1%</u>	
	<u>100.0%</u>	

17. FINANCIAL INSTRUMENTS

Fair value:

Authority's cash, accounts receivable, accounts payable and accrued liabilities are reflected in the financial statements at carrying values which approximate fair values due to the immediate and short term maturity of these financial instruments. Bank indebtedness bears interest at current rates and accordingly it's carrying value approximates fair value. The fair value of the bank demand loan and long-term debt is \$4,213,099 based on estimates using present value techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk.



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2004

17. FINANCIAL INSTRUMENTS (continued)

Interest rate risk:

Authority's exposure to interest rate risk relates to any future anticipated borrowings.

Credit risk:

Authority is subject to credit risk through its accounts receivable. A significant portion of Authority's revenues, and resulting receivable balances, are derived from airlines. The Authority performs ongoing credit valuations of receivable balances and maintains provisions for potential credit losses.

18. SUBSEQUENT EVENT

Subsequent to year end, Jetsgo ceased all operations and sought protection under the Companies Creditors Arrangement Act. Jetsgo began flying into the Prince George Airport in January 2005 and as a result there has been no impact of this event on the Authority's December 31, 2004 financial statements. Further, as Jetsgo was only operating out of the Prince George Airport for a short time the impact of its ceasing operations upon the 2005 fiscal year is, in the opinion of management, not expected to be significant.

19. OTHER INFORMATION

The Authority's income generated from airport-related operations is exempt from federal and provincial income taxes.

During the year ended December 31, 2004, the fees paid to the Board of the Authority for their services as directors amounted to \$85,434 (2003 - \$53,643).

20. COMPARATIVE FIGURES

Certain of the prior year's figures, disclosed for comparative purposes, have been reclassified to conform to the current year's presentation.



Corporate Governance

BOARD AND MANAGEMENT COMPENSATION

The annual remuneration for the Board during 2004 was as follows:

Chair	\$ 12,000
Vice Chair	\$ 7,000
Directors	\$ 3,500

The Board Chair received an additional stipend for the year 2004 in the amount of \$10,000.

Committee Chairs receive \$200 per board and committee meeting.

Directors receive \$150 per board and committee meeting.

Compensation during 2004 for all Directors was \$85,434.

The YXS Management Team:

General Manager

Stieg Hoeg
Email: shoeg@pgairport.ca

Manager of Operations

Mark Miller
Email: mmiller@pgairport.ca

Manager of Finance & Administration

Diane Bertram
Email: dbertram@pgairport.ca

Manager Special Programs

Bill Empey
Email: bempey@pgairport.ca

The combined salaries of the four senior Managers (i.e.) Airport General Manager, Manager of Operations, Manager Special Programs, and Manager of Finance and Administration in the Year 2004 was \$280,114.



BOARD GOVERNANCE

The Prince George Airport Authority Inc. was incorporated on July 27, 2000.

In accordance with Bylaw No. 1, a Bylaw relating generally to the transaction of the business and affairs of the Prince George Airport Authority, and based on the principles of accountability and transparency desired by the federal government and endorsed by the Board of Directors, the Board is composed of twelve members who are nominated by:

- The Federal Government 2 Representatives
- The Provincial Government 1 Representative
- The City of Prince George 3 Representatives
- The Regional District of Fraser-Fort George. 2 Representatives
- Initiatives Prince George. 2 Representatives
- The Prince George Airport Authority 2 Representatives

The board members represent consumer interests, the business community and organized labour and includes directors having legal, engineering, accounting and industry experience.

Committees are structured to support management and the board of directors and to act in accordance with the Board's requirements and decisions. The following committees have been established:

- Finance and Audit Committee
- Human Resource Committee
- Governance/Nominating Committee
- Airline Consultation Committee
- Community Consultation Committee
- Noise Committee

The Prince George Airport Authority held a Governance Workshop, and Guidelines for the Board were approved in early 2004.

CONFLICT-OF INTEREST RULES

The PGAA is acutely aware of the trust that has been placed in us by the community and all stakeholders involved in the airport industry. The principles of public accountability and conflict of interest are detailed in the Transport Canada lease and our Bylaws. It is therefore prudent that proper controls and policies be adopted by the Authority that ensure due diligence and maintain the integrity of future management of the Prince George Airport.

In keeping with the spirit of the public accountability guidelines of the National Airports Policy, the PGAA has a very thorough section dealing with conflict of interest guidelines, section 6.12 of our general operating bylaws.

The policy requires each board member to disclose any real, perceived or potential areas of conflict. This disclosure must be in writing and up-dated annually. The policy also addresses the appropriate procedures to be followed, should a director propose to independently provide services to the authority on a contractual basis.

The Board has ensured that all Directors, officers and employees complied with these rules in 2004.

CONTRACTS OVER \$75,000

In 2004 all contracts valued at over \$75,000 were awarded by bid. ■

Corporate Governance Guidelines

The PGAA Board of Directors has adopted the Corporate Governance Guidelines as defined by the Toronto Stock Exchange (TSE).

GOVERNANCE GUIDELINES

1. Board should explicitly assume responsibility of the corporation, and specifically for:
 - a) Adoption of strategic planning process
 - b) Identification of principal risks, and implementing risk management systems

PRINCE GEORGE AIRPORT AUTHORITY COMMENTS

The Board has adopted a strategic planning process that includes the long-term Airport Master Plan, the five-year Strategic Operating Plan and annual budgets and goals.

The Authority's Strategic Operating Plan covers the five-year period from 2004 to 2009 and includes key financial and operational objectives over the planning period and the plan is currently in the process of being updated. Critical elements of the plan will be reviewed by the Board on an annual basis in conjunction with the establishment of annual goals and budgets.

The Authority is developing a number of systems to identify and manage various risks including:

- a mission statement featuring a strong commitment to safety and security
- a safety and security management function relating to aircraft and passenger movement and protection of airport assets
- an environmental management plan and policies addressing all airport environmental issues including the monitoring of aircraft de-icing and the use and application of fertilizers and pesticides
- an Airport Emergency Evacuation Plan, a Disaster Recovery Plan and Airport Safety and Security Plans
- a comprehensive insurance program to protect the airport assets and its financial viability and meet the Ground Lease obligations
- an organizational structure with dedicated safety, security and emergency planning and response personnel
- Corporate policies and plans covering key governance and strategic issues
- risk transfer through contract
- incident reporting and response procedures
- an Airport Safety Committee
- a comprehensive insurance program



GOVERNANCE GUIDELINES

- c) Succession planning and monitoring senior management
- d) Communications policy
- e) Integrity of internal control and management information systems

2. Majority of directors should be “unrelated” (independent of management and free from conflicting interest)

3. Disclosure for each Director whether he or she is related, and how that conclusion was reached

PRINCE GEORGE AIRPORT AUTHORITY COMMENTS

The Board appoints its Officers including the Chair, Vice-Chair, Treasurer and Secretary. Succession planning including the appointment, training and evaluation of senior management, is regularly monitored by the Governance Committee on advice from the Chair.

The Board has directed the Airport General Manager (AGM) to prepare an organization structure and succession plan.

The Authority has a communications policy and a well developed communications program, which includes communication processes associated with the general public, industry stakeholders and Appointers.

The Authority has a comprehensive management information and reporting system in place, which includes regular reporting to the Board on key financial and operational results.

Improvements to the management information and reporting systems are being implemented.

Through its standing Committee and the establishment of a comprehensive management information and reporting system the integrity of the data upon which decisions are made is regularly tested and the implementation of corporate strategies verified. Examples of the internal checks and balances that prevail include:

- the role of the Finance and Audit Committee
- the use of an in depth monthly and quarterly reporting and performance measurement regime which involves regular Board presentations by the AGM management team and the ongoing monitoring, comparison, analysis and explanation of any variances from the results and expectations
- the use of professional external resources to test the integrity of internal control systems

The Board is composed exclusively of unrelated Directors. Directors are required to disclose any potential conflict of interest that might arise. When a possible conflict of interest arises, the Director does not participate in any Board activities related to such possible interest.

Board appointments are made by six Appointers; namely-the Federal Government (2 Directors), the Province of British Columbia (1 Director), the City of Prince George (3 Directors), the Regional District of Fraser-Fort George (2 Directors), Initiatives Prince George (2 Directors) and the Prince George Airport Authority (2 Directors).

Each Director must sign the Authority’s Ethics and Conflict of Interest Policy on an annual basis and follow the procedures prescribed therein with respect to disclosure of any potential conflicts of Interest.

Corporate Governance Guidelines (con't)

GOVERNANCE GUIDELINES

4. Appoint a committee responsible for appointment and assessment of directors
5. Implement a process for assessing the effectiveness of the Board, its Committees and individual directors
6. Provide orientation and education programs for new directors
7. Consider reducing size of Board, with a view to improving effectiveness
8. Review compensation of directors in light of risks and responsibilities.
9.
 - a) Committees should generally be composed of non-management directors
 - b) Majority of Committee members should be Unrelated
10. Appoint a Committee responsible for approach to corporate government issues.

PRINCE GEORGE AIRPORT AUTHORITY COMMENTS

The Board's Governance Committee is responsible for reviewing and reporting to the Board annually its assessment of the performance of the Board. the basis for that evaluation and steps which may be taken to improve effectiveness.

The Board will put into place a self-evaluation process to review the performance of the Board and Board Committees and the contributions of individual directors.

Each new Director receives a comprehensive orientation which includes facility tours and information regarding Board and corporate operations. Ongoing education on relevant topics is provided to all Board members. A Director's information manual will be developed.

The Board has reviewed its existing size, concluding that the Board is well-balanced and its size ensures that a diversity of skills and experience are brought to the table. Moreover, the Board mix continues to effectively represent and act in the best interests of the airport and the community at large.

The Authority's Governance Committee will periodically review the remuneration of Directors, taking into account time commitments, the scope of the responsibilities and Directors' fees at comparable airports and/or other relevant businesses.

Board Committees are composed entirely of Directors.

The majority of committee members are unrelated.

The Authority's Governance Committee is responsible to the Board for the monitoring of corporate governance issues.



GOVERNANCE GUIDELINES

- 11. a)** Define limits to management's responsibilities by developing mandates for:
- (i) the Board

 - (ii) The CEO
- b)** Board should approve CEO's corporate objectives.
- 12.** Establish structures and procedures to enable the Board to function independently of Management
- 13.** Establish an Audit Committee with a specifically defined mandate
- b)** All members should be non-management directors
- 14.** Implement a system to enable individual directors to engage outside advisers at corporation's expense

PRINCE GEORGE AIRPORT AUTHORITY COMMENTS

The Board has held a governance workshop and is developing a contemporary governance model which will include defining the Board mandate.

An Airport General Manager has been appointed. It is intended to eventually change this position to that of Chief Executive Officer (CEO). The mandate for the CEO will be developed when it is decided to convert to a CEO model for management of the Prince George Airport.

The Board held a strategic planning session, including airport management staff and a business plan was adopted by the Board which included direction as to the Authority's business objectives.

The Board Chair and the Governance Committee help ensure that the Board's independence is respected and preserved.

The Authority has a Finance and Audit Committee whose terms of reference include the following:

- To assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:
 - a. the financial information provided to stakeholders, including the government;
 - b. the systems of internal controls established by management and the board; and
 - c. all audit processes.

- The Committee will oversee the investment management activities. Primary responsibility for the financial reporting, Information systems, risk management and internal controls is vested in management and is overseen by the Board.

All members of the Finance and Audit Committee are Directors of the Prince George Airport Authority

The Board has not implemented such a system. ■

Board of Directors

JIM BLAKE

Chair

Nominated by the City of Prince George

DAVE WILSON

Vice-Chair / Chair, Governance & Nominating Committee

Nominated by the Regional District of Fraser-Fort George

VALERIE GILES

Secretary

Nominated by Federal Government

RON EPP

Treasurer / Chair, Finance & Audit Committee

Nominated by the City of Prince George

NEIL MEAGHER

Chair, Human Resource Committee

Nominated by the PGAA Board

NEIL KING

Chair, Airline Consultation Committee

Nominated by Initiatives Prince George

DAVE WILBUR

Chair, Community Consultation Committee

Nominated by the City of Prince George

MIKE TKACHUK

Chair, Noise Committee

Nominated by the Regional District of Fraser-Fort George

LYNNE FEHR

Director

Nominated by the PGAA Board

SCOTT POLLARD

Director

Nominated by the Federal Government

LES WALDIE

Director

Nominated by Initiatives Prince George

DON GOULD

Director

Nominated by the Provincial Government



Goals and Objectives

1 SUPPORT OUR STAFF

- a. Establish organizational values and obtain employee commitment.
- b. Establish a career development plan and implement individualized training plans.
- c. Maintain a workplace where respect and fairness is demonstrated openly. A workplace free of harassment, fun for everyone, while still providing professional and first-class services.
- d. Involve all staff in strategic planning and decision-making.

2 OPERATE IN A SAFE, SECURE AND ENVIRONMENTALLY RESPONSIBLE MANNER

- a. Maintain and exceed any required safety programs.
- b. Maintain and exceed all security requirements.
- c. Develop and apply an effective and proactive environmental management program.

3 PROVIDE OUR CUSTOMERS WITH A USER-FRIENDLY, FIRST-CLASS FACILITY

- a. Maintain a competitive cost environment for airlines
- b. Maintain and upgrade existing airside and groundside facilities.
- c. Improve facilities to support growth and new opportunities.
- d. Improve the customer experience by developing great customer service.
- e. Drive down the cost of travel using the YXS Gateway.

4 OPERATE AS A FINANCIALLY VIABLE ENTITY

- a. Maximize all sources of revenue.
- b. Provide cost-effective service, minimizing expenditures without compromising safety, security or customer service.
- c. Operate within operational revenues.
- d. Capital program will be funded through the Airport Improvement Fee.

5 ENSURE PUBLIC ACCOUNTABILITY

- a. Establish public accountability mechanisms.
- b. Implement a commitment to excellence through strategic planning.

6 FORM PARTNERSHIP STAKEHOLDER RELATIONSHIPS WITH THE COMMUNITY, AIRPORT TENANTS AND USERS

- a. Develop a Protocol agreement with the City of Prince George and the Regional District that illustrates the philosophy of co-operation, good communications and addresses a common vision.
- b. Maintain and grow existing relationships with Initiatives PG, the Northwest Corridor Development Corporation, Northwest Tourism Association, Chamber of Commerce and other organizations to work at improving the economic climate of Northern British Columbia.
- c. Ensure good communications and co-operation are maintained with airline partners by continuing the Airline Operating Committee and through the Airline Consultation Committee.
- d. Encourage open communication with community members through the Community Consultation Committee.

7 PURSUE MARKETING INITIATIVES AND ECONOMIC DEVELOPMENT

- a. Develop and implement a strategic marketing plan.
- b. Develop airport lands while supporting community objectives.
- c. Retain and strengthen existing Air Services.
- d. Develop new markets (International, National and Trans-border).

8 CULTIVATE AND PROMOTE THE AIRPORT'S ROLE AND IMAGE WITHIN THE COMMUNITY

- a. Focus information campaigns regionally.
- b. Continue tradeshow regionally and locally.
- c. Continue developing expertise on northern transportation issues.
- d. Strengthen media relationships.
- e. Promote school programs.



Prince George Airport Authority

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