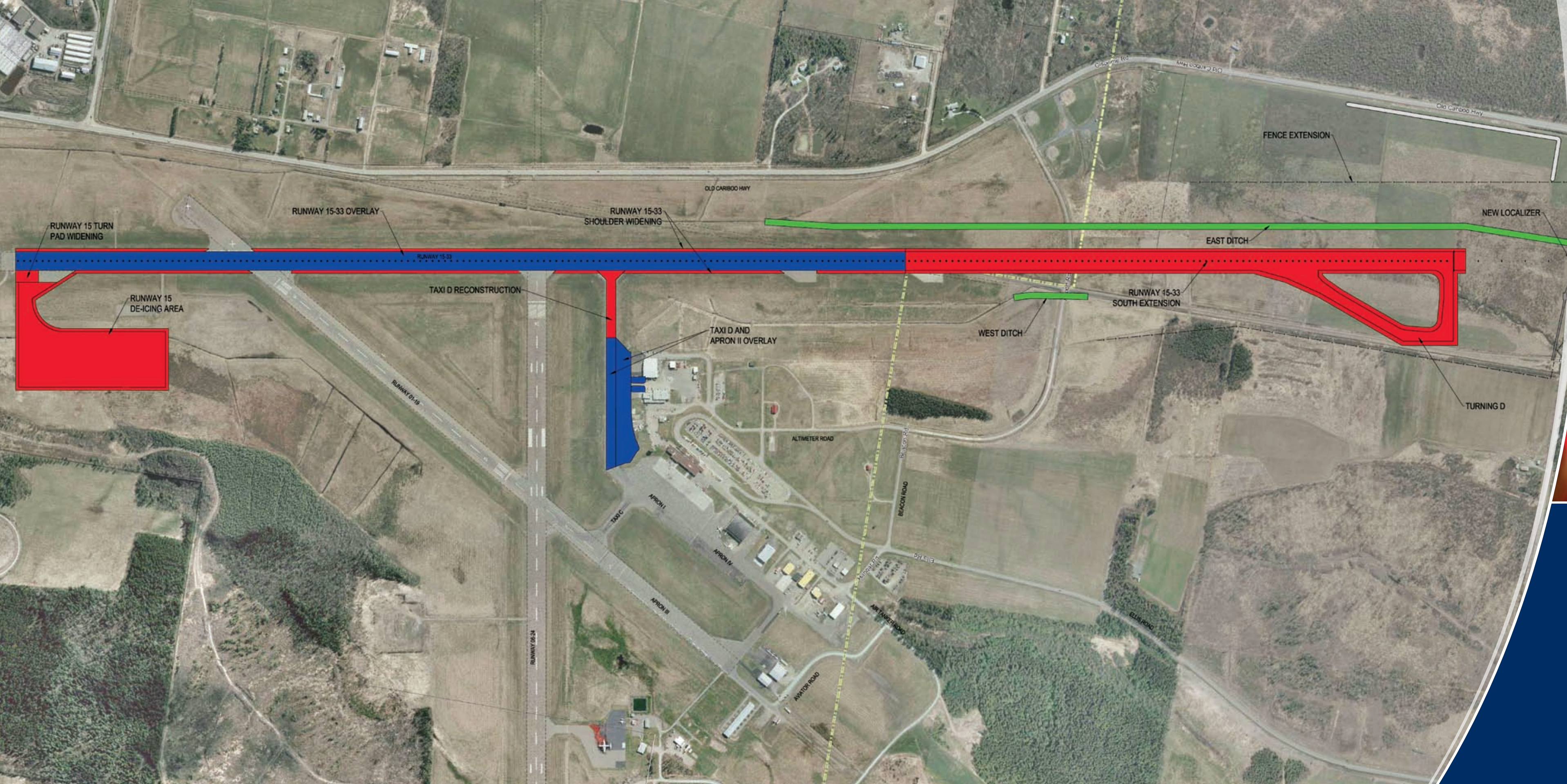




PRINCE GEORGE AIRPORT AUTHORITY

YXS EXPANDING OUR BORDERS →
2007 Annual Report



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.



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CHAIR & AIRPORT GENERAL MANAGER'S REPORT

Throughout 2007, the Prince George Airport Authority (PGAA) sustained its position in the community as a regional economic driver. The Airport continues to grow as an International Gateway for passengers and Air Cargo by providing exceptional customer service and first class facilities. The inception of a daily direct flight to and from Calgary has enabled the business communities of Prince George and region to expand economic development and promote the Central Interior of British Columbia as a tourist destination. This service has also provided all residents of Northern and Central British Columbia with improved connections to Eastern Canada and some destinations in the United States. More than 400,000 passengers passed through the airport in 2007 making it a record breaking year.

The year commenced on a high note when the Honourable Gary Lunn, Minister of Natural Resources, announced the Federal Government's commitment of \$11 million toward the airport Runway Expansion Project. Later in the year this was followed by Premier Gordon Campbell's announcement that the Province of British Columbia would join the Government of Canada and Prince George Airport Authority as the third partner in the Project. Each partner has contributed \$11 million, with the Prince George Airport Authority receiving a loan from the Northern Development Initiative Trust. The Airport Authority is grateful for the very strong support given to us by Jay Hill MP, Dick Harris MP, John Rustad MLA, the Honourable Shirley Bond and the Honourable Pat Bell.

The Runway Expansion Project will see the main runway extended from the current length of 7,400 feet to 11,400 feet, complete with centre line lighting, dual ILS navigational systems and a dedicated de-icing refueling pad for wide body aircraft. The airport purchased land from a number

of property owners on Johnson Road to allow for approach lighting and drainage. The Runway Expansion Project will allow the PGAA to market the airport as a new transpacific technical stop alternative, allowing carriers to refuel enroute from Asian to American markets.

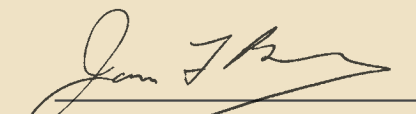
Tenders were awarded to EBA Consulting/L&M Engineering for the scope and design of the project, while IDL/Sharp Venture spearheaded the first phase of the runway construction project which entailed drainage and site preparation. Phase 1 was completed December 30, 2007 on time and under budget, positioning the second phase of construction to be completed by early fall 2008.

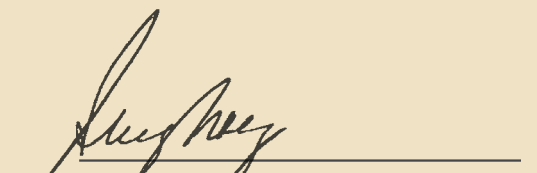
Other significant achievements during 2007 included finalization of the Airport's 20 year Master Plan, extensive renovations to the Combined Services Building, a revamped website and the introduction of a new Flight Information Display system.

The Prince George Airport Authority welcomed Tom Newell, CEO of Kopar Administration Ltd., and Andy Clough, Area Manager - BMO Bank of Montreal, to the Board of Directors in 2007. The Board of Directors would like to extend our appreciation to retiring Directors Simon Yu and Carol Brown for their dedication and the contributions they have made over the past few years.

In 2008, the Prince George Airport Authority will initiate a marketing campaign designed to make Prince George an Air Cargo destination of choice for refueling and transshipment of cargo.

Prince George Airport Authority . . . committed to *Expanding Our Borders*.


Jim Blake, Chair, PGAA


Stieg Hoeg, General Manager, PGAA





OVERVIEW OF OPERATIONS



Another year of challenges and exciting achievements has come and gone at the Prince George Airport. The highlight of 2007 came late in the year with the approval of funds for the proposed runway extension project. Many years of dreaming and planning came together with the tender, award, and subsequent kick off of the Phase I runway construction project.

Training initiatives for our Airport Operations Specialists continued throughout 2007. The Airport Authority successfully trained several staff in Aircraft Rescue Firefighting as well as expanded first aid training and heavy equipment operation.

Our partnership with the University of Northern British Columbia continued with a research team from the university completing the initial phase of a wildlife tracking study which involved monitoring the movements of different bird species that frequent the airport area. This study consisted of students observing birds at different locations on the airport, recording their flight patterns, altitude preferences, activity times, frequencies, and feeding peculiarities. Information contained in their report has been useful in planning for the new runway extension for runway 15 – 33. The university also continues to be involved in the site landscaping improvements and field grass replacement project. The grass research is intended to identify types of field cover which can be planted near runways in order to discourage wildlife from foraging in those areas.

In accordance with our Environmental Management Plan (EMP) we have now commenced conducting environmental audits of our airport tenant facilities. This year two successful tenant audits were completed and audits will continue in the years ahead.

Asphalt milling and re-paving took place during the year on Delta and Charlie taxiways. In addition, service road

patching, runway crack sealing, line painting on Apron 1, spreading of asphalt millings on the overflow parking area and Air Tanker Road, and repairs to winter damage in the parking lots was also carried out.

Work on the Airport Safety Management System (SMS) is continuing with staff completing the interactive portion of the Gap Analysis process. Implementation of this program will be ongoing throughout the coming year.

A rebuilt crash rescue vehicle was purchased from Crash Rescue Equipment in Dallas Texas in early 2007. The vehicle was delivered to the Airport and the official acceptance and memorial dedication ceremony took place on September 28th in the airport RCMP hangar. This ceremony was attended by Airport Authority staff, Directors and members of Prince George area emergency response groups, health authorities, specially invited guests, and two members of the Port Authority of New York/New Jersey Police Department – who had served with airport fire services in the New York area where the truck was formerly stationed.

A simulated aircraft emergency table top exercise was held on October 5th and was very well attended by all emergency response agencies including; Prince George Fire Rescue, Regional District of Fraser Fort George Fire Departments, B.C. Ambulance Service, R.C.M.P., Nav Canada, 911 dispatch, Provincial Emergency Program, Prince George Industrial Mutual Aid Committee (PGIMAC). Also included were representatives from the airlines serving Prince George, the Northern Health Authority, and Provincial Emergency Program. Our relationships with all of our local emergency response agencies are very important to the Airport Authority. We continue to explore ongoing options for mutual aid assistance, joint training and operations, emergency communications, and emergency response protocols.





Dave Milne Photo



GROWTH & DEVELOPMENT

The first few months of 2007 were not particularly impressive in terms of passenger volumes. However, while the last few hours of 2007 were ticking away – the airlines serving Prince George were busy tallying what would become the busiest year ever for the Prince George Airport. Finishing the year with a modest 3.27% growth, the numbers spoke volumes – 407,300 passengers used YXS as their entrance or exit point for northern BC.

Air Canada started direct service to Calgary in June to complement their already strong existing schedule of 6 daily flights to Vancouver. WestJet has maintained their schedule, feeding passengers through Vancouver 3 times daily. Furthermore, Central Mountain Air continues feeding regional communities to and from Prince George.

WestJet and Transat Holidays partnered once again for the 3rd season of “*Snow to Sun and Sand*” Mexico charters with an extended program that saw this very popular service grow to even greater numbers.

2007 was a year spent planning and developing for the future. The federal funding announcement for the planned runway project spurred design and preparation for construction slated for fall of that year. The PGAA positioned itself accordingly so that once all pieces were in place the project could begin. The provincial government made their announcement regarding funding in late September and almost instantly – dirt began to move. The PGAA will open an expanded runway of 11,400 feet in the fall of 2008 and will then enter an era of new service opportunities never before seen in northern BC.

As a result of positioning the Prince George Airport as the Transpacific Logistics Alternative, the PGAA has worked aggressively at marketing and promoting YXS within the air freight and logistics industry. Regional partners in this project include Initiatives PG, Port of Prince Rupert and CN Rail – the synergistic approach to local and regional development of the Northwest Logistics Corridor will ensure the expansion and diversification of business, manufacturing and northern economy for future success.





AUDITED FINANCIAL STATEMENTS

year ended December 31, 2007

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Deloitte

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AUDITOR'S 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, 2007 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, 2007 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

Prince George, British Columbia
February 29, 2008






STATEMENT OF FINANCIAL POSITION

as of December 31, 2007

	2007	2006
CURRENT ASSETS		
Cash (Note 3)	\$ 91,553	\$ 316,650
Accounts receivable (Note 4)	815,537	807,278
Inventory	49,384	67,568
Prepaid expenses	232,084	244,004
	<u>1,188,558</u>	<u>1,435,500</u>
CAPITAL ASSETS (Note 5)	<u>29,503,998</u>	<u>20,923,670</u>
	<u>\$ 30,692,556</u>	<u>\$ 22,359,170</u>
CURRENT LIABILITIES		
Bank demand loan (Note 6)	\$ 4,800,000	\$ 5,100,000
Accounts payable and accrued liabilities (Note 7)	7,294,033	1,172,232
Deferred revenue and deposits	88,777	93,727
Current portion of long-term debt (Note 8)	-	-
	<u>12,182,810</u>	<u>6,365,959</u>
LONG-TERM DEBT (Note 8)	<u>1,232,499</u>	<u>-</u>
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 9)	<u>10,748,669</u>	<u>11,139,018</u>
	<u>24,163,978</u>	<u>17,504,977</u>
COMMITMENTS (Note 10)		
NET ASSETS		
Invested in capital assets (Note 11)	6,055,830	4,179,900
Restricted airport improvement fee (Note 12)	1,074,778	1,358,804
Unrestricted	(602,030)	(684,511)
	<u>6,528,578</u>	<u>4,854,193</u>
	<u>\$ 30,692,556</u>	<u>\$ 22,359,170</u>

APPROVED BY THE BOARD:

 Director
 Director



STATEMENT OF OPERATIONS

year ended December 31, 2007

	2007	2006
Revenue		
Landing fees	\$ 1,635,898	\$ 1,714,732
General terminal charges	836,499	847,308
Concessions	202,743	195,840
Parking	904,875	539,757
Rentals	488,386	470,586
Other	284,943	347,164
	<u>4,353,344</u>	<u>4,115,387</u>
Expenses		
Salaries and employee benefits	1,873,210	1,638,834
Services, supplies and administration	2,154,888	1,947,162
Property taxes	200,493	208,531
Utilities	310,126	310,062
	<u>4,538,717</u>	<u>4,104,589</u>
Operating (deficit) surplus	<u>(185,373)</u>	<u>10,798</u>
Other revenue (expense)		
Airport improvement fee (Note 12)	2,770,219	1,930,195
Amortization of deferred contributions (Note 9)	787,767	787,767
Amortization	(1,387,496)	(1,205,248)
Interest on bank demand loan	(310,732)	(138,571)
	<u>1,859,758</u>	<u>1,374,143</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 1,674,385</u>	<u>\$ 1,384,941</u>





STATEMENT OF CHANGE IN NET ASSETS

year ended December 31, 2007

		Invested in Capital Assets (Note 11)	Restricted Airport Improvement Fee (Note 12)	Unrestricted	2 0 0 7	2 0 0 6
Balance, beginning of year	\$	4,179,900	\$ 1,358,804	\$ (684,511)	\$ 4,854,193	\$ 3,469,253
Excess (deficiency) of revenue over expenditure		-	2,459,487	(785,102)	1,674,385	1,384,941
Capital asset additions, net of related debt		1,675,513	(1,675,513)	-	-	-
Transfer of Transport Canada Subsidy			(1,068,000)	1,068,000	-	-
Capital asset disposals, net book value		(4,602)	-	4,602	-	-
Amortization of capital assets		(1,387,496)	-	1,387,496	-	-
Amortization of deferred contributions		787,767	-	(787,767)	-	-
Repayment of long-term debt and accounts payable related to capital assets		804,748	-	(804,748)	-	-
Balance, end of year	\$	6,055,830	\$ 1,074,778	\$ (602,030)	\$ 6,528,578	\$ 4,854,194



STATEMENT OF CASH FLOWS

year ended December 31, 2007

	2 0 0 7	2 0 0 6
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 1,674,385	\$ 1,384,941
Items not affecting cash		
Amortization	1,387,496	1,205,248
Amortization of deferred contributions	(787,767)	(787,767)
	2,274,114	1,802,422
Changes in non-cash operating working capital		
Increase in accounts receivable	(8,258)	(275,917)
Decrease (increase) in inventory	18,184	(22,551)
Decrease (increase) in prepaids	11,912	(26,052)
(Decrease) increase in accounts payable and accrued liabilities	(40,441)	271,705
(Decrease) increase in deferred revenue and deposits	(4,950)	5,070
	2,250,561	1,754,677
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(3,258,781)	(4,100,045)
Construction in progress expenditures	(6,713,646)	(501,389)
Proceeds on disposal of capital assets	4,603	-
	(9,967,824)	(4,601,434)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	-	2,900,000
Repayment of bank demand loan	(300,000)	(75,000)
Proceeds from long-term debt	1,232,499	-
Increase in construction in progress payables	6,162,249	164,358
Deferred contributions related to capital assets	397,418	-
	7,492,166	2,989,358
(DECREASE) INCREASE IN CASH	(225,097)	142,601
CASH, BEGINNING OF YEAR	316,650	174,049
CASH, END OF YEAR	\$ 91,553	\$ 316,650
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 310,732	\$ 138,571





NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

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%



NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

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

	2007	2006
Cash and term deposits	\$ 91,553	\$ 316,650

The Authority has a \$500,000 operating line of credit bearing interest at the prime-lending rate (December 31, 2007 – 6.00%). 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.





NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

4. ACCOUNTS RECEIVABLE

	2007	2006
Trade receivables	\$ 655,394	\$ 790,083
GST recoverable	160,143	17,195
	<u>\$ 815,537</u>	<u>\$ 807,278</u>

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Land	\$ 1,717,911	\$ -	\$ 1,717,911	\$ 253,642
Leasehold improvements				
Buildings	14,118,218	1,624,549	12,493,668	12,972,371
Parking facilities and roadway systems	4,504,158	440,984	4,063,174	3,971,781
Other	44,900	11,535	33,365	36,903
Computer hardware and software	362,029	226,519	135,510	98,635
Vehicles	29,540	24,616	4,924	10,831
Runway and other equipment	6,478,558	2,136,758	4,341,800	3,078,118
Construction in Progress	6,713,646	-	6,713,646	501,389
	<u>\$ 33,968,960</u>	<u>\$ 4,464,961</u>	<u>\$ 29,503,998</u>	<u>\$ 20,923,670</u>

6. BANK DEMAND LOAN

CIBC demand installment loan - payable in interest only installments per month, until January 31, 2009. Principal payments are to commence February 28, 2009 in an amount sufficient to liquidate the outstanding balance by October 31, 2019. Principal payments may be structured as blended or principal plus interest on a monthly or quarterly basis, subject to mutual agreement of the Bank and the Authority. The maximum facility available is \$7,000,000 and is secured by a general security agreement and a first leasehold mortgage by way of a sublease over all the Authority's assets. Interest is at prime. (6.0% - December 31, 2007)

\$ 4,800,000 \$ 5,100,000



NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

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 the 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:

	2008	2009	2010	2011	2012
	\$ -	\$ 375,000	\$ 450,000	\$ 450,000	\$ 450,000

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Trade payables	\$ 501,961	\$ 544,912
Construction in progress payable	6,666,998	504,749
Payroll accruals	125,075	122,571
	<u>\$ 7,294,033</u>	<u>\$ 1,172,232</u>

8. LONG-TERM DEBT

	2007	2006
Northern Development Initiative Trust, unsecured, bearing interest at 5.0% per annum, due October 2013 unless renegotiated	\$ 1,232,499	-
	<u>\$ 1,232,499</u>	<u>-</u>

During the year, the Prince George Airport Authority had entered into a funding agreement with the Northern Development Initiative Trust to provide funding of \$11,000,000 to assist in completion of the runway extension project. Interest will accrue on the outstanding principal and accumulated interest balance at a fixed rate of 5.0% compounded once per year and calculated monthly. The loan, and accrued interest, will be paid on the last day of the term of the loan, unless the Authority elects to renegotiate the term and repayment schedule with the Trust.





NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

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

	2 0 0 7	2 0 0 6
Opening balance	\$ 11,139,018	\$ 11,926,785
Contributions received from Transport Canada	397,417	-
Amortization	(787,767)	(787,767)
	<u>\$ 10,748,668</u>	<u>\$ 11,139,018</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 7	2 0 0 6
Opening balance	\$ 4,179,900	\$ 3,060,306
Capital asset additions, including construction in progress	9,972,427	4,601,433
Less: Long-term debt, accounts payable and deferred contributions related to additions	(8,296,914)	(3,404,748)
	<u>1,675,513</u>	<u>1,196,685</u>
Capital asset disposals, net book value	(4,602)	-
Amortization	(1,387,496)	(1,205,248)
Amortization of deferred contributions	787,767	787,767
Repayment of A/P related to capital additions	804,748	340,390
	<u>\$ 6,055,830</u>	<u>\$ 4,179,900</u>
Closing balance		



NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

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. May 01, 2004 the AIF increased to \$10 for anticipated capital expenditures. Effective October 1, 2006 the AIF increased to \$15 to further help fund capital expansion. Earned AIF is net of the 7% handling fee withheld by the airlines.

13. 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 five current participating employees. The Authority pension expense for the defined contribution component was \$20,406 in 2007. 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, 2007, no assets had been transferred from the federal government to the Authority plan.

Based on an actuarial valuation as at December 31, 2007 of the Authority's defined benefit plan under CICA Handbook Section 3461, the net pension expense is as follows:

	2 0 0 7	2 0 0 6
Service costs	\$ 151,000	\$ 152,000
Interest cost on accrued benefit obligation	53,000	41,000
Expected return on assets	(53,000)	(40,000)
	<u>\$ 151,000</u>	<u>\$ 153,000</u>
Pension expense		

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2007 is as follows:





NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

13. PENSION (continued)

	2 0 0 7	2 0 0 6
Market value of plan assets	\$ 910,000	\$ 760,000
Accrued benefit obligation	(944,000)	(857,000)
Deficiency of plan assets	(34,000)	(97,000)
Unamortized net actuarial loss	62,000	112,000
Net pension asset (liability)	\$ 28,000	\$ 15,000

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

	2 0 0 7	2 0 0 6
Discount rate	5.50%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.25%
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 7	2 0 0 6
Employer contribution	\$ 164,000	\$ 187,000
Employees' contribution	34,000	37,000
Benefits paid	26,000	1,000

Plan assets consist of:

	2 0 0 7	2 0 0 6
Equity securities	62.0%	63.8%
Debt securities	38.0%	36.2%
	100.0%	100.0%



NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2007

14. FINANCIAL INSTRUMENTS

Fair value

The 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 approximates their carrying value as the loans bear interest at current market rates.

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.

15. 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, 2007, the fees paid to the Board of the Authority for their services as directors amounted to \$101,000 (2006 - \$89,300).





CORPORATE GOVERNANCE



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 Board's requirements and decisions. The following standing Committees have been established:

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

The Prince George Airport Authority has held Governance Workshops, and the guidelines for the Board have been approved.

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 independently to provide services to the authority on a contractual basis.

The Board has ensured that all Directors, officers and employees complied with these rules in 2007.

CONTRACTS OVER \$75,000

In 2007 all contracts valued at over \$75,000 were awarded by bid.





GOVERNANCE GUIDELINES

INTRODUCTION

While not obligated to do so, The Prince George Airport Authority believes it to be a responsibility of its accountability to the community to model its Governance practices as if it were a listed company on a Canadian Securities Exchange.

Following is the Authority's application of those guidelines.

1. COMPOSITION OF THE BOARD

Guideline

The Board should have a majority of independent Directors, in that being independent means non-management or having no conflict.

Disclosure

The Board is composed exclusively of independent Directors. The Board Chair, Vice Chair, Secretary and Treasurer are elected annually from within the members of the Board.

2. MEETINGS OF INDEPENDENT DIRECTORS

Guideline

The independent Directors should hold regularly scheduled meetings at which non-independent Directors and members of management are not present.

Disclosure

A meeting of Board members only is held at the conclusion of regularly scheduled Board meetings or other times if necessary.

3. BOARD MANDATE

Guideline

The Board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the organization by:

- 3.1 Satisfying itself as to the integrity of the management team
- 3.2 Adopting a strategic planning process
- 3.3 Identifying the principal risks
- 3.4 Having a management succession plan in place
- 3.5 Adopting a communications policy

- 3.6 Have internal controls and information systems operational

- 3.7 Have Governance guidelines and principles in place

Disclosure

The Mission Statement for the Prince George Airport Authority is to "provide leadership as a regional economic driver and a gateway for passengers and cargo by providing exceptional services and facilities."

To achieve this mandate:

- 3.1 The Authority has an in depth monthly and quarterly reporting and performance measurement system, including regular Board presentations from all levels of management and the ongoing monitoring, comparison, analysis and explanation of results and expectations. External professional resources are employed to test the integrity of internal control systems.

- 3.2 The Authority has a strategic planning process, which includes a long-term Airport Master plan, a dynamic five year Strategic Operating plan and annual operating and capital budgets with goals and expectations reviewed and revised annually.

- 3.3 The Authority continuously implements necessary changes to safety and security management functions relating to aircraft and passenger movement and protection of airport assets through consideration of:

- (a) An environmental management plan and policies addressing all airport environmental issues including aircraft de-icing and the use and application of fertilizers and pesticides.
- (b) An airport emergency evacuation plan, a disaster recovery plan and Airport Safety and Security plans.
- (c) A comprehensive insurance program to protect the airport assets and its financial viability to meet the ground lease obligations.
- (d) An organizational structure with dedicated safety, security and emergency planning and response personnel.
- (e) Risk transfer through contract



GOVERNANCE GUIDELINES

- (f) Incident reporting and response procedures.
- (g) An Airport Safety Committee.

- 3.4 A management organizational structure has been approved by the Board.

- 3.5 An extensive communication policy is in place identifying the prime contacts, their roles and responsibilities. The policy defines the process for stakeholders to contact the Authority and for Airlines and Industry service providers to communicate with the Authority.

- 3.6 A comprehensive Management Information and Reporting System which tracks, measures and monitors the integrity of the financial statistics, to provide reliable data for decision making. Service improvement, safety, environmental and security statistics are regularly tracked and monitored.

- 3.7 The Board has established a Governance Committee and a policy and procedure manual has been completed for the Authority's Directors and employees guidance.

4. POSITION DESCRIPTIONS

Guideline

The Board should develop clear position descriptions for the Chair, each Committee and the General Manager.

Disclosure

Detailed position descriptions have been developed for the Authority's Board and for each Board officer's position. The General Manager's job description is in place, as are job descriptions for each of the management team.

Staff job descriptions are also in place and specific job training is conducted continuously.

5. ORIENTATION AND CONTINUING EDUCATION

Guideline

The Board should ensure that all new Directors receive a comprehensive orientation.

Disclosure

Each new PGAA Director receives a Directors manual that contains current PGAA policies and procedures at the airport

as well as the Directors role and responsibilities. Tours of the airport including Nav Canada and Canadian Air Transport Security Authority site tours as well as procedures are part of the orientation. Subsequent presentations on airport maintenance and safety procedures are provided. Management and staff receive initial job orientation and follow up specific job element training as required.

6. CODE OF BUSINESS CONDUCT AND ETHICS

Guideline

The Board should develop a written code of business conduct and ethics applicable to Directors and employees of the Authority.

The code should address in particular:

- 6.1 Conflicts of interest.
- 6.2 Protection of corporate assets.
- 6.3 Confidentiality of corporate information.
- 6.4 Fair dealing with customers, suppliers, competitors and employees.
- 6.5 Compliance with laws and regulations.
- 6.6 Reporting of any illegal or unethical behavior.

Disclosure

- 6.1 Directors annually complete conflict of interest disclosure documents.
- 6.2 Purchases and approval of payments to employees and customers have established approval protocols in place.
- 6.3 Confidential corporate information is disseminated on a need to know basis.
- 6.4 Equal opportunity is stressed for suppliers and contractors and employee working agreements provide equity for employees.
- 6.5 No Director or employee will be required to break any law and compliance with regulations are paramount for employees.
- 6.6 Directors and employees are encouraged to report any behavior that is outside legal or ethical circumstance to management.





GOVERNANCE GUIDELINES

7. NOMINATION OF DIRECTORS

Guideline

The Board should appoint a Nominating Committee comprised exclusively of independent Directors who will have a clear mandate established for them including the manner in which they report to the Board.

Disclosure

It is the duty of the Chair of the Governance Committee to chair the Nominating Committee and the remaining members of the Nominating Committee are also to be members of the Governance Committee. The Nominating Committee communicates with the various nominating entities and appointers to seek a balance of Director skills.

8. COMPENSATION

Guideline

The Board should appoint a Compensation Committee composed entirely of independent Directors to make recommendations to the Board with respect to General Manager's and the Directors' compensation.

Disclosure

The Board has charged the Human Resources Committee with the responsibility to bring a recommendation annually to the Board as to the method and level of compensation the General Manager should receive, based on market comparisons and personal performance.

The Governance Committee has the responsibility to bring a recommendation to the Board, from time to time, as to the level of compensation the Directors should receive.

9. REGULAR BOARD ASSESSMENTS

Guideline

The Board, its Committees, and each individual Director should be regularly assessed regarding his or her effectiveness and contribution.

Disclosure

The Board has adopted a formal evaluation process in which each Director annually completes an assessment of the Board's effectiveness. Attendance expectations objectives for Directors have been established.

10. BOARD & MANAGEMENT COMPENSATION

The annual remuneration for the Board during 2007 was as follows:

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

The Board Chair received an additional stipend for the year 2007 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 2007 for all Directors was \$101,000.

The combined salaries of the three Senior Managers [i.e.] Airport General Manager, Director of Operations, and Director of Finance & Administration in the Year 2007 was \$281,531.

11. YXS SENIOR MANAGEMENT

Airport General Manager

Stieg Hoeg

Email: shoeg@pgairport.ca

Director of Operations

Mark Miller

Email: mmiller@pgairport.ca

Director of Finance & Administration

Diane Bertram

Email: dbertram@pgairport.ca



GOALS AND OBJECTIVES

1. SUPPORT OUR STAFF

- Establish organizational values and obtain employee commitment.
- Establish a career development plan and implement individualized training plans.
- 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.
- Involve all staff in strategic planning and decision-making.

2. OPERATE IN A SAFE, SECURE & ENVIRONMENTALLY RESPONSIBLE MANNER

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

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

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

4. OPERATE AS A FINANCIALLY VIABLE ENTITY

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

5. ENSURE PUBLIC ACCOUNTABILITY

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

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

- 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.
- 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.
- Ensure good communications and co-operation are maintained with airline partners by continuing the Airline Operating Committee and through the Airline Consultation Committee.
- Encourage open communication with community members through the Community Consultation Committee.

7. PURSUE MARKETING INITIATIVES AND ECONOMIC DEVELOPMENT

- Develop and implement a strategic marketing plan.
- Develop airport lands while supporting community objectives.
- Retain and strengthen existing air services.
- Develop new markets (international, national & transborder).

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

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





5 YEAR BUSINESS PLAN FORECAST

BUSINESS PLAN CASH FLOW FORECAST 2008 - 2012

Shown in thousands of dollars.

YEAR	2008	2009	2010	2011	2012
Revenues	7,183.6	7,552.4	7,768.3	7,991.9	8,293.2
Expenses	5,050.4	4,960.4	5,418.4	5,418.9	5,229.1
Capital	26,340.0	9,780.0	850.0	585.0	485.0

ASSUMPTIONS:

1. Forecasted revenues and expenses assume 1.9% annual passenger growth.
2. The reduction in operating expenses in 2012 is a result of an anticipated decrease in interest expense.
3. Amortization is not included.



BOARD OF DIRECTORS

JAMES (JIM) BLAKE

CHAIR

Nominated by City of Prince George

DAVE WILSON

VICE CHAIR

Nominated by Regional District of Fraser-Fort George

RON EPP

TREASURER

Chair • Finance & Audit Committee

Nominated by City of Prince George

DAVE WILBUR

SECRETARY

Chair • Community Consultation Committee

Nominated by City of Prince George



MIKE TKACHUK

Chair • Environment / Noise Committee

Nominated by Regional District of Fraser-Fort George

LES WALDIE

Chair • Human Resource Committee

Nominated by Initiatives Prince George*

NEIL KING

Chair • Governance & Nominating Committee

Chair • Airline Consultation Committee

Nominated by Initiatives Prince George*

ANDY CLOUGH

Director

Appointed by Ministry of Transportation

TOM NEWELL

Director

Appointed by Ministry of Transportation

DON GOULD

Director

Nominated by Provincial Government

NEIL MEAGHER

Director

Appointed by Prince George Airport Authority

MARION BARTLETT

Director

Appointed by Prince George Airport Authority

*Formerly Prince George Regional Development Corporation





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Printed in Canada 