

2008 Annual Report



www.pgairport.ca



A group of people, including children and adults, are celebrating in what appears to be an airport terminal. They are holding balloons, including a large yellow smiley face balloon, and flowers. The scene is joyful and festive, with people smiling and laughing. A television screen in the background shows flight information.

The Palmer Family

It was the perfect ending to a once-in-a-lifetime trip. As Joseph and Anne Palmer entered the YXS arrivals terminal, it was a welcome home greeting from their family and friends that brought tears to their eyes.

We see thousands of stories within YXS daily, just like Joseph and Anne's. **What's your story?**

The Prince George Airport Authority

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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A close-up photograph of a woman with blonde hair and blue eyes, and a young child with blonde hair and blue eyes, both looking out of an airplane window. The woman is on the left, and the child is on the right. The child is wearing a pink shirt with red and white checkered patches. The background is the interior of an airplane cabin.

Alesha Springer

Alesha's first plane trip started from YXS and took her to LAX in Los Angeles. A dream come true as meeting her favourite princess, Cinderella, has now become a reality.

We see thousands of stories within YXS daily, just like Alesha's. **What's your story?**

Chair Report



James (Jim) Blake

Chair
Prince George Airport Authority

In 2008, the Prince George Airport Authority (PGAA) was dedicated toward developing the Prince George Airport (YXS) into an air cargo destination of choice for the refueling of cargo aircraft and the transshipment of cargo, while promoting the shared regional values of economic prosperity, sustainability and diversification. Armed and driven with this objective, the PGAA developed and implemented several projects that focused on the needs of our customers. YXS ended the year with the highest passenger growth to date, a total of 417,484 passengers passed through our doors.

The year began with a major change at the Airport when we became a smoke-free airport. Our "Clean Air, Clean Future" initiative was introduced to improve the appearance and cleanliness of YXS, allowing for a better passenger experience. The airport is committed to a clean, environmentally friendly, and exceptional facility for all customers and staff.

Worldwide, the aviation industry was hit hard by a challenging economy and extremely high fuel prices that caused some services to be eliminated. In May, YXS welcomed Horizon Air to Prince George with direct service to Seattle, WA. Unfortunately, as a result of the uncertain economy, and record fuel prices, this service was discontinued five months later. Additionally, citing increased fuel prices, Air Canada was forced to eliminate their direct service to Calgary despite high load factors.

The most notable accomplishment in 2008 was the air cargo initiative. The Prince George Airport is located along the great circle route between major Asian and US airports. Strategically situated, the Airport has the ability to act as a tech stop to cargo carriers providing weather, safety or fueling alternatives for carriers using this route. An aggressive marketing campaign was put in place with the assistance of industry leading consultants, Landrum & Brown. As a result, the PGAA was able to target and grow relationships with key organizations both in the US and Asia that are in a position to capitalize on the opportunities available at YXS. The Airport began realizing its dream of becoming an economic stimulus for the region when it was approved by Transport Canada for the International Air Cargo Transshipment Program.

September saw a temporary shutdown of the main Runway 15-33 as the final stages of runway construction took place. A special thank you is due to our airline carriers who understood our vision, and demonstrated

professionalism and cooperation throughout this closure. Both Air Canada Jazz and WestJet had to downsize to Dash 8 aircraft during the month.

The Runway Expansion Project extended the runway by 4,048 feet to a total of 11,450 feet making it the third longest commercial runway in Canada. This project was the result of the hard work put forth by many individuals, most notably Northern Electric, L&M Engineering, IDL Projects, and EBA Engineering. Due to environmental issues and the need to relocate safely the Western Spadefoot Toad from the north end of the Airport, the completion of the new refueling apron was delayed with completion now expected in June 2009. The support and confidence of the Federal and Provincial Governments, and the Northern Development Initiative Trust, has enabled us to strive to change the face of our regional economy.

The Prince George Airport Authority, along with the City of Prince George, Initiatives Prince George, Regional District of Fraser-Fort George, L&M Engineering, and private land owners developed an Airport Logistics Task Force. This initiative demonstrated the community's commitment to developing YXS and Prince George into a North American logistics hub. Some major accomplishments to date have been the Agricultural Land Reserve (ALR) exclusion, and the submission of the Boundary Road application.

Operationally, the Airport also upgraded its Instrument Landing System (ILS) and awarded a parking equipment upgrade to Precise Parklink and Worldwide Parking Solutions. A Greenhouse Gas study was conducted providing both an inventory and a reduction plan for Greenhouse Gas emissions associated with Airport operations.

The Prince George Airport Authority Board said goodbye to two Board members in 2008. Mr. Dave Wilson passed away on October 4, 2008 after having served on the Board since its inception in 2001. Dave, as Vice Chairman of the Board was a highly valued colleague and esteemed friend to all. Dave's presence, humour and calming nature will be greatly missed. The Board also said goodbye to Mr. Dave Wilbur in late 2008. Dave resigned from the Board after his successful election as a Councillor for the City of Prince George. We wish Dave luck in his future career. Your wise counsel will also be missed. And last, but not least, we saw the departure of Neil Meagher in May 2008 due to his relocation to Fort Nelson. He served on the Board since 2001. Neil made major contributions during the negotiations surrounding the transfer of the Airport from Transport Canada in 2003 and provided invaluable advice to the Human Resources Committee during his tenure.

In 2009, the Prince George Airport Authority looks forward to expanding further its passenger and cargo initiatives with the aim of maintaining a customer friendly, sustainable and prosperous Airport for both passengers and airline carriers.

Jim Blake, Chair – Prince George Airport Authority



Laine and Lexy Nichols

Weddings are exciting enough, but when the bride and groom's parents gave them a trip to Mexico as a gift, they couldn't wait to start their honeymoon. "We can change on the plane," Lexy shouted as they departed YXS.

We see thousands of stories within YXS daily, just like Laine and Lexy's. **What's your story?**

Overview of Operations

The Prince George Airport (YXS) had a very exciting and challenging year in 2008 due in major part to the Runway Extension Project.

While Airport Operation Specialists took on the task of maintaining services for passenger flight and general operations, the Prince George Airport Authority (PGAA) teamed with EBA Engineering and IDL-Sharp to begin construction on the new runway extension. During the spring and summer months, the Prince George Airport went through a monumental change in both appearance and function by extending the existing infrastructure from 7,400 feet to 11,450 feet. The Prince George Airport now boasts the third longest commercial runway in Canada, and the future has never looked brighter for our region.

In addition to an 11,450 foot extended runway, upgraded lighting systems were also installed to complement the project. Centerline lighting, new approach lights for Runway 33, Precision Approach Path Indicators for Runway 15 and new edge lights along Runway 15-33 were included to not only offer a first class product to our community and region, but to the world.

To complete the look and functionality of the new extended runway, the PGAA added new fencing and gates along the south end of the runway and removed power lines, communication lines and hundreds of trees from the approach to Runway 33, which ultimately improved airline approach routes. Furthermore, a new two kilometre long ditch running north to south on the east side of the new runway was developed to enhance drainage on site.

Finally, the Prince George Airport Authority repaved Runway 15-33 in the early fall of 2008. As a result of the timeless efforts put forth by many individuals, Runway 15-33 was available for use in late September after a one month shutdown to complete the final phases of construction.

Throughout 2008, the Prince George Airport Authority was committed to transforming the Airport into a regional economic driver. The completion of many projects allowed the Prince George Airport to continue to offer exceptional customer service combined with world class infrastructure.



Maintenance Crew

With the recent expansion of our airport runway, YXS has not only made an investment in our community and our region, but also to the employees and their families that help maintain our Airport.

We see thousands of stories within YXS daily, just like our own employees. **What's your story?**

Growth and Development

Despite extraordinary challenges throughout the year that included increased fuel prices, an economic downturn, runway construction and severe winter weather conditions - our airlines still displayed record breaking growth in 2008. The Prince George Airport (YXS) finished the year on a high, recording 417,484 passengers through our doors. This represented the highest passenger volume in the history of the Airport, a growth of 2.5% from 2007.

WestJet and Air Canada continued to maintain their strong service to Vancouver, while Central Mountain Air was an integral component to the connectivity of many regional communities to and from Prince George. Moreover, WestJet and Transat Holidays partnered for their fourth season of sunspot charters to Puerto Vallarta, Mexico, registering record breaking bookings.

Our airlines continued to demonstrate that they are key components to the community of Prince George, as well as Northern British Columbia. Our relationship with them is significant to the continued success of YXS, our local and regional economy, and the tourism industry.

Amid local celebration, Horizon Air inaugurated nonstop service to Seattle, WA from Prince George in May. However, due to continued high fuel prices and slowing economies in the US and Canada, the service was ceased in early October. Additionally, Air Canada was also forced to eliminate direct service to Calgary in June as a result of escalated fuel prices.

In September of 2008, the Prince George Airport Authority (PGAA) opened its doors to the world, and our mission in becoming an economic engine for Northern British Columbia is becoming a reality. A \$36 million, 11,450 foot long and 150 foot wide runway extension project was completed, which has enabled the Airport to pursue trans-Pacific tech stops and cargo transshipment opportunities. The Prince George Airport runway is now currently the third longest commercial runway in Canada behind Calgary and Vancouver, and is complete with centerline lighting. Without the confidence and support from the Federal and Provincial Governments, and the Northern Development Initiative Trust, the vision to build a brighter future for our region would not have been possible.

Prince George Airport is strategically located on the Great Circle Route along the existing trans-Pacific flights paths, which result in minimal diversions between origin and destination. The Prince George Airport Authority can now offer carriers an airport that can accommodate 24 / 7 operations with no operational restrictions, has a low cost fee structure and no congestion. The design and product being offered is exclusively geared for fast and efficient turnarounds minimizing carriers on-the-ground time.

With over 100 airside acres available and a 3,000 acre Airport Logistics Park being developed adjacent to the airport lands, manufacturing and logistic opportunities for local and regional business will follow. The Northwest corridor will be one of the least congested transportation corridors in North America, ensuring the expansion and diversification of business, manufacturing and export from Northern British Columbia.

The newly completed runway expansion will ensure continued regional economic diversification and provide new economic opportunities for communities in Northern British Columbia.

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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, 2008 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, 2008 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 principals. 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 26, 2009

Statement of Financial Position

As of December 31, 2008

	2 0 0 8	2 0 0 7
CURRENT ASSETS		
Cash (Note 5)	\$ 2,965,709	\$ 91,553
Accounts receivable (Note 6)	1,288,711	815,537
Inventory	42,603	49,384
Prepaid expenses	237,930	232,084
	<u>4,534,953</u>	1,188,558
CAPITAL ASSETS (Note 7)	<u>52,934,796</u>	29,503,998
	<u>\$ 57,469,749</u>	<u>\$ 30,692,556</u>
CURRENT LIABILITIES		
Bank demand loan (Note 8)	\$ 13,000,000	\$ 4,800,000
Accounts payable and accrued liabilities (Note 9)	4,353,997	7,294,033
Deferred revenue and deposits	88,777	88,777
	<u>17,442,774</u>	12,182,810
LONG-TERM DEBT (Note 10)	9,522,034	1,232,499
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 11)	<u>23,297,385</u>	10,748,669
	<u>50,262,193</u>	24,163,978
COMMITMENTS (Note 13)		
NET ASSETS		
Invested in capital assets (Note 14)	6,187,641	6,055,830
Restricted airport improvement fee (Note 15)	1,625,343	1,074,778
Unrestricted	(605,428)	(602,030)
	<u>7,207,556</u>	6,528,578
	<u>\$ 57,469,749</u>	<u>\$ 30,692,556</u>

APPROVED BY THE BOARD

 Director
 Director

Statement of Operations

Year ended December 31, 2008

	2 0 0 8	2 0 0 7
Revenue		
Landing fees	\$ 1,535,945	\$ 1,635,898
General terminal charges	914,297	836,499
Concessions	169,335	202,743
Parking	965,525	904,875
Rentals	505,866	488,386
Other	346,133	284,943
	<u>4,437,101</u>	<u>4,353,344</u>
Expenses		
Salaries and employee benefits	2,355,359	1,873,210
Services, supplies and administration	2,680,335	2,154,888
Property taxes	199,405	200,493
Utilities	354,087	310,126
	<u>5,589,186</u>	<u>4,538,717</u>
Operating deficit	<u>(1,152,085)</u>	<u>(185,373)</u>
Other revenue (expense)		
Airport improvement fee (Note 15)	2,801,008	2,770,219
Amortization of deferred contributions (Note 11)	851,086	787,767
Amortization	(1,520,439)	(1,387,496)
Interest on bank demand loan	(300,592)	(310,732)
	<u>1,831,062</u>	<u>1,859,758</u>
EXCESS OF REVENUE OVER EXPENSES	<u><u>\$ 678,978</u></u>	<u><u>\$ 1,674,385</u></u>

Statement of Changes in Net Assets

Year ended December 31, 2008

	Invested in Capital Assets (Note 14)	Restricted Airport Improvement Fee (Note 15)	Unrestricted	2008	2007
Balance, beginning of year	\$ 6,055,830	\$ 1,074,778	\$ (602,030)	\$ 6,528,578	\$ 4,854,193
Excess (deficiency) of revenue over expenditure	-	2,500,416	(1,821,438)	678,978	1,674,385
Capital asset additions, net of related debt	804,713	(1,949,851)	1,145,138	-	-
Capital asset disposals, net book value	(3,549)	-	3,549	-	-
Amortization of capital assets	(1,520,439)	-	1,520,439	-	-
Amortization of deferred contributions	851,086	-	(851,086)	-	-
Balance, end of year	\$ 6,187,641	\$ 1,625,343	\$ (605,428)	\$ 7,207,556	\$ 6,528,578

Statement of Cash Flows

Year ended December 31, 2008

	2 0 0 8	2 0 0 7
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 678,978	\$ 1,674,385
Items not affecting cash		
Amortization	1,520,439	1,387,496
Amortization of deferred contributions	(851,086)	(787,767)
	<u>1,348,331</u>	<u>2,274,114</u>
Changes in non-cash operating working capital		
Increase in accounts receivable	(473,185)	(8,258)
Decrease in inventory	6,782	18,184
(Increase) decrease in prepaids	(5,838)	11,912
Increase (decrease) in accounts payable and accrued liabilities	819,141	(40,441)
(Decrease) in deferred revenue and deposits	-	(4,950)
	<u>1,695,231</u>	<u>2,250,561</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(24,954,783)	(9,972,427)
Proceeds on disposal of capital assets	3,549	4,603
	<u>(24,951,234)</u>	<u>(9,967,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	8,200,000	-
Repayment of bank demand loan	-	(300,000)
Proceeds from long-term debt	8,289,535	1,232,499
(Decrease) increase in construction payables	(3,759,177)	6,162,249
Increase in deferred contributions related to capital assets	13,399,801	397,418
	<u>26,130,159</u>	<u>7,492,166</u>
INCREASE (DECREASE) IN CASH	2,874,156	(225,097)
CASH, BEGINNING OF YEAR	91,553	316,650
CASH, END OF YEAR	\$ 2,965,709	\$ 91,553
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 300,592</u>	<u>\$ 310,732</u>

Notes to the Financial Statements

Year ended December 31, 2008

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. BASIS OF PRESENTATION

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

The Authority's borrowing arrangements with the CIBC are on a demand basis while at the same time the bank is accepting payments on an instalment basis pursuant to the banking agreement. As a result of the demand feature Canadian generally accepted accounting principles require the full amount of the debt to be included in current liabilities. This has contributed to a working capital deficiency of \$12,907,821 at December 31, 2008. However, the Authority will receive contributions totaling \$8,202,781 from the Minister of Transportation and Western Economic Diversification during 2009 which will not be subject to repayment. These funds will be applied to reduce the CIBC bank demand loan and other current liabilities. Reduction of the remaining working capital deficiency and satisfaction of other liabilities and commitments is dependent upon the Authority continuing to maintain profitable operations.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below:

- * Cash is classified as a financial asset held for trading and is measured at fair value. Fair value fluctuations in these assets including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income;
- * Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest method;
- * Accounts payable and accrued liabilities and other long-term liabilities are classified as other liabilities and measured at amortized cost using the effective interest method.

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

Notes to the Financial Statements

Year ended December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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%
Machinery and other equipment	10%-20%
Runway extension	5-50 years

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.

Income taxes

The Authority is exempt from federal and provincial income taxes as well as capital tax.

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 15) is recognized when passengers depart the terminal building.

Government Contributions

Contributions towards capital expenditures are accounted for under the deferral method whereby the contributions are deferred and brought into income on a basis consistent with the amortization of the related capital assets.

Notes to the Financial Statements

Year ended December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Future accounting changes

The Accounting Standards Board and the Public Sector Accounting Board issued an Invitation to Comment in January 2009 seeking comments on the future of financial reporting by not-for-profit organizations in Canada. The Accounting Standards Board is responsible for establishing the financial reporting standards for private sector not-for-profit organizations and the Public Sector Accounting Board has authority for standards for not-for-profit organizations controlled by a government.

The Authority is currently reporting in accordance with accounting standards established by the Accounting Standards Board. Under the existing standards, not-for-profit organizations will be required to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. There are, however, a number of options regarding future financial reporting models including IFRS and Public Sector accounting standards, either as they currently exist or supplemented with special rules for not-for-profit entities or essentially the same standards as are currently being followed. The outcome of deliberations by the two Canadian accounting standard setting bodies will ultimately determine the standards to be applied by the Authority.

4. CHANGES IN ACCOUNTING POLICIES

Effective on January 1, 2008, the Authority adopted the following new accounting standards on a prospective basis:

- a) Section 1535 "*Capital Disclosures*" requires the disclosure of (i) the Authority's objectives, policies and processes for managing capital; (ii) description of what the Authority regards as capital; (iii) the Authority's compliance with any capital requirements and (iv) the related consequences of any non-compliance.
- b) Section 3862 "*Financial Instruments – Disclosures*" and Section 3863 "*Financial Instruments – Presentation*" which replaces the disclosure requirements of Section 3861 "*Financial Instruments – Disclosure and Presentation*". Section 3862 requires the disclosure of the nature and extent of risks arising from financial instruments and how those risks are managed. Section 3863 carries forward the presentation requirements and provides additional guidance for the classification of financial instruments.

Notes to the Financial Statements

Year ended December 31, 2008

5. CASH

	2008	2007
Cash and term deposits	<u>\$ 2,965,709</u>	<u>\$ 91,553</u>

The Authority has a \$500,000 operating line of credit bearing interest at the prime lending rate (December 31, 2008 – 3.5%). 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. The Authority has a bank covenant of cash coverage of capital expenditure and debt repayment, with which they are not in compliance.

6. ACCOUNTS RECEIVABLE

	2008	2007
Trade receivables	\$ 752,226	\$ 655,394
GST recoverable	<u>536,485</u>	<u>160,143</u>
	<u>\$ 1,288,711</u>	<u>\$ 815,537</u>

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
Land	\$ 14,468,095	\$ -	\$ 14,468,095	\$ 1,717,911
Leasehold improvements				
Buildings	14,410,483	2,189,399	12,221,084	12,493,668
Parking facilities and roadway systems	4,504,158	658,319	3,845,839	4,063,174
Other	44,900	14,892	30,008	33,365
Runway	18,502,791	116,638	18,386,153	-
Computer hardware and software	381,052	333,510	47,542	135,510
Vehicles	29,540	29,540	-	4,924
Machinery and other equipment	6,223,438	2,638,642	3,584,796	4,341,800
Construction in progress	<u>351,279</u>	<u>-</u>	<u>351,279</u>	<u>6,713,646</u>
	<u>\$ 58,915,736</u>	<u>\$ 5,980,940</u>	<u>\$ 52,934,796</u>	<u>\$ 29,503,998</u>

Notes to the Financial Statements

Year ended December 31, 2008

8. BANK DEMAND LOAN

	2008	2007
CIBC demand instalment loan - payable in interest only instalments per month, until January 31, 2009. Principal payments of \$54,265 are to commence February 28, 2009, secured by a general security agreement and a first leasehold mortgage by way of a sublease over all of the Authority's assets, bearing interest at prime (3.5% - December 31, 2008) or Bankers Acceptance Rate.	\$ 7,000,000	\$ 4,800,000
CIBC demand instalment loan - Principal payments are to be permanently reduced upon receipt of Federal grant funding with the entire facility to be liquidated within 12 months from drawdown. Payment schedule is interest only at prime (3.5% - December 31, 2008)	<u>6,000,000</u>	-
	<u>\$ 13,000,000</u>	<u>\$ 4,800,000</u>

In accordance with Canadian generally accepted accounting principles the full balance of the above bank demand loan has been disclosed as a current liability. Under the terms of the agreement, the principal payments required in each of the next five years would be as follows:

	2009	2010	2011	2012	2013
	\$ 6,596,915	\$ 651,180	\$ 651,180	\$ 651,180	\$ 651,180

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Trade payables	\$ 3,502,277	\$ 501,960
Construction in progress payable	259,521	6,666,998
Payroll accruals	<u>592,199</u>	<u>125,075</u>
	<u>\$ 4,353,997</u>	<u>\$ 7,294,033</u>

Notes to the Financial Statements

Year ended December 31, 2008

10. LONG-TERM DEBT

	2008	2007
Northern Development Initiative Trust, unsecured, bearing interest at 5.0% per annum, due October 2013 unless renegotiated.	\$ 9,522,034	\$ 1,232,499

During the prior year, the Prince George Airport Authority had entered into a funding agreement with the Northern Development Initiative Trust to provide funding to a maximum 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.

11. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions represent the unamortized balance of contributions received from government and other entities to fund capital projects.

	2008	2007
Opening balance	\$ 10,748,668	\$ 11,139,018
Contributions received from		
Ministry of Transportation	7,891,621	397,418
Western Economic Diversification	5,508,182	-
Amortization	(851,086)	(787,767)
	<u>\$ 23,297,385</u>	<u>\$ 10,748,669</u>

12. CAPITAL MANAGEMENT

The Authority's objectives when managing capital are to safeguard the entity's ability to operate and develop the Airport in a high quality manner while maintaining reasonable rates and charges for its users. The Authority meets this objective by generating adequate resources from operations to minimize the need for long-term debt financing.

The Authority determines the amount of capital that may be required by monitoring the long-term airport infrastructure development plans to meet the needs of passengers, tenants and other airport users and stakeholders. The Authority maintains and manages an internally restricted Capital Fund in anticipation of those plans.

Notes to the Financial Statements

Year ended December 31, 2008

13. COMMITMENTS

Transport Canada lease

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

14. INVESTED IN CAPITAL ASSETS

	2 0 0 8	2 0 0 7
Opening balance	\$ 6,055,830	\$ 4,179,900
Capital asset additions, including construction in progress	24,954,783	9,972,427
Less: Long-term debt, accounts payable and deferred contributions related to additions	(24,150,070)	(8,296,914)
	<u>804,713</u>	<u>1,675,513</u>
Capital asset disposals at net book value	(3,549)	(4,602)
Amortization	(1,520,439)	(1,387,496)
Amortization of deferred contributions	851,086	787,767
Repayment of A/P related to capital additions	-	804,748
	<u>(672,902)</u>	<u>200,417</u>
Closing balance	<u>\$ 6,187,641</u>	<u>\$ 6,055,830</u>

15. 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 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.

Notes to the Financial Statements

Year ended December 31, 2008

16. PENSION

The Authority sponsors a pension plan on behalf of its employees, which has defined benefit and defined contribution components. The defined contribution component of the pension plan has five current participating employees. The Authority pension expense for the defined contribution component was \$31,118 in 2008. 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, 2008, assets had been transferred from the federal government to the Authority plan in an amount of \$1,124,000.

Based on an actuarial valuation as at December 31, 2008 of the Authority's defined benefit plan under CICA Handbook Section 3461, the net pension expense is as follows:

	2 0 0 8	2 0 0 7
Service costs	\$ 118,000	\$ 151,000
Interest cost on accrued benefit obligation	86,000	53,000
Expected return on assets	<u>(100,000)</u>	<u>(53,000)</u>
Pension expense	<u>\$ 104,000</u>	<u>\$ 151,000</u>

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2008 is as follows:

	2 0 0 8	2 0 0 7
Market value of plan assets	\$ 1,648,000	\$ 910,000
Accrued benefit obligation	<u>(1,760,000)</u>	<u>(944,000)</u>
Deficiency of plan assets	(112,000)	(34,000)
Unamortized net actuarial loss	<u>203,000</u>	<u>62,000</u>
Net pension asset	<u>\$ 91,000</u>	<u>\$ 28,000</u>

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

	2 0 0 8	2 0 0 7
Discount rate	7.50%	5.50%
Expected long-term rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%
Rate of inflation	2.50%	2.50%

Notes to the Financial Statements

Year ended December 31, 2008

16. PENSION (continued)

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

	2008	2007
Employer contribution	\$ 181,000	\$ 164,000
Employees' contribution	24,000	34,000
Transfer in	1,124,000	-
Benefits paid	87,000	26,000

Plan assets consist of:

Equity securities	65.8%	62.0%
Debt securities	34.2%	38.0%

17. FINANCIAL INSTRUMENTS

Fair value

The Authority's cash, accounts receivable and 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.

18. OTHER INFORMATION

During the year ended December 31, 2008, the fees paid to the Board of the Authority for their services as directors amounted to \$107,000 (2007 - \$101,300).



Angela Hartman

Long distance relationships never seem to work, except Angela and Greg's. It's work commitments that keep them apart, but it's YXS that helps bring them together . . . every other weekend.

We see thousands of stories within YXS daily, just like Angela and Greg's. **What's your story?**



Tom & Sarah Mathews

For Sarah, saying goodbye is never easy. Especially when it's to her husband Tom as he departs from YXS to his overseas destination for an extended business trip.

We see thousands of stories within YXS daily, just like Tom and Sarah's. **What's your story?**

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 (PGAA), 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 holds annual Governance & Strategic Planning Workshops. The guidelines for the workshops have been approved at the Board level.

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 2008.

Contracts Over \$75,000

In 2008 all contracts valued at over \$75,000 were awarded by bid.



The Crawford Family

“Cool” is how Morgan and Riley summed up their first plane ride on their own. Back in Prince George from visiting family in Vancouver, they were extremely excited to see their mom waiting for them as they came through the YXS arrivals terminal.

We see thousands of stories within YXS daily, just like the Crawford's. **What's your story?**

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

(continued)



Elaine and Henry

Henry Becker and his wife Elaine travel frequently from Prince George to Vancouver so he can meet his cardiologist at St. Paul's Hospital. It's not only the convenience of YXS, but the friendly service from our employees that help make their trips more enjoyable.

We see thousands of stories within YXS daily, just like Henry and Elaine's. **What's your story?**

Governance Guidelines

3. Board Mandate (continued)

- 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 & 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 & 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.

(continued)

Julie Yawney

Helping to save lives is what Julie and the rest of the Canadian Blood Services - Prince George team do everyday. We're very proud to play a part as well, as twice a week they utilize YXS to transport enough blood to save over 500 lives.

We see thousands of stories within YXS daily, just like Julie's and Canadian Blood Services. **What's your story?**



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 2008 was as follows:

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

The Board Chair received an additional stipend for the year 2008 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 2008 for all Directors was \$107,000.

The combined salaries of the three Senior Managers [i.e.] Airport General Manager, Director of Operations, and Director of Finance & Administration in the Year 2008 was \$300,900.

11. YXS Senior Management

Airport General Manager

Stieg Hoeg

Director of Operations

Mark Miller
Email: mmiller@pgairport.ca

Director of Finance & Administration

Diane Bertram
Email: dbertram@pgairport.ca



Francois Rosa

Francois was a little nervous when he received his invitation to his high school reunion. Although he lives in Montreal, he still calls Prince George home. With a car rental reserved upon his arrival at YXS, he now gets to enjoy a week of reuniting with friends and family.

We see thousands of stories within YXS daily, just like Francois'. **What's your story?**

Goals and Objectives

1. Support of 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 & 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 & Users

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

7. Pursue Marketing Initiatives & 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 & transborder).

8. Cultivate and Promote the Airport's Role & Image With The Community

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



The Jang Family

The Jang family is preparing for a well earned family vacation. They'll depart from YXS and arrive in Southwest Florida at RSW later in the day - and enjoy some fun in the sun!

We see thousands of stories within YXS daily, just like the Jangs'. **What's your story?**

5 Year Business Plan

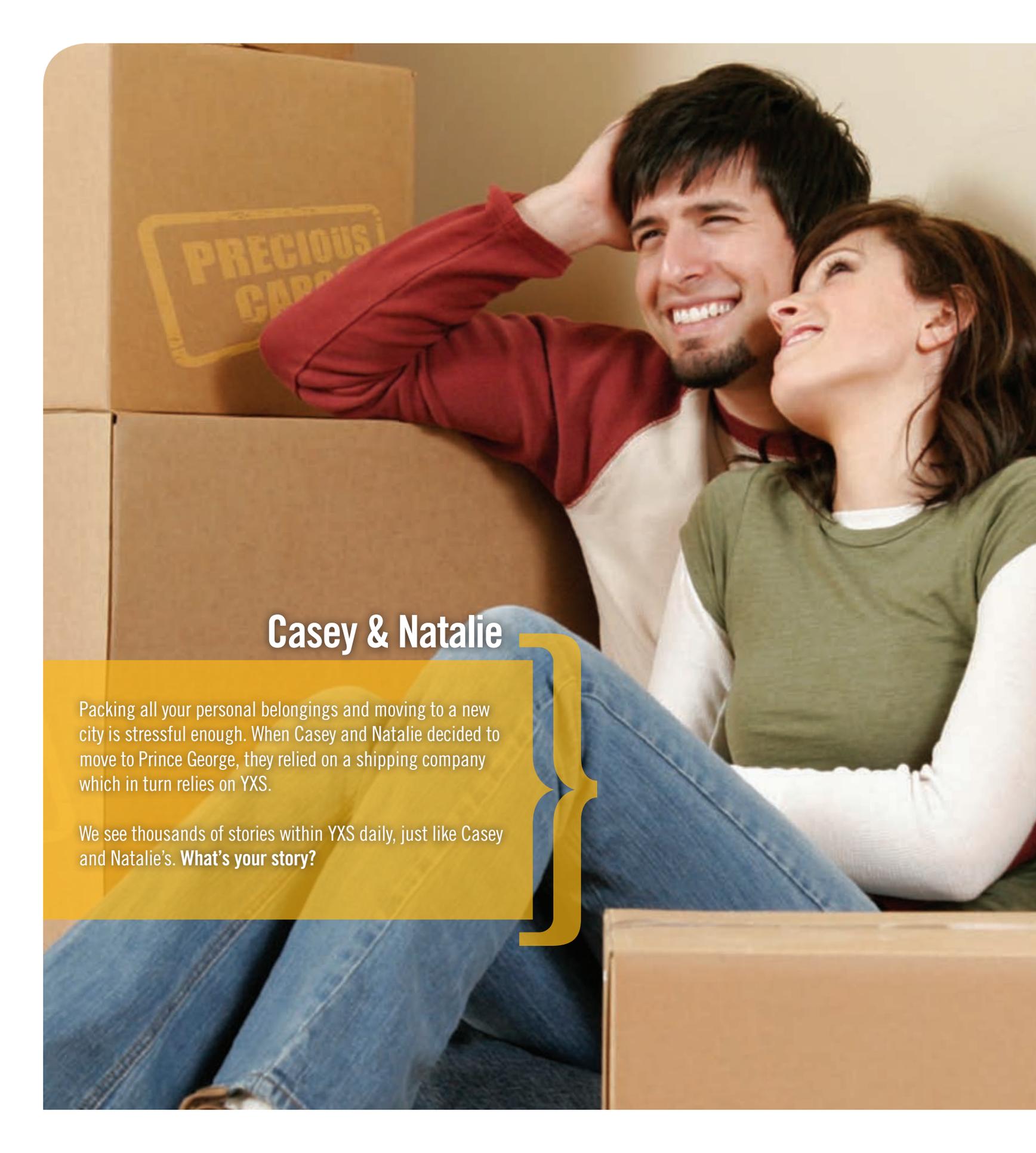
Business Plan Cash Flow Forecast 2009 - 2013

Shown in thousands of dollars.

YEAR	2009	2010	2011	2012	2013
Revenues	6,765.1	6,798.9	6,832.9	6,962.7	7,095.0
Expenses	5,681.3	5,709.7	5,738.2	5,847.3	5,958.4
Capital	3,759.0	1,350.0	585.0	485.0	262.0

Assumptions:

1. Forecasted revenues and expenses assume 0.5% annual growth from 2009 to 2011, and 1.9% growth each year thereafter.
2. Amortization is not included.



Casey & Natalie

Packing all your personal belongings and moving to a new city is stressful enough. When Casey and Natalie decided to move to Prince George, they relied on a shipping company which in turn relies on YXS.

We see thousands of stories within YXS daily, just like Casey and Natalie's. **What's your story?**

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
*Deceased October 2008



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
*Resigned November 2008



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
Nominated by Prince George Airport Authority
*Resigned May 2008



Marion Bartlett
Director
Nominated by Prince George Airport Authority

[†] Formerly Prince George Regional Development Corporation

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