



the freedom to fly



PRINCE GEORGE
AIRPORT AUTHORITY

2005 ANNUAL REPORT

YXS



the freedom to fly



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prince george airport authority

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chair & airport general manager's report



Pictured (l to r): Stieg Hoeg, General Manager and Jim Blake, Chair of the Prince George Airport Authority

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YXS: our mission

Prince George Airport Authority provides leadership as a regional economic driver and a gateway for passengers and cargo by providing exceptional customer services and facilities.

chair & airport general manager's report

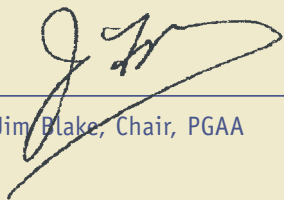
The opening of the new arrivals facilities by Premier Gordon Campbell on April 14, 2005 was the culmination of several years of planning and construction. The expanded arrivals area supports international travel and provides an enhanced space to greet our visitors and friends, truly a representative gateway facility for our community and region. With our newly constructed departures area and security facilities we are poised to meet the challenges of growing our business over the next few years. The occupation of dedicated facilities in the terminal building by Canada Border Services enabled the start-up of charter services to Mexico directly from Prince George, moving our community one step closer to becoming an international gateway.

The goal of the PGAA is to construct a facility that reflects our community's role in resource development, especially the timber industry. Our location in the center of beautiful British Columbia provides convenient access to a vibrant tourism market and our growing technology, education and service sectors. Our goal was achieved when we were recognized by an award from the North American Wood Design Award Citation, as well as the top award from the BC Wood Council for the use of wood in a commercial building in British Columbia. We also received the Architectural Institute of British Columbia's Highest Award of Excellence for design of a commercial building in British Columbia, a tribute to our architecture firm, mcfarlaneGreen Architecture + Design Inc of Vancouver, BC.

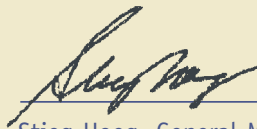
Passenger growth was strong in 2005, with a total of 377,000 travellers passing through our doors. This growth in excess of 10 percent reflects our strong economic climate and should continue in 2006. The high level of activity in the forest sector due to the pine beetle infestation is complemented by increased activity in the mining sector including coal, oil and gas. The Airport is working to increase market access and is developing business cases to expand air service to new communities in Canada and the United States.

This growth is placing pressures on our customer facilities, in particular parking areas. In 2005 our car rental parking area was relocated to a new lot adjacent to the terminal building. This opened up an additional 90 stalls for public parking but provides only temporary relief to our congestion problems. In 2006 the airport plans to expand the lower parking lot and provide easier access to the terminal building.

The PGAA, now three years old, has developed an efficient organization, with an open and accountable governance structure performing in a cost-effective, sustainable fashion. Over the next year the PGAA will look forward to participating in the generation of additional economic opportunities for our community, by facilitating easier access to business travellers and visitors and by developing new air service opportunities.



Jim Blake, Chair, PGAA

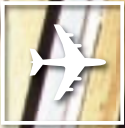


Stieg Hoeg, General Manager, PGAA

Pictured right: Jim Blake, Premier Gordon Campbell and Colin Kinsley, Prince George Mayor



REPORT



growth and development



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growth and development

The Prince George Airport Authority (PGAA) has recognized and acted upon its strategic role in the economic development of Northern BC. In the three years since transfer the Authority has positioned this airport to become a major economic driver.

CANADA



PASSPORT
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THE FUTURE OF BC'S NORTH DEPENDS ON DIVERSIFICATION

The northern economy remains dependant on forestry, mining, oil and gas. The future of an increasingly high tech forestry sector as a major employment generator will be challenged by the pine beetle infestation. The ability for Northern BC residents and industries to connect with international markets will provide new economic growth opportunities.

In 2005 Air Canada increased to 7 flights daily to Vancouver, while WestJet continued their steady passenger growth bolstered by new aircraft offering greater comfort and satellite television. Central Mountain Air (CMA) has continued its regional program with 6 flights daily and is constantly revisiting their regional development plan.

THE FREEDOM TO FLY – TAKING YOU WHERE YOU WANT TO GO.

In 2005 the residents of our region had, for the very first time, direct flight access to a sunny holiday destination. Air Transat Holidays, in conjunction with WestJet Airlines, flew from Prince George directly to Puerto Vallarta, Mexico. Passengers could go from snow to sandy beaches in 4.5 hours, while enjoying a new generation 737 aircraft with leather seats and satellite television.

In April 2005, the PGAA opened the Transborder and International Arrivals area, with expanded baggage systems and Canada Border Services facilities, thereby facilitating International and US originating flights to and from Prince George and Northern BC.

Since transferring from a federally operated airport to a local Airport Authority, the Prince George Airport has been transformed into an award winning, internationally recognized architectural showplace, bringing international air travel to Northern BC closer than ever before.

We continue to market transborder services with US based carriers into the Pacific Northwest and beyond. Daily services connecting passengers to and from US destinations will be a reality in the near future.

As the 2010 Olympic and Paralympic Games approach, the opportunity for Northern BC to showcase our natural beauty to the world continues to grow. The PGAA is in the design phase of a runway extension that will facilitate international large-body aircraft landings into Prince George. The runway extension will allow direct flights from Europe and Asia for both cargo and passenger travel.

We continue our commitment to provide the services our visitors require. We are also in the design phase of a domestic terminal rehabilitation project, to expand the check in area and enhance our customers' YXS experience with updated restaurant and retail opportunities.

Solidly supporting tourism and industry development, the Prince George Airport Authority actively works with Northern BC Tourism, Cariboo Chilcotin Tourism, Jasper Tourism/Commerce, and the regional economic development agencies to promote and encourage growth in Northern British Columbia.

Our vision is to develop the airport as the gateway to and from our region for business or leisure. In doing so, we are creating the freedom to fly when and where you want.



YXS: the freedom to fly

"The Prince George Airport brings families together! My 70+ mother from Manitoba, can travel in the dead of winter, to spend Christmas with her children, grandchildren and great grandchildren. Because she can come to Prince George by air, we can enjoy her hugs and . . . WE DO!"

– Janice Wharrie



overview of operations



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overview of operations

The year 2005 has proven once again to be a year of challenges, successes and ongoing development of the Operations Department at the Prince George Airport.

The major emphasis throughout the year continued to be on the training and development of airport operations staff. The ultimate goal is to achieve a fully integrated and functional complement of Airport Operations Specialists (AOS) capable of responding safely and professionally to a variety of situations. This includes, but is not limited to, maintenance duties; aircraft rescue and firefighting; bird and wildlife situations; environmental and security issues; snow and ice control and a broad range of customer service matters.

Training highlights for 2005 included introductory aircraft fire fighting programs being offered to all operations personnel, the development and introduction of a maintenance equipment certification program and the recertification of existing firefighting personnel. This training was conducted on-site at the Prince George Airport in conjunction with the Justice Institute of British Columbia.

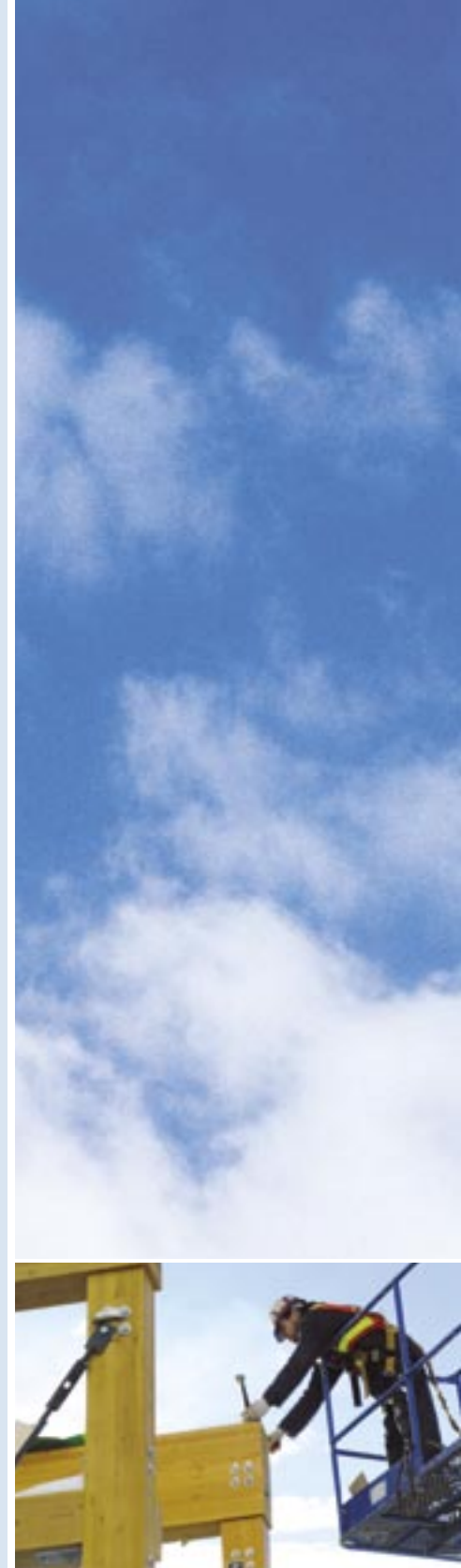
The opening of the new international terminal created many positive challenges for the operations department including new security requirements, maintenance, fire evacuation and operational procedures for international flights.

Other projects undertaken in 2005 at the airport included a new car rental parking lot, a new board room, upgrades to the combined services building, numerous small customer service enhancements in the airport terminal and a comprehensive storm water infiltration project.

In 2005 we also saw the return of Commissionaires BC to the airport. They continue to provide a high level of professionalism while delivering security services to the airport.

Winter operations have proved to be a challenge with changing climate conditions resulting in less snow but more ice. All personnel have responded admirably to these challenges, and safe pavement conditions at the airport throughout 2005 can be directly attributed to the hard work and dedication of all operations personnel.

An emphasis on improving operational efficiencies, operating cost-effectively, enhancing safety, improving customer service and developing our personnel have been major focuses in 2005. These key strategies will continue in 2006.





awards and acknowledgments

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The Airport Authority is intent on staying in step with today's technology and remaining true to our region's roots in using wood design. This construction has gained international architectural attention with the PGAA and our architect mcfarlaneGreen being recognized with three major awards in 2005:

- 2005 Lieutenant Governor of BC Medal**
- 2005 North America Wood Design Award Citation**
- 2005 BC Wood Award**

In addition, the PGAA was recognized in 2005 by the British Columbia Aviation Council as "Airport of the Year."



YXS: the freedom to fly

"The Prince George Airport is like home, not just because I am there so often, but because everyone is so friendly."

– Charles Jago, UNBC





audited financial statements

year ended december 31 . 2005



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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, 2005 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, 2005 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

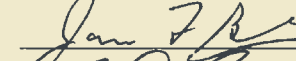

February 23, 2006

Member of
Deloitte Touche Tohmatsu

PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF FINANCIAL POSITION
as at December 31, 2005

	2005	2004
CURRENT ASSETS		
Cash (Note 3)	\$ 174,049	\$ -
Accounts receivable (Note 4)	531,361	1,488,229
Inventory	45,019	41,419
Prepaid expenses	217,952	140,573
	<u>968,381</u>	1,670,221
CAPITAL ASSETS (Note 5)	<u>17,527,481</u>	13,821,902
	<u>\$ 18,495,862</u>	<u>\$ 15,492,123</u>
CURRENT LIABILITIES		
Bank indebtedness (Note 3)	\$ -	\$ 204,500
Bank demand loan (Note 6)	2,200,000	800,000
Accounts payable and accrued liabilities (Note 7)	736,167	2,279,715
Deferred revenue and deposits	88,657	82,126
Current portion of long-term debt (Note 8)	75,000	100,000
	<u>3,099,824</u>	3,466,341
LONG-TERM DEBT (Note 8)	-	4,245,909
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 9)	<u>11,926,785</u>	6,534,962
	<u>15,026,609</u>	14,247,212
COMMITMENTS (Note 10)		
NET ASSETS		
Invested in capital assets (Note 11)	3,060,306	943,102
Restricted airport improvement fee (Note 12)	763,866	929,309
Unrestricted	(354,919)	(627,500)
	<u>3,469,253</u>	1,244,911
	<u>\$ 18,495,862</u>	<u>\$ 15,492,123</u>

APPROVED BY THE BOARD:

 Director
 Director

PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF OPERATIONS
year ended December 31, 2005

	2 0 0 5	2 0 0 4
Revenue		
Landing fees	\$ 1,509,226	\$ 1,463,503
General terminal charges	833,951	756,659
Concessions	197,444	168,888
Parking	526,092	441,609
Rentals	456,684	441,156
Other	158,968	151,059
	3,682,365	3,422,874
Expenses		
Salaries and employee benefits	1,512,354	1,713,219
Services, supplies and administration	1,646,345	1,861,494
Property taxes	173,700	352,186
Utilities	308,297	203,693
	3,640,696	4,130,592
Operating surplus (deficiency)	41,669	(707,718)
Other revenue (expense)		
Airport improvement fee (Note 12)	1,630,512	1,222,974
Amortization of deferred contributions (Note 13)	1,384,592	68,062
Transport Canada contribution (Note 13)	221,021	-
Amortization	(996,552)	(618,391)
Interest on bank demand loan	(54,912)	-
(Loss) gain on sale of capital assets	(1,988)	101,626
	2,182,673	774,271
EXCESS OF REVENUE OVER EXPENSES	\$ 2,224,342	\$ 66,553



PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF CHANGES IN NET ASSETS
year ended December 31, 2005

	Invested in Capital Assets (Note 12)	Restricted Airport Improvement Fee (Note 13)	Unrestricted	2005	2004
Balance, beginning of year	\$ 943,102	\$ 929,309	\$ (627,500)	\$ 1,244,911	\$ 1,178,358
Excess of revenue over expenditure	-	1,575,600	648,742	2,224,342	66,553
Capital asset additions, net of related debt	1,741,043	(1,741,043)	-	-	-
Capital asset disposals, net book value	(11,879)	-	11,879	-	-
Amortization of capital assets	(996,552)	-	996,552	-	-
Amortization of deferred contributions	1,384,592	-	(1,384,592)	-	-
Balance, end of year	\$ 3,060,306	\$ 763,866	\$ (354,919)	\$ 3,469,253	\$ 1,244,911



PRINCE GEORGE AIRPORT AUTHORITY INC.
STATEMENT OF CASH FLOWS
year ended December 31, 2005

	2 0 0 5	2 0 0 4
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 2,224,342	\$ 66,553
Items not affecting cash		
Amortization	996,552	618,391
Loss (gain) on sale of capital assets	1,988	(101,626)
Amortization of deferred contributions	(1,384,592)	(68,062)
Transport Canada contribution (Note 14)	(221,021)	-
	<u>1,617,269</u>	<u>515,256</u>
Changes in non-cash operating working capital		
Accounts receivable	187,626	(139,031)
Inventory	(3,600)	36,864
Prepaid expenses	(77,379)	(20,266)
Accounts payable and accrued liabilities	(289,988)	10,193
Deferred revenue and deposits	6,531	74,772
	<u>1,440,459</u>	<u>477,788</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(1,063,246)	(261,863)
Construction in progress expenditures	(3,650,764)	(8,256,544)
Proceeds on disposal of capital assets	9,891	202,800
	<u>(4,704,119)</u>	<u>(8,315,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	1,400,000	800,000
Repayment of long-term debt (Note 14)	(100,000)	(100,000)
(Decrease) increase in construction in progress payables	(1,253,560)	938,396
Deferred contributions related to capital assets (Note 14)	2,826,527	4,562,094
Decrease (increase) in contributions receivable	769,242	(769,242)
	<u>3,642,209</u>	<u>5,431,248</u>
INCREASE (DECREASE) IN CASH	378,549	(2,406,571)
CASH, BEGINNING OF YEAR	(204,500)	2,202,071
CASH, END OF YEAR	\$ 174,049	\$ (204,500)
Cash is defined as cash less bank indebtedness.		
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 54,912	\$ 5,671
Cash received during the year for interest	\$ -	\$ 62,089



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2005

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:

Buildings	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, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Revenue recognition:

The Authority follows the deferral method of accounting for contributions whereby unrestricted revenue is recognized when received or receivable if the amount 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 12) 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)

	2 0 0 5	2 0 0 4
Bank overdraft	\$ -	\$ (207,490)
Cash and term deposits	<u>174,049</u>	<u>2,990</u>
	<u>\$ 174,049</u>	<u>\$ (204,500)</u>

The Authority has a \$500,000 operating line of credit bearing interest at the prime-lending rate (December 31, 2005 – 5.00%). 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, 2005

4. ACCOUNTS RECEIVABLE

	2 0 0 5	2 0 0 4
Trade receivables	\$ 527,336	\$ 491,834
Contributions receivable	-	769,242
GST recoverable	4,025	227,153
	<u>\$ 531,361</u>	<u>\$ 1,488,229</u>

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
Leasehold improvements				
Buildings	\$ 13,644,885	\$ 505,079	\$ 13,139,806	\$ 5,185,811
Parking facilities and roadway systems	901,542	142,754	758,788	118,863
Other	42,977	4,536	38,441	8,528
Computer hardware and software	137,897	78,039	59,858	33,366
Vehicles	29,540	12,801	16,739	22,647
Runway and other equipment	4,661,267	1,147,418	3,513,849	3,474,696
Construction in progress	-	-	-	4,977,991
	<u>\$ 19,418,108</u>	<u>\$ 1,890,627</u>	<u>\$ 17,527,481</u>	<u>\$ 13,821,902</u>

During the year, construction of Phase II of the airport expansion was completed. Accordingly, construction costs of \$8,628,755 were reclassified to buildings.

6. BANK DEMAND LOAN

	2 0 0 5	2 0 0 4
CIBC demand loan - interest only payments at prime (5.00% - December 31, 2005) for a two year period to October 2006, with principal payments to commence October 2006 at \$12,222 per month or \$36,667 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>\$ 2,200,000</u>	<u>\$ 800,000</u>



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2005

6. BANK DEMAND LOAN (continued)

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:

	2006	2007	2008	2009	2010
	\$ 36,667	\$ 146,667	\$ 146,667	\$ 146,667	\$ 146,667

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
Trade payables	\$ 256,229	\$ 485,400
Construction in progress payable	340,390	1,593,950
Payroll accruals	139,548	200,365
	<u>\$ 736,167</u>	<u>\$ 2,279,715</u>

8. LONG-TERM DEBT

	2005	2004
Regional District of Fraser Fort George, unsecured, non-interest bearing, due July 2006	\$ 75,000	\$ 75,000
Transport Canada note payable (Note 13)	-	4,170,909
Western Economic Diversification	-	100,000
	<u>75,000</u>	<u>4,345,909</u>
Current portion	<u>75,000</u>	<u>100,000</u>
	<u>\$ -</u>	<u>\$ 4,245,909</u>



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2005

9. 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 5	2 0 0 4
Opening balance	\$ 6,534,962	\$ 2,040,930
Contributions received from		
B.C. Government - Ministry of Transportation	1,976,000	1,024,000
Canadian Air Transport Security Authority	24,374	2,498,749
Community Futures Development Corporation - SICEAI	826,153	1,023,847
Transport Canada (Note 13)	3,949,888	-
Interest earned	-	15,498
Amortization	<u>(1,384,592)</u>	<u>(68,062)</u>
	<u>\$ 11,926,785</u>	<u>\$ 6,534,962</u>

10. 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.

11. INVESTED IN CAPITAL ASSETS

	2 0 0 5	2 0 0 4
Opening balance	\$ 943,102	\$ 232,040
Capital asset additions, including construction in progress	4,714,010	8,518,407
Less: Long-term debt, accounts payable and deferred contributions related to additions	<u>(2,972,967)</u>	<u>(7,155,842)</u>
	<u>1,741,043</u>	<u>1,362,565</u>
Capital asset disposals, net book value	(11,879)	(101,174)
Amortization	(996,552)	(618,391)
Amortization of deferred contributions	<u>1,384,592</u>	<u>68,062</u>
Closing balance	<u>\$ 3,060,306</u>	<u>\$ 943,102</u>



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2005

12. 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 7% handling fee withheld by the airlines.

13. TRANSPORT CANADA CONTRIBUTION

During the year, Transport Canada forgave a note payable of \$4,170,909, included in the prior year in long-term debt, as set out in Note 8. The note was issued as consideration for \$3,949,888 of capital assets and \$221,021 of inventory and prepaid expenses transferred from Transport Canada to the Authority in 2003. The portion of the note forgiven relating to the capital assets of \$3,949,888 has been recorded in deferred contributions related to capital assets, and the portion relating to the inventory and prepaid expenses of \$221,021 has been recorded to other revenue. Amortization of the above deferred contributions of \$1,075,650 was recorded in 2005. \$661,197 of this amount relates to the amortization of the capital assets for 2003 and 2004 and \$414,453 relates to amortization of the capital assets for 2005.

14. CASH FLOW STATEMENT INFORMATION

Non-cash transactions

As set out in Note 13, during the year, Transport Canada forgave a note payable of \$4,170,909 due from the Authority. \$3,949,888 has been recognized as a contribution for capital assets and included in deferred contributions related to capital assets, and \$221,021 has been recognized as a contribution for operating purposes and included in other revenue.

15. 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 \$9,389 in 2005. 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, 2005, no assets had been transferred from the federal government to the Authority plan.



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2005

15. PENSION (continued)

Based on an actuarial valuation as at December 31, 2005 of the Authority's defined benefit plan under CICA Handbook Section 3461, the net pension expense is as follows:

	2 0 0 5	2 0 0 4
Service costs	\$ 138,000	\$ 135,000
Interest cost on accrued benefit obligation	26,000	14,000
Expected return on assets	(26,000)	(15,000)
Pension expense	\$ 138,000	\$ 134,000

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2005 is as follows:

	2 0 0 5	2 0 0 4
Market value of plan assets	\$ 480,000	\$ 295,000
Accrued benefit obligation	(627,000)	(323,000)
Deficiency of plan assets	(147,000)	(28,000)
Unamortized net actuarial loss	127,000	15,000
Net pension liability	\$ (20,000)	\$ (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 5	2 0 0 4
Discount rate	5.25%	6.25%
Expected long-term rate of return on plan assets	6.75%	7.00%
Rate of compensation increase	4.00%	4.00%
Rate of inflation	2.50%	2.50%

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

	2 0 0 5	2 0 0 4
Employer contribution	\$ 131,000	\$ 122,000
Employees' contribution	40,000	46,000
Benefits paid	8,000	-



PRINCE GEORGE AIRPORT AUTHORITY INC.
NOTES TO THE FINANCIAL STATEMENTS
year ended December 31, 2005

15. PENSION (continued)

Plan assets consist of:

Canadian equity securities	33.8%	30.1%
Foreign equity securities	27.8%	29.8%
Fixed income securities	38.4%	40.1%
	<u>100.0%</u>	<u>100.0%</u>

16. 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. The fair value of the bank demand loan and long-term debt is \$2,270,368 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.

Interest rate risk:

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

Credit risk:

The Authority is subject to credit risk through its accounts receivable. A significant portion of the 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.

17. 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, 2005, the fees paid to the Board of the Authority for their services as directors amounted to \$86,425 (2004 - \$85,434).





corporate governance



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 2005 was \$297,088.

board and management compensation

The annual remuneration for the Board during 2005 was as follows:

CHAIR \$ 12,000 • VICE CHAIR \$ 7,000 • DIRECTORS \$ 3,500

The Board Chair received an additional stipend for the year 2005 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 2005 for all Directors was \$86,425.

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. It 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 Boards' 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 2005.

conflict-of interest rules

The PGAA is acutely aware of the trust that has been placed in them 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, section 6.12 of the PGAA's operating bylaws, has a very thorough section dealing with conflict of interest guidelines.

The policy requires each board member to disclose any real, perceived or potential areas of conflict. This disclosure must be in writing and updated 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 2005.

contracts over \$75,000

In 2005 all contracts valued at over \$75,000 were awarded by bid.



BOARD



corporate governance guidelines



28

YXS: gives us the freedom to fly

"I have watched the Prince George airport grow from a small airstrip to the modern, bustling gateway of the BC interior that we enjoy today" says John Brink.

"Sharon and I have been most impressed with the recent renovations and upgrades. Despite its rapid growth and new international ambience, the airport has kept its friendly, small town atmosphere and that makes using it on our regular trips a distinct pleasure."

– John and Sharon Brink, Brink Forest Products Ltd.

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
 - c) Succession planning and monitoring senior management
 - d) Communications policy
 - e) Integrity of internal control and management information 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, an Annual Strategic Planning review and annual budgets and goals.

The Authority's Strategic Operating Plan covers the five-year period from 2005 to 2010 and includes key financial and operational objectives over the planning period. Critical elements of the plan are 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 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 airports' 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

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 an organization structure and succession plan that is reviewed annually.

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, including regular reporting to the Board on key financial and operational results.

(continued)





governance guidelines

- e) Integrity of internal control and management information systems (continued)
- 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
- 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.

prince george airport authority comments

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 reporting and performance measurement regime which involves regular Board presentations by the Airport General Manager’s (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 does arise, the Director does not participate in any Board activities related to it.

Board appointments are made by six appointers: 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.

The Boards’ 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 has put in place a self-evaluation process to review the performance of the Board and Board Committees.

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 orientation manual has been developed.

The Board has reviewed its existing size, concluding that it is well-balanced and its size ensures that a diversity of skills and experience are brought to the table. Moreover, the Board mix continues effectively to 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.

governance guidelines

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.
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

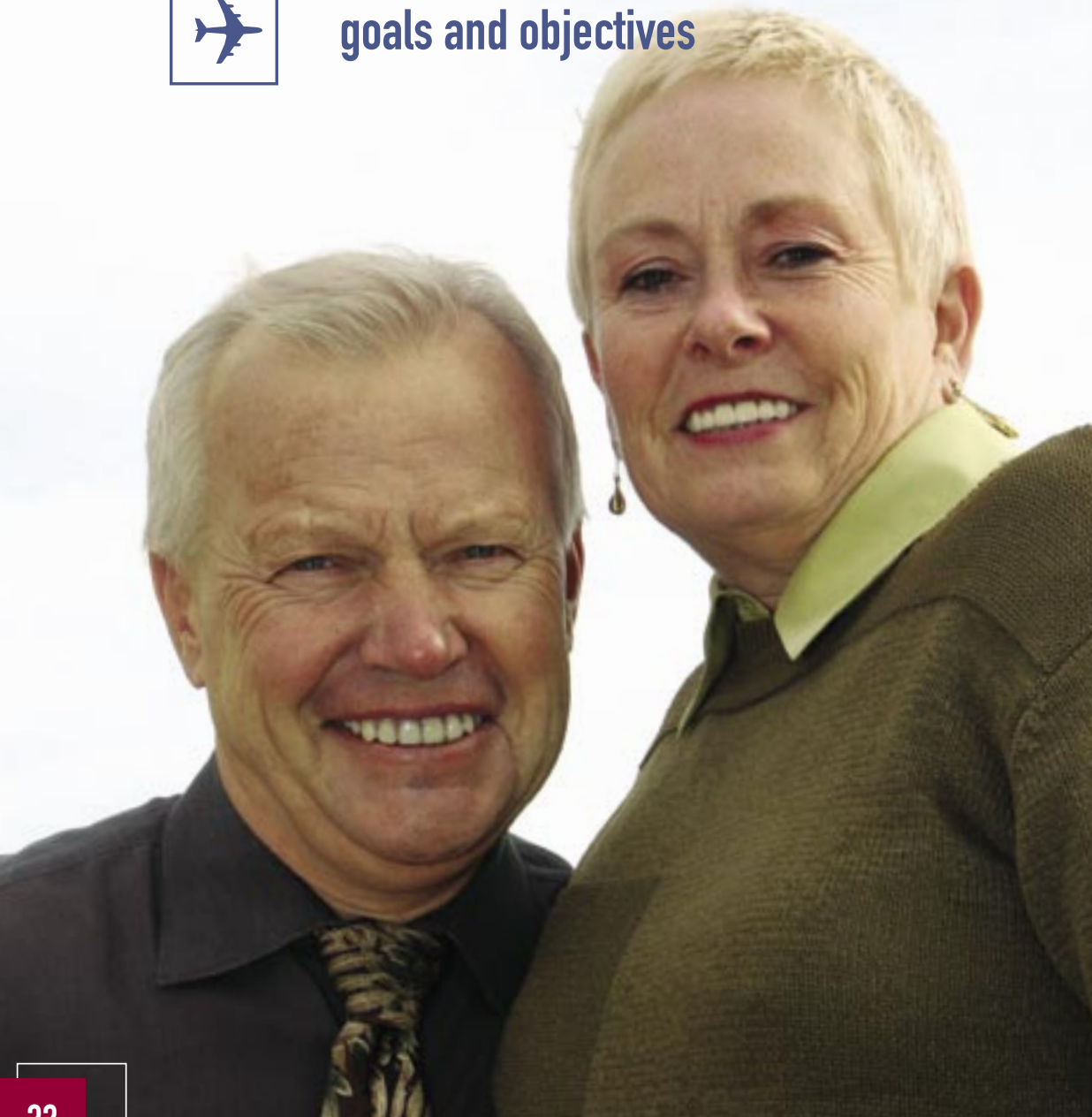
prince george airport authority comments

- 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.
- The Board has held a governance workshop and has developed a contemporary governance model which includes defining the Board mandate.
- An Airport General Manager has been appointed and the position is intended to eventually change 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 Boards' 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 plans on doing this in 2006.





goals and objectives



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YXS: takes us when and where we want to go

"The Prince George Airport takes the 'remote' out of being in the North. It provides us with the gateway to our destinations. We can be in Vancouver in an hour and from there we have the world at our door step. Parking is close and convenient, we find that we can get booked-in, pick up our luggage or meet visitors very quickly with the new spacious terminal.

We also appreciate the friendly and helpful personnel that work at the PG airport."

– Tim and Janet Curry, Canadian Tire Ltd.

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 plus 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.

(continued)



goals and objectives (continued)

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

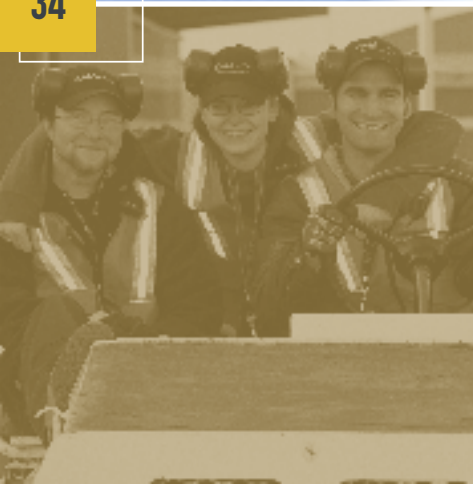
- b. Maintain and grow existing relationships with Initiatives PG, the Northwest Corridor Development Corporation, Northwest Tourism Association, Chamber of Commerce and other organizations to work at improving the economic climate of Northern British Columbia.
- c. Ensure good communications and co-operation 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 transborder).

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.



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
DAVE WILBUR	Secretary • Chair, Community Consultation Committee Nominated by the City of Prince George
RON EPP	Treasurer • Chair, Finance & Audit Committee Nominated by the City of Prince George
NEIL KING	Chair, Airline Consultation Committee Nominated by Initiatives Prince George
MIKE TKACHUK	Chair, Noise Committee Nominated by the Regional District of Fraser-Fort George
LES WALDIE	Chair, Human Resource Committee Nominated by Initiatives Prince George
MARION BARTLETT	Director Nominated by the PGAA Board
CAROL BROWN	Director Nominated by Transport Canada
DON GOULD	Director Nominated by the Provincial Government
NEIL MEAGHER	Director Nominated by the PGAA Board
SIMON YU	Director Nominated by Transport Canada





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