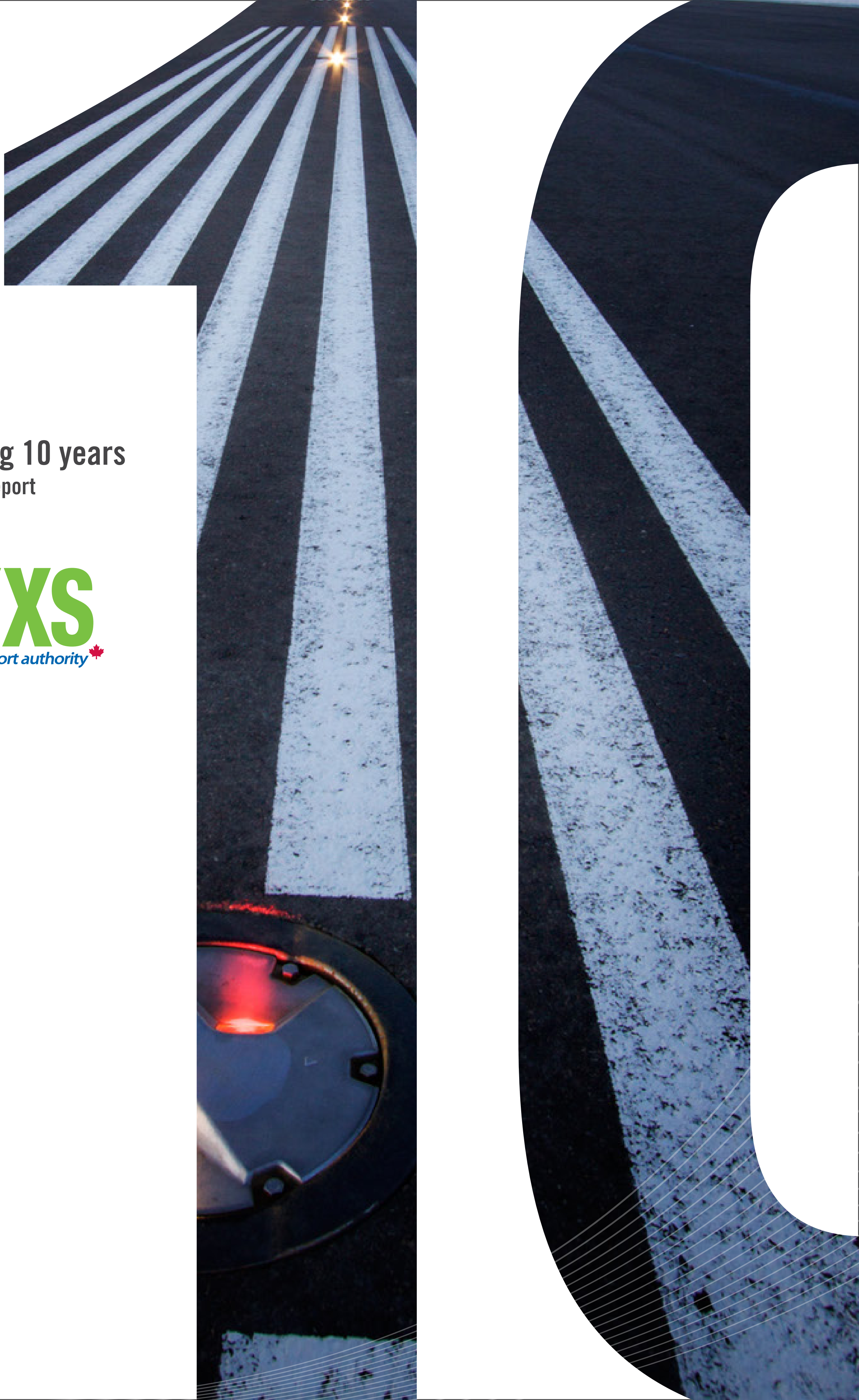


Celebrating 10 years

2013 Annual Report

YXS
prince george airport authority

2013 marked ten years since the Prince George Airport Authority (PGAA) assumed responsibility for the Prince George Airport (YXS) from the Federal Government. In that decade, many accomplishments were achieved including the runway extension, terminal expansion and a significant increase in passenger traffic.

Numerous people helped shape the strategic direction, focus and plan. They have helped get the airport to where it is today. In this Annual Report we celebrate our accomplishments and look back at major milestones over the last decade.

Table of Contents

The Passing of the Torch

Forward by Former Board Chair, Jim Blake

The Prince George Airport Authority was originally incorporated in 2000 after a planning committee of the Prince George Regional Development Corporation (now known as Initiatives Prince George) recommended that the Authority be established to negotiate the transfer of operations to local control. Negotiations continued for nearly two years before an agreement on the terms of transfer was achieved. Prince George was one of 26 airports in Canada that had been designated by the Federal Government as part of National Airports System and was the last airport in the System to transfer. Being last played to our advantage.

The initial Board of Directors was composed of Jim Blake (Chairman), Dave Wilson (Vice Chair), Ron Epp (Treasurer), Valerie Giles (Secretary), Valerie Kordyban, Neil Meagher, Lynne Fehr, Neil King, Robert Leverman, Mike Tkachuk, Scott Pollard and Jerry Deere. This group was the negotiating team and on March 31, 2003 the Honourable David Collenette, Minister of Transportation officially handed over the keys to the Airport Authority.

Management and staff, former employees of Transport Canada, were suddenly confronted with a whole host of new issues such implementing new financial and operating systems, capital budgeting, collective bargaining and most importantly learning how to be entrepreneurs after so many years working in a large bureaucracy.

The transfer agreement provided funds for the repaving of the main runway, a $2.7 million loan to purchase new maintenance and snow clearing equipment, a $2 million capital grant and a $1 million operating grant. This capital infusion funded the beginning of what would be a series of major capital upgrades and additions to the airport over the next ten years.

With the upgrade of the Air Terminal Building in 2005, Canada Border Services Agency moved their offices to the international arrivals area and this subsequently permitted WestJet to commence seasonal vacation service to Mexico. All Greyhound buses arriving from outlying communities now stop at the airport before going to the bus depot.

In 2006 the short and long term parking lots were upgraded and capacity doubled along with greatly improved signage.

Recognizing that the airport was on the great circle route between Asia and the United States and could potentially become an air cargo stop and technical refuelling stop, application was made to the Federal and Provincial governments for funding to extend the main runway and provide for a refuelling pad. The federal and provincial governments each committed $11 million dollars toward the project and PGAA received an $11 million loan from the Northern Development Initiatives Trust.

Unfortunately the 2008 world economic recession necessitated a rethinking of the cargo and tech stop project. The Canadian dollar relative to the U.S. dollar went from 65 cents which it had been at for many years to 95 cents, fuel prices rose dramatically and global air cargo traffic declined 30%, all of which directly impacted the viability of the project. Suddenly we were no longer competitive with airports in Alaska primarily because American airports are subsidized for navigational and border services costs.

Nevertheless the fueling pad and the runway extension were completed in 2008 resulting in the PGAA having the third longest runway in Canada at 11,450 feet.

Thanks go to the committed management of the airport and to a very dedicated Board of Directors for the many improvements to the airport over the years. A significant acquisition of note was an additional Emergency Response vehicle acquired from the New York Port Authority which was used at the time of the 9-11 2001 attack on New York City.

The strong support of our Federal MP's Dick Harris, Jay Hill and Bob Zimmer along with Provincial Cabinet Ministers, Shirley Bond, Pat Bell and John Rustad was key to our development. We also enjoyed strong support from Initiatives Prince George, Northern Development Initiatives Trust and Mayors Kinsley, Rogers and Green.

In summary, the airport has grown by leaps and bounds since 2003. The business is dynamic. Today there are 50,000 more passengers going through our doors annually. The environment is more pleasing and service to customers of the airport is vastly improved. The expanded runway positions the airport to be a significant economic driver for the region.

Photo (L-R): John Gibson, Les Waldie, and Jim Blake at the 10 year anniversary celebration.

2004

The Airport Authority and the City of Prince George signed an accord to establish mutually agreeable arrangements to delineate principles, and define a mechanism to achieve more specific operating agreements where necessary; and provide a clear understanding of the relationship between the City and the Authority.

2005

The upgraded 30 year old air terminal building with a transformed departure lounge and outgoing baggage and security sections coupled with new domestic and international arrivals areas was officially opened by Premier Gordon Campbell in April 2005. Awards were received from the BC Wood Council and the North American Wood Council for the use of wood in the project. McfarlaneGreen Architecture + Design also received the B.C. Lt. Governors Medal of Excellency in Architecture for the Air Terminal Design.

A new Board room was developed, and the relocation of the car rental reception desks opened up 90 additional stalls for public parking.

2006

With the $11 million grant from each of the federal and provincial governments and a loan of $11 million from the Northern Development Initiatives Trust in 2006, the runway expansion project to facilitate larger passenger and cargo aircraft that the Authority was aggressively pursuing was started in 2007.

In response to public demand a new parking lot with increased parking capacity as well as improved safety features was completed in the fall of 2006.

The PGAA also received SuperHost designation, which made it the first Airport in Western Canada and the third in Canada to receive the designation.

2007

Phase 1 of the runway expansion construction project was completed. In addition asphalt, milling and repaving on Delta and Charlie taxiways was done.

2008

2008 saw many projects completed. The completion of the 15-33 runway extension resulted in the PGAA having an 11,450 foot runway (3490 meters) along with a loop taxiway. Construction also started on a new 36,105 m2 apron.

Center-line lighting and new edge lights were installed on the extended runway. New approach lights for runway 33 and Precision Approach Path Indicators for runway 15 were also installed.

In addition, the original 7,000 feet of runway 15-33 was repaved, a two kilometer drainage ditch was dug on the east side of 15-33 and fencing and gates were installed at the south end of the runway. Power lines and communication lines were relocated and trees were removed to facilitate the use of the extended runway.

2009

November 18th celebrated the arrival of a Southern Air 747 from Shanghai enroute to Caracas Venezuela. This was the first wide body aircraft to land at the Prince George Airport.

2010

Our capital program delivered an expanded Fire Hall to house three emergency vehicles, a new environmental water sampling station and two new air-side vehicles.

Simulated emergencies are conducted annually including live fire training.

2011

In 2011, construction was started on the new Fuel Storage Facility. This facility provides 600,000 litres of common jet fuel storage and in-to-plane service to air carriers.

The Prince George Airport became the first airport in the world to receive WorldHost designation, a BC Government led program focusing on customer service excellence in the tourism sector.

2012

A report from Boeing Consulting confirmed that Prince George is strategically located to receive wide body freighter aircraft from Asia destined for eastern North America.

YXS saw an Antonov-124, the third largest operating cargo aircraft in the world, load and return seven helicopters for short term assignment in Angola.

The Prince George Airport was awarded a public art piece titled “celebrating diversity.” The PGAA also received an Embrace Diversity Award from the Immigrant Multicultural Services Society for outstanding work in cultural diversity.

2013

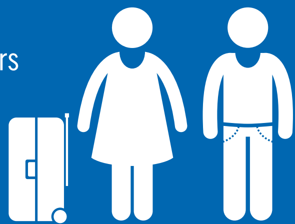
In 2013, The Prince George Airport Authority celebrated its 10 year anniversary since the transfer from the Federal Government. Internal and external celebrations were held to mark the occasion.

Central Mountain Air began service to Calgary and another record was set with 426,709 enplaned/deplaned passengers using YXS.

TOP10

Terminal Facts

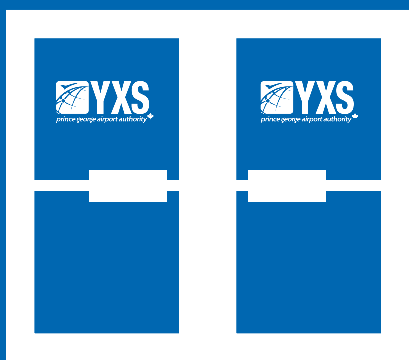
426,709 passengers in 2013



Passenger Record Set in 2013

24,700 cups of coffee purchased at the BG Urban Grill in 2013

Just **over a million people** walk through the doors of YXS every year

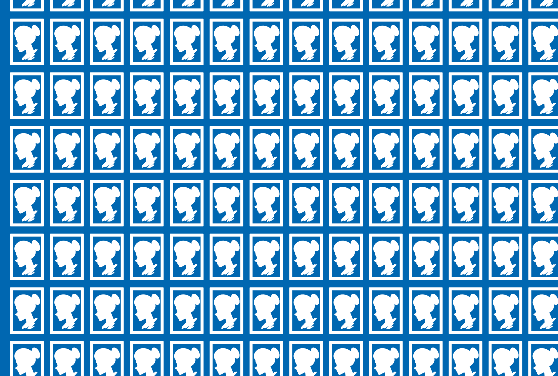


Over **5,600 lbs** of fries were cooked in 2013 at the BG Urban Grill in 2013

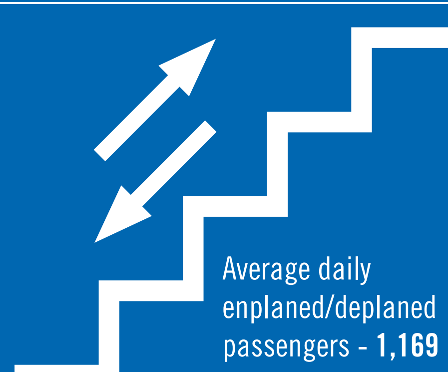
Over **4,000 bowls** of soup were consumed at the BG Urban Grill in 2013

Approximately **24,000 eggs** were consumed at the airport restaurant in 2013

Over **400 images** of northern BC residents are featured in the "*celebrating diversity*" public art piece



The airport purchased **1,312 rolls** or 1,312,000' of toilet paper in 2013



Average daily enplaned/deplaned passengers - **1,169**

Board Chair Report

On March 31, 2003 the responsibility for the airport was transferred from the Federal Government to the Prince George Airport Authority. The preceding section of this report highlights the changes and progress made since transfer. We have done a lot – and there is more to come!

In 2013 we continued on our mission to ensure continued fiscal stability, improve our customer service to our core business – people who flow through the airport every day - and further develop our cargo business potential.

Our work to develop the tech stop and cargo business continued. The Board knew that the development of this new component of the business would take time and patience, and the work done by our staff both to address our hurdles and develop the markets is positioning us well to bring this strategy to fruition.

The opening of Boundary Road in November 2013 which was financed by the federal, provincial and municipal governments has provided access to a significant Logistics Park area and related services which, when developed will have a positive impact for the airport and the region.

We are pleased that the Airport is financially self-sufficient from an operations perspective. We still have many opportunities for capital improvements and infrastructure maintenance, and we have a carefully planned capital plan that addresses priority projects as funds are available because we are committed to ensure the facility is operated and maintained in a safe and efficient fashion.

We are very thankful for the expert guidance and leadership provided by our CEO John Gibson. His enthusiastic commitment to the airport and to Prince George and region inspires us all. We are fortunate that John is Vice Chair of the Canadian Airports Council and he will become Chair in June 2014. In addition he is a member of the Board of Directors of the Airports Council International/ North America, all of which has helped to raise significantly the profile of our airport and surrounding area.

In May 2013 Jim Blake left the Board after well over 20 years of service to this Airport first as a leader on the Airport Community Advisory Committee and then the Airport Transfer Planning Committee prior to assuming the role of Board Chair subsequent to the transfer. Jim's work in the formation of the PGAA and his continued dedicated leadership as Board Chair is responsible for getting us to where we are today. We are very grateful.

In addition, Don Gould's 9 year term as a Director expired on October 31. We were most fortunate to have benefitted from Don's skilled and dedicated service. We also welcomed Ranjit Gill and Don Zurowski to the Board in 2013.

We appreciate the continued support of our nominating agencies - the Federal Government and our MP's Dick Harris and Bob Zimmer, the Province of B.C. and our local MLA's Shirley Bond, Mike Morris, John Rustad and formerly Pat Bell, the City of Prince George and Mayor Shari Green, the Regional District of Fraser Fort George and Chair Art Kaehn and the Prince George Chamber of Commerce and Chair Derek Dougherty.

On behalf of the Board I want to express our sincere 'thank you' to each member of the management and staff at the Airport. We have a wonderful group of skilled and dedicated people who keep customer service and safety forefront every day.

I am very fortunate to have the support and commitment of each of our Board members, whose diverse backgrounds and experience enrich the ability of the Board to fulfill its responsibilities.

Les Waldie

Les Waldie
Board Chair, Prince George Airport Authority

CEO Report

The Prince George Airport continues to grow its passenger business. In 2013 a new record was set breaking the previous record as 426,709 passengers went through our terminal. This represents a 2% growth in the number of travelers over 2012.

2013 saw growth in the number of seats from our three main carriers. Air Canada Jazz added 23% more seats in May with their introduction of their new 74 seat Q400 aircraft. WestJet added 5% more seats in November when two of their new 78 seat Q400s replaced one 737. CMA added a Dash 8 service to Calgary and replaced the B1900 with a Dash 8 on their Terrace – Prince George route.

The Airport Authority posted an operating earnings of $756,802. This is the fourth straight year that the airport has exceeded its financial objective for the year. The earnings can be attributed to: increased revenues from more passenger seats provided by the airlines and strict control of filling staff vacancies and travel associated with the cargo development program. The airport was the first in Canada to change the method of calculating landing fees charged to the airlines. Fees are now based on the number of passenger seats on an aircraft rather than the weight of the aircraft. This will ensure that the airport revenues are protected when airlines choose to change the type of aircraft they use on our routes.

On the human resources-side, a three year collective bargaining agreement was negotiated with PSAC over two days. A new work schedule was also cooperatively developed with the staff and management to meet new Category 6 emergency response levels required by regulation to service the new Q400 aircraft operated by Air Canada Jazz and WestJet. A program highlighting the efforts of YXS employees was launched on Employee Recognition Day. Over seven certificates were awarded to those going above and beyond employer expectations.

Further progress was made in our attempts to eliminate the barriers to making Prince George a transpacific refueling and cargo stop. The fuel depot is now operational with a new, certified, fuel truck on-site.

From an additional capital improvement standpoint, Canadian Air Transportation Security Authority has agreed to advance the timing of their upgrade to the outbound baggage security system from starting in 2015 to starting in 2014. Design and project management work was initiated in 2013. Also, the PGAA continued to upgrade sewer and water systems at the airport and HVAC in the Combined Services building.

Canada is not cost competitive with the US when it comes to providing navigation and border services to airlines. Nav Canada has agreed to have a working group evaluate the possibility of a new tech stop fee structure. Committee work will continue into 2014. Canada Border Services and PGAA continue to work together in our attempt to attract new cargo business cost effectively.

The Airport Authority has a continuous customer service improvement strategy that produced new services in 2013: free newspapers in the departure lounge, expanding the tourism information center, implementing a community garden program initiative, along with enhancing complimentary Wi-Fi and expanded parking ticket pay stations.

We celebrated a number of high points in 2013, including: the 10 Year Anniversary of the PGAA, inaugural Air Canada Jazz Q400 service, CMA's service to Calgary, and the one year anniversary of the *celebrating diversity* public art piece – all exciting events.

The PGAA stays connected with the community through social media and presentations to organizations, Boards, and City and Regional Councils. The PGAA

(continued)

continues to work with Tourism PG, Initiatives Prince George and Northern Development Initiatives Trust in growing the economy of Prince George and Northern BC.

Board members and staff represent the airport both in the community and throughout Canada on a number of Boards and Committees. Among these are the Canadian Airports Council of Chairs, the CAC Board of Directors, the CAC Cargo, Human Resources, Marketing and Public Relations, Environmental, Security and Operations/Safety and technical Affairs sub committees, the British Columbia Aviation Council, Tourism Prince George, the 2015 Canada Winter Games Board amongst others.

We are especially pleased that Cuyler Green, Director of Operations, is Chairman of International Association of Airport Executives (Canada). Consultant Cargo Business Development, Allan Ridgway, sits on the British Columbia Guangdong Business Council & the Vancouver - Guangzhou Friendship Society.

Looking forward to 2014 we continue to plan for the 2015 Canada Winter Games, a real opportunity to change our community image and bring thousands of new visitors to our City. We thank our Board members, our employees and our partners for the fabulous 10 years of our existence, as well as pushing us forward for the future.

John Gibson
President and CEO, Prince George Airport Authority

PGAA Executive Team:

Back Row (L-R): Robin Smith – Executive Assistant, Jamie Smith – Manager of Operations, Veronica Laas – Accounting Manager, Lindsay Cotter – Manager of Marketing and Communications

Front Row (L-R): Cuyler Green – Director of Operations, John Gibson – President and CEO, Diane Bertram – Director of Finance and Administration, Allan Ridgway – Consultant Cargo Business Development

Board of Directors

Les Waldie
Chair
Nominated by City of Prince George
Attendance 9/9 Board*

Blair Mayes
Vice Chair
Nominated by Prince George Airport Authority
Attendance 7/9 Board, 5/7 Committee

Tom Newell
Secretary
Chair – Airline Consultative Committee
Appointed by Federal Government
Attendance 6/9 Board, 3/9 Committee

Dean Mason
Treasurer
Chair – Finance & Audit Committee
Nominated by City of Prince George
Attendance 9/9 Board, 8/8 Committee

Marion Bartlett
Chair – Governance & Nominating Committee
Nominated by Prince George Airport Authority
Attendance 9/9 Board, 11/12 Committee

Carol Brown
Chair – HR Committee
Nominated by Regional District of Fraser-Fort George
Attendance 9/9 Board, 4/5 Committee

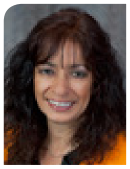
Andy Clough
Chair – Environment/Noise Committee
Appointed by Federal Government
Attendance 9/9 Board, 6/8 Committee

Robert (Bob) Radloff
Chair – Major Projects Committee
Nominated by Regional District of Fraser-Fort George
Attendance 5/9 Board, 3/3 Committee

Don Zurowski
Chair – Community Consultative Committee
Nominated by Provincial Government
Attendance 1/1 Board

Al Leier
Director
Nominated by Prince George Airport Authority
Attendance 8/9 Board, 6/6 Committee

Tejinder Grewal
Director
Nominated by City of Prince George
Attendance 8/9 Board, 5/11 Committee



Ranjit Gill
Nominated by Prince George Chamber of Commerce
Attendance 4/5 Board, 1/1 Committee

*The Board Chair attends all Committee meetings as required.

TOP10

Economic Impacts

490 direct jobs in the Prince George region, representing **430 direct person years** of employment

On-going economic activity at the airport contributes over **$10 million annually** in tax revenue to all levels of government

Since the PGAA took over in 2003, passenger traffic has **grown by 27%**

YXS is an economic driver and enabler

$32 million in gross domestic product

$17 million in direct wages

$57 million in economic output

$7 million in induced and indirect job wages

92% of jobs at YXS and related businesses are permanent (non-seasonal) and 79% of these are full-time jobs

390 indirect and induced jobs in the Prince George region, representing **340 person years** of employment

TOP10

Operations Facts

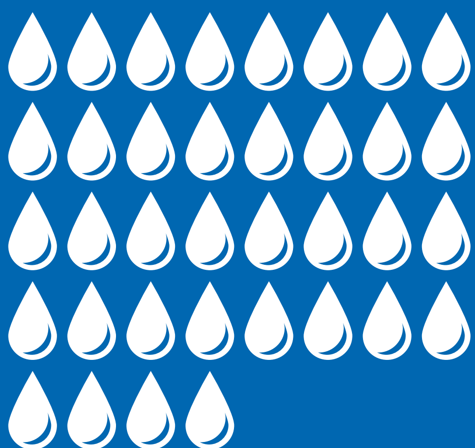
The main snow blower used at YXS can move **5,000 tonnes** of snow an hour and throw it **45 meters**

5,000 tonnes

45 meters

In 2013, YXS' three sweepers and plow truck averaged about **2,000 hours** of operation

Approximately **36 oil changes** were conducted on YXS' fleet in 2013



46"

The brooms used to sweep the runway are **46"** in diameter

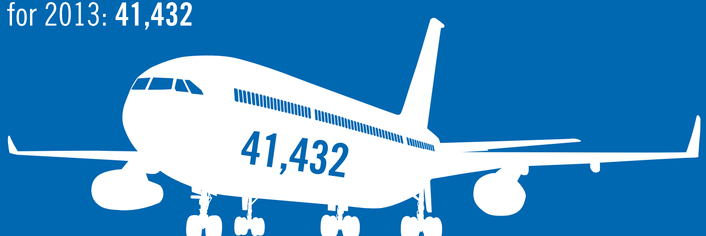
In 2013 we went through **5 brooms** on the sweepers

5

160

There are **160 broom bristles** on each sweeper

Total aircraft movements for 2013: **41,432**



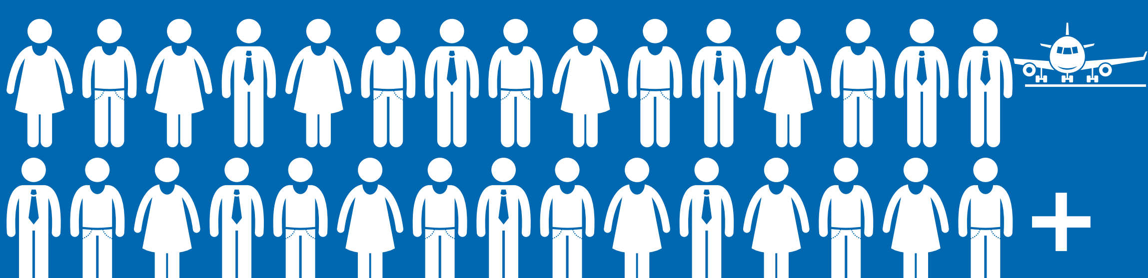
Approximately **59,000 Litres** of de-icer was used on our runways

Leaving your tap on for 3½ days

Our John Deere loader put on around **500 hours** last year

20.8333333… Days

Over 30 businesses are located on the airport lands



Corporate Governance

Board Governance

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

Conflict–of–Interest Rules

The PGAA is acutely aware of the trust that has been placed in it 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 PGAA bylaws.

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

In addition, the Board has a Conflict of Interest policy that requires each Board member to disclose any real, perceived or potential areas of conflict. This disclosure must be in writing and each Board member updates acknowledgement of these guidelines 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 2013.

Code of Conduct

Code of Conduct guidelines are clearly outlined within the Bylaws of the Authority.

Public Tenders

Bylaw 17.3 (a) states that contracts in excess of a total value of $75,000 (subject to an annual adjustment for inflation according to the Consumer Price Index based on 1994 dollars) shall be awarded based on a public tendering process.

For 2013, the adjusted value was $105,662.02 and all contracts valued at or over the adjusted value were awarded by bid.

There was only one contract let in 2013 without a competitive bid. Williams Petroleum for $326,282.41 for work on the fuel storage facility due to continuity of contractor and limited local firms with required expertise.

TOP10

Facebook Facts

On average our posts have reached **2,000 people** since we created our facebook page

2K PEOPLE

Our page has been liked **2,810 times**

In just one day we received **164 likes**

A job ad posted Dec. 16, 2013 reached close to **4,000 people**

Our fans are **66% female** and **34% male**

Our post welcoming His Royal Highness Prince George of Cambridge reached approx **12,500 people**

Giving away tickets to the Quesnel Sky Fest reached **13,900 people**

A time lapse video of a flight between Terrace and Prince George reached **2,400 people**

YXS ▶ YYC

The post announcing Central Mountain Air's new flight to Calgary reached **25,700 people** (APR 26)

We have fans from **10 different countries**

Goals and Objectives

1. Support of Staff

- The PGAA supports its staff by ensuring the establishment of organizational values, individualized training plans and career development plans.
- The PGAA is committed to maintaining a workplace where respect and fairness is demonstrated openly and all staff strives towards providing professional, first-class service. The PGAA involves staff in strategic planning and decision-making.

2. Operate in a Safe, Secure and Environmentally Responsible Manner

- The PGAA is committed to meeting or exceeding all requirements for the safety and security of all users of the airport. In addition, the PGAA maintains an effective and proactive environmental management program. Safety, security and environmental programs are regularly audited to ensure compliance.

3. Provide Our Customers with A User-Friendly, First-Class Facility

- The Prince George Airport Authority is dedicated to providing a user-friendly first-class facility that promotes good service and a positive experience for customers.
- The PGAA maintains and plans for upgrades of existing airside and groundside facilities to support growth and new opportunities.
- The PGAA maintains a competitive cost environment for airlines and strives to drive down the cost of travel using the YXS Gateway.

4. Operate as a Financially Viable Entity

- The PGAA operates as a financially viable entity by maximizing all sources of revenue, providing cost effective service, and minimizing expenditures without compromising safety, security or customer service.
- The PGAA operates within established budgets and generated revenues. Capital programs are funded through the Airport Improvement Fee.

5. Ensure Public Accountability

- The PGAA will maintain its public accountability through the interaction of Board committees (e.g. Community Consultation Committee, Airline Consultation Committee, Environment/Noise Committee), annual reporting and regular communication and engagement with community groups.

6. Maintain Partnership Stakeholder Relationships with the Community, Airport Tenants and Users

- The PGAA has formed a partnership stakeholder relationship with the community, airport tenants and users. As well, a Protocol Agreement with the City of Prince George and the Regional District has been established. This protocol illustrates the philosophy of co-operation, good communications and addresses a common vision. The partnership aims at maintaining and growing existing relationships with Initiatives Prince George, The Northwest Corridor Development Corporation, Northern BC Tourism Association, Prince George Chamber of Commerce, and other organizations with the goal of improving the economic climate of Northern British Columbia.
- As well, the PGAA has developed a strong relationship with Northern Development Initiative Trust, whose mandate is economic development and job creation in central and northern British Columbia.
- The PGAA also ensures that good communication and co-operation are maintained with airline partners through the continuation of the Airline Consultation Committee.
- The PGAA encourages open communication with community members through the Community Consultation Committee.

7. Pursue Marketing Initiatives and Economic Development

- The PGAA will pursue marketing initiatives and economic growth through a strategic marketing plan which includes the promotion of new national and international markets, retaining and strengthening existing air services, and developing airport land while supporting community objectives.
- The PGAA will continue to actively pursue their Cargo and Tech Stop initiatives.

8. Cultivate and Promote the Airport's Role and Image with the Community

- The PGAA will cultivate and promote the airport's role and image within the community directly and through strengthening media relationships with the establishment of focused information campaigns, tradeshows, promotion of school programs, and by continuing to develop expertise on northern transportation issues.

Governance Guidelines

Introduction

The Prince George Airport Authority believes it has a responsibility to model Governance practices as if the PGAA were a listed company on a Canadian Securities Exchange. Following is the PGAA's application of those guidelines.

1. Board Mandate

Guideline – The Board should explicitly assume responsibility for the stewardship of the organization by:

1.1 Overseeing the operation of the organization and satisfying itself as to the integrity of the management team

1.2 Adopting a strategic planning process

1.3 Identifying the principal risks and ensuring the implementation of appropriate systems to manage these risks

1.4 Having a management succession plan in place

1.5 Adopting a communications policy

1.6 Having internal controls and management information systems operational

1.7 Having governance guidelines and principles in place

Disclosure

1.1 The mandate of the Board is to act primarily as a policy board; however the Board approves all significant decisions that affect the organization before implementation, as well as monitoring and reviewing outcomes.

1.2 The PGAA has a strategic planning process, which includes a long-term Master Plan, a five year Strategic Operating Plan and annual operating and capital budgets with goals and expectations reviewed and revised annually. The Board is actively involved in the strategic planning process and is responsible for reviewing and approving the plan.

1.3 While management is mandated to keep the Board apprised of risks facing the PGAA, the Board monitors industry risk through queries of management and a network of industry groups such as Canadian Airport Council (CAC) and Airport Council International (ACI). The Finance and Audit Committee meets regularly to monitor the financial risks, and ensure proper management systems are in place. Operational risks are mitigated through continual updates and implementation of necessary changes to safety and security management functions relating to aircraft and passenger movement and protection of airport assets through:

a) An environmental management plan and policies that address 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.

1.4 The Board is responsible for hiring and overseeing the CEO. The PGAA is developing a formal management succession plan. Senior management positions can be temporarily covered either from existing PGAA personnel or with a temporary replacement until a competition could be held. In addition, the Board Chair is available and capable of assuming an important role in the transition process.

1.5 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 PGAA and for airlines and industry service providers to communicate with the PGAA. The Board approves all major communications such as annual reports and financing documents. The PGAA communicates with stakeholders through information on its website, and meetings held by the Board Community Consultative and the Airline Consultation Committees.

1.6 The PGAA has an in-depth monthly, quarterly and annual 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.

1.7 The Board, through the Governance Committee has implemented applicable governance guidelines and principles.

2. 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 and other officers are elected bi-annually from the members of the Board.

3. 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 – The Governance Committee is responsible for the nominating process and proposing new nominees to the Board. New nominees must exhibit expertise in an area of strategic interest to the PGAA, the ability to devote the time required and a willingness to serve the organization. The Nominating Committee communicates with the various nominating entities and appointers to seek Directors with the required skills. As at report date, the Board Chair has implemented an annual assessment of directors.

In accordance with Bylaw No. 3, 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 comprised of twelve members

Two are appointed by:

- The Federal Government [2 Representatives]

Ten are nominated by each of

- The Provincial Government [1 Representative]
- The City of Prince George [3 Representatives]
- The Regional District of Fraser-Fort George [2 Representatives]
- Prince George Chamber of Commerce [1 Representative]
- The Prince George Airport Authority [3 Representatives]

The Board members represent consumer interests, the business community and organized labor. It includes Directors having legal, engineering, accounting, commercial banking, human resource expertise and experience and skills from various industries and relevant professions.

4. Regular Board Assessments

Guideline – Every Board of Directors should implement a process for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors

Disclosure – The Governance Committee conducts a formal evaluation process annually in which each Director completes an assessment of the effectiveness of the Board and individual committees. The Governance Committee recommends changes to enhance the performance of the Board based on the survey feedback.

5. Orientation & Continuing Education

Guideline – Every organization should provide an orientation and education program for new directors to the board.

Disclosure – All new PGAA directors take part in a comprehensive orientation session, and are provided with a copy of the Director's Manual which contains a record of the history of the Airport, the mission statement, goals and objectives, the current PGAA policies and procedures, the Director's role and responsibilities, an overview of the committees, Governance guidelines, the current Bylaws and strategic plan, and the latest PGAA annual report. In addition, a behind the scenes tour of the airport is provided.

The Director's Manual is on-line for all directors to access and is updated on a regular basis.

Senior management makes regular presentations to the board on the main areas of the organization's business. Management and staff receive initial job orientation and follow up specific job element training as required. Board members have, and will continue to attend both Canadian and International Airline conferences.

6. Effective Board Size

Guideline – Every board of directors should examine its size and determine the appropriate number of directors to facilitate effective decision making.

Disclosure – The Governance Committee reviews the composition and size of the board once a year.

7. Compensation

Guideline – The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities involved in being an effective director.

Disclosure – The Governance Committee reviews directors' compensation annually, and makes its recommendation to the Board. The committee takes into account all appropriate information including the compensation levels at similar airports to reach its determination.

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

The annual remuneration for the Board during 2012 was as follows:

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

Committee Chairs receive $200 per Board and Committee meeting.

Directors receive $150 per Board and Committee meeting.

Combined compensation during 2013 for all Directors was $86,250.

The combined salaries of the Senior Managers [i.e.] President and CEO, Director of Finance and Administration and Director of Operations in the year 2013 was $415,525.07.

8. Committees

Guideline – Committees of the Board of Directors should generally be composed of outside directors, although some board committees, such as the executive committee may include one or more inside directors.

Disclosure – The Board has appointed seven committees, comprised entirely of independent directors:

- Audit and Finance Committee
  – 4 members with Dean Mason as Chair
- Governance and Nominating Committee
  – 4 members with Marion Bartlett as Chair
- Human Resources Committee
  – 4 members with Carol Brown as Chair

- Community Consultation Committee
  – 3 members with Don Zurowski as Chair
- Airline Consultation Committee
  – 3 members with Tom Newell as Chair
- Major Projects Committee
  – 4 members with Bob Radloff as Chair
- Environment/Noise Committee
  – 2 members with Andy Clough as Chair

Committees are structured to support management and the Board of Directors and to act in accordance with the Board's requirements and decisions.

9. Approach to Corporate Governance

Guidelines – Every board of directors should expressly assume responsibility for or assign a committee of directors the responsibility for developing the corporation's approach to governance issues.

Disclosure – The Governance Committee is responsible for reviewing the overall governance principles of the organization, recommending any changes to these principles and monitoring their disclosure. The Committee is responsible for the statement of corporate governance.

10. Position Descriptions

Guideline – The board of directors should develop position descriptions for the board and CEO.

Disclosure – Terms of reference have been developed for Directors, Board Chair, and the committees, and are reviewed as required. Job descriptions are in place for the CEO, management team and staff. The CEO job description is approved by the Board

11. Meetings of Independent Directors

Guideline – Every board of directors should be able to function independent of management and should meet on a regular basis without management present.

Disclosure – The Board Chair is an independent director, voted in by the Board. Board members meet independent of management at the conclusion of all regularly scheduled Board meetings and other times as necessary.

12. Audit Committee

Guideline – The audit committee should be composed only of independent directors, with the roles and responsibilities specifically defined. The committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate and to ensure effective system of internal control are in place.

Disclosure – The Finance and Audit Committee is comprised of independent directors, all are financially literate, with the Chair a chartered accountant. The committee responsibilities are outlined in the PGAA bylaws. The committee and/or the committee chair have regular meetings with internal finance personnel and open communication with external auditors whenever required.

13. Outside Advisors

Guideline – The board of directors enables an individual director to engage an outside advisor at the expense of the organization.

Disclosure – Outside advisors are engaged by the Board as a whole based on specific needs at any given time.

TOP10

Airport Facts

YXS is the **first** North American airport linking road and rail to Asia

1st

On average we get a UFO call about once a year

All the weather reports for PG officially come from the airport as that is where the sensor instruments are located

Our main runway is the **third longest** commercial runway in Canada

The asphalt pavement on our main runway is up to **61cm or 2 feet** thick in some places

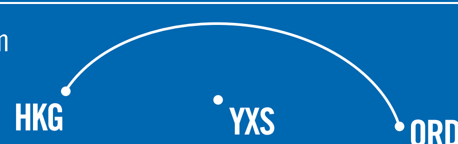
2ft

Our runway is **3,490 meters** or 11,450 feet; over 57 NHL hockey rinks long

57

One of the odd questions we got: "I just bought a new rice cooker, what is the elevation of Penny, BC?"

If you are in an airplane flying from Chicago to Hong Kong, you will fly right over Prince George



If all the pavement used for aircraft purposes was a 2 lane road it would be over **66 km long**, or like driving from Prince George to Hixon

Our longest runway has the same area of pavement as a 2 lane road **28 km long**

Deloitte.

Deloitte LLP
500 - 299 Victoria Street
Prince George, BC V2L 5B8
Canada

Tel: (250) 564-1111
Fax: (250) 562-4950
www.deloitte.ca

Independent Auditor's Report

To the Members of
Prince George Airport Authority Inc.

We have audited the accompanying financial statements of Prince George Airport Authority Inc., which comprised the statement of financial position as at December 31, 2013 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prince George Airport Authority Inc. as at December 31, 2013 and the results of its operations and its cash flows for the year ended December 31, 2013 in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Accountants

Prince George, British Columbia
April 4, 2014

Statement of Financial Position

Year ended December 31, 2013

		2013		2012
CURRENT ASSETS				
Cash (Note 3)	$	**1,117,817**	$	629,595
Investments (Note 4)		**3,897,671**		1,875,803
Accounts receivable		**1,154,855**		1,352,156
Inventory		**29,860**		37,554
Prepaid expenses		**268,444**		221,519
		6,468,647		4,116,627
CAPITAL ASSETS (Note 5)		**51,690,250**		52,852,902
	$	**58,158,897**	$	56,969,529
CURRENT LIABILITIES				
Bank demand loan (Note 6)	$	**3,798,365**	$	4,449,545
Accounts payable and accrued liabilities (Note 7)		**1,116,958**		711,102
Government remittances payable		**17,303**		35,137
Deferred revenue and deposits		**40,464**		66,384
		4,973,090		5,262,168
LONG-TERM DEBT (Note 8)		**12,612,087**		12,612,087
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 9)		**23,272,515**		24,802,703
		40,857,692		42,676,958
COMMITMENTS (Note 10)				
CONTINGENCIES (Note 17)				
NET ASSETS				
Invested in capital assets (Note 11)		**12,006,997**		10,988,281
Restricted airport improvement fee (Note 12)		**4,752,042**		3,524,217
Unrestricted		**542,163**		(219,927)
		17,301,205		14,292,571
	$	**58,158,897**	$	56,969,529

APPROVED BY THE BOARD:

________________ **Director**

________________ **Director**

Statement of Operations

Year ended December 31, 2013

	2013	2012
Revenue		
Concessions	$ 183,923	$ 278,932
General terminal charges	1,271,212	1,134,184
Landing fees	2,253,143	1,756,585
Other	542,667	451,727
Parking	1,448,252	1,324,766
Rentals	792,188	552,646
	6,491,385	5,498,840
Expenses		
Property taxes	217,631	215,141
Salaries and employee benefits	2,410,583	2,251,049
Services, supplies and administration	2,825,013	2,348,443
Utilities	281,356	273,552
	5,734,583	5,088,185
Operating surplus	756,802	410,655
Other revenue (expense)		
Airport improvement fee (net) (Note 12)	3,723,366	3,586,056
Amortization of deferred contributions (Note 9)	1,530,188	1,648,916
Amortization - capital assets	(2,464,697)	(2,529,760)
Gain on disposal of assets	5,288	75,442
Interest on long-term debt	(542,313)	(557,622)
	2,251,832	2,223,032
EXCESS OF REVENUE OVER EXPENSES	$ 3,008,634	$ 2,633,687

Statement of Changes in Net Assets

Year ended December 31, 2013

	Invested in Capital Assets (Note 11)	Restricted Airport Improvement Fee (Note 12)	Unrestricted	2013	2012
Balance, beginning of year	$ 10,988,281	$ 3,524,217	$ (219,927)	$ 14,292,571	$ 11,658,884
Excess of revenue over expenses	-	3,181,053	(172,419)	3,008,634	2,633,687
Capital asset additions	1,302,045	(1,302,045)	-	-	-
Net repayment of bank demand loan	651,180	(651,180)	-	-	-
Amortization of capital assets	(2,464,697)	-	2,464,697	-	-
Amortization of deferred contributions	1,530,188	-	(1,530,188)	-	-
Balance, end of year	$ 12,006,997	$ 4,752,045	$ 542,163	$ 17,301,205	$ 14,292,571

Statement of Cash Flows

Year ended December 31, 2013

		2013		2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenue over expenses	$	**3,008,634**	$	2,633,687
Items not affecting cash				
Amortization		**2,464,697**		2,529,760
Gain on disposal of assets		**(5,288)**		(75,442)
Amortization of deferred contributions		**(1,530,188)**		(1,648,916)
Interest on long term debt		**-**		276,420
		3,937,855		3,715,509
Changes in non-cash operating working capital				
Decrease (increase) in accounts receivable		**197,301**		(505,913)
Decrease in inventory		**7,694**		106
Decrease in government remittances receivable		**-**		15,187
(Increase) decrease in prepaid expenses		**(46,925)**		36,826
Increase (decrease) in accounts payable and accrued liabilities		**405,856**		(753,210)
(Decrease) increase in government remittances payable		**(17,835)**		32,180
(Decrease) increase in deferred revenue and deposits		**(25,919)**		613
		4,458,027		2,541,298
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital asset additions		**(1,302,045)**		(2,064,890)
Proceeds on disposal of capital assets		**5,288**		75,442
Increase in investments		**(2,021,868)**		(19,144)
		(3,318,625)		(2,008,592)
CASH FLOWS FROM FINANCING ACTIVITY				
Repayment of bank demand loan		**(651,180)**		(651,180)
NET INCREASE (DECREASE) IN CASH		**488,222**		(118,474)
CASH, BEGINNING OF YEAR		**629,595**		748,069
CASH, END OF YEAR	$	**1,117,817**	$	629,595

1. NATURE OF 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 accounting standards for not-for-profit organizations and include the following significant accounting policies:

Financial instruments

The Authority initially measures its financial assets and financial liabilities at fair value. The Authority subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, investments and accounts receivable.

Financial liabilities measured at amortized cost include bank demand loan, trade accounts payable and accrued liabilities, and long-term debt.

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%
Fuel farm	4%
Other	5%-33%
Computer hardware and software	33%
Vehicles	10%
Machinery and other equipment	10%-20%
Runway	5-50 years

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.

Employee future benefits

The Authority accrues its obligations under the defined benefit pension plans as the employees render the services necessary to earn the pension benefits. The actuarial determination of the accrued benefit obligations for pensions uses the projected benefit method pro-rated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the Authority's fiscal year-end.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 22 years

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured and unrestricted interest is recognized as revenue when earned.

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

Government contributions

Contributions towards capital expenditures are 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the financial statements in conformity with Canadian accounting standards for not for profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Key components of the financial statements requiring management to make estimates are potential collectability of accounts receivable, net realizable value of inventory and useful life of capital assets. Actual results could differ from the estimates.

Future accounting changes

Effective January 1, 2014, the Authority will be adopting Section 3462 Employee Future Benefits ("Section 3462"). In accordance with the transitional provisions, the Authority will retrospectively apply the revised standard except for taking advantage of the transitional relief provided for a change in the measurement date.

New Section 3462 eliminates the deferral and amortization method as a policy choice for accounting for defined benefit plans and the three-month window for measuring plan assets and obligations. The standard requires that changes in the fair value of plan assets and in the measurement of the plan obligation, including past service costs, actuarial gains and losses, and curtailment/settlement gains and losses, will be recognized immediately in the non-consolidated income statement. As a result, the defined benefit asset or liability on the balance sheet reflects the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance as of the balance sheet date. Further, Section 3462 requires separate identification of remeasurements and other items from the other pension costs thereby allowing visibility to the impact resulting from the periodic remeasurements.

Additionally, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the benefit cost. Under Section 3462, the same discount rate must be applied to the benefit obligation and the plan assets to determine the finance cost. The discount rate will continue to be determined by reference to market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments or the interest rate inherent in the amount at which the defined benefit obligation could be settled.

The Authority is evaluating the impact that this new accounting policy will have on the financial statements.

3. CASH

	2013	2012
Cash	**$ 1,117,817**	$ 629,595

The Authority has a $500,000 capital line of credit bearing interest at the prime lending rate plus 1% (December 31, 2013 – 4%). The 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 on cash coverage of capital expenditure and debt repayment, with which it is in compliance. The line of credit was not in use at December 31, 2013.

4. INVESTMENTS

During the year, the Authority has invested $1,390,146 in a one-year redeemable GIC with an interest rate of 1.25% maturing on April 30, 2014, $507,525 in a one-year redeemable GIC with an interest rate of 0.8% maturing on October 30, 2014 and $2,000,000 in a one-year redeemable GIC with an interest rate of 1.25%, maturing on September 26, 2014.

5. CAPITAL ASSETS

			2013	2012
	Cost	Accumulated Amortization	Net Book Value	
Land	$ 15,556,473	$ -	$ 15,556,473	15,556,473
Leasehold improvements				
Buildings	15,247,638	5,162,817	10,084,821	10,631,572
Parking facilities and roadway systems	5,073,018	1,951,329	3,121,689	3,292,777
Fuel farm	1,082,958	52,513	1,030,445	1,070,812
Other	630,335	112,002	518,333	551,456
Runway	22,504,083	4,850,006	17,654,077	18,638,113
Computer hardware and software	554,160	465,712	88,448	56,017
Vehicles	153,405	26,444	126,961	107,559
Machinery and other equipment	6,892,738	5,137,996	1,754,742	2,060,718
Construction in progress/ equipment not in use	1,754,261	-	1,754,261	887,405
	$ 69,449,069	$ 17,758,819	$ 51,690,250	$ 52,852,904

6. BANK DEMAND LOAN

	2013	2012
CIBC demand instalment loan - payable in monthly principal payments of $54,265, 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 the Bankers Acceptance Rate (1.17% - December 31, 2013) plus a 225 basis point stamp fee.	$ 3,798,365	$ 4,449,545

Under the terms of the agreement, the principal payments required in each of the next five years would be as follows:

2014	2015	2016	2017	2018
$ 651,180	$ 651,180	$ 651,180	$ 651,180	$ 651,180

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2013		2012
Trade payables	$	**699,796**	$	385,491
Payroll accruals		**417,162**		325,611
	$	**1,116,958**	$	711,102

8. LONG-TERM DEBT

		2013		2012
Northern Development Initiative Trust, unsecured, bearing interest at prime (3% - December 2013), interest only payments commencing November 2012, for 34 months. Commencing August 2015, 120 monthly payments of principal plus interest at prime.	$	**12,612,087**	$	12,612,087

Under the terms of the agreement, the principal payments required in each of the next five years are estimated as follows:

2014	2015	2016	2017	2018
$ -	$ 525,504	$ 1,261,209	$ 1,261,209	$ 1,261,209

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.

		2013		2012
Opening balance	$	**24,802,703**	$	26,451,619
Amortization		**(1,530,188)**		(1,648,916)
	$	**23,272,515**	$	24,802,703

10. COMMITMENTS

The Authority has a 60 year lease of the Prince George airport facilities with Transport Canada which expires in 2063, with an option to renew for an additional 20 years. At the end of the renewal term, unless otherwise extended, the Authority is obligated to return control of the airport to the landlord. The Authority began paying rent on January 1, 2011. The rent is calculated based on a formula reflecting annual gross revenues less Government contributions, with the first $5,000,000 exempt from the calculation. The formula is applied at a rate of 1% of adjusted gross revenues in excess of $5,000,000 and 5% of adjusted gross revenues in excess of $10,000,000, up to $25,000,000. Rent charged for 2013 was $75,015 (2012 - $44,524).

11. INVESTED IN CAPITAL ASSETS

	2013	2012
Opening balance	$ 10,988,281	$ 9,429,475
Capital asset additions, including construction in progress	1,302,045	2,064,890
Payment of: Long-term debt, accounts payable and deferred contributions related to additions	651,180	374,760
	1,953,225	2,439,650
Amortization	(2,464,697)	(2,529,760)
Amortization of deferred contributions	1,530,188	1,648,916
	(934,509)	(880,844)
Closing balance	$ 12,006,997	$ 10,988,281

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. Earned AIF is net of a 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 13 current participating employees. The defined benefit component of the pension plan has four current participating employees. The Authority pension expense for the defined contribution component was $68,313 in 2013 ($60,216 – 2012) and the defined benefit component was $287,614 in 2013 ($282,857 – 2012). 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.

13. PENSION (continued)

Based on an actuarial valuation as at December 31, 2013 of the Authority's defined benefit plan under CPACA Handbook Section 3461, the net pension expense is as follows:

	2013	2012
Service costs	**$ 57,000**	$ 66,000
Interest cost on accrued benefit obligation	**152,000**	159,000
Expected return on assets	**(146,000)**	(126,000)
Pension expense	**$ 63,000**	$ 99,000

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2013 is as follows:

	2013	2012
Market value of plan assets	**$ 3,251,000**	$ 2,861,000
Accrued benefit obligation	**(3,379,000)**	(3,456,000)
Deficiency of plan assets	**(128,000)**	(595,000)
Unamortized net actuarial gain	**994,000**	1,244,000
Net pension asset	**$ 866,000**	$ 649,000

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

	2013	2012
Discount rate	**4.80%**	5.10%
Expected long-term rate of return on plan assets	**N/A**	6.50%
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:

	2013	2012
Employer contribution	**$ 280,000**	$ 280,000
Employees' contribution	**8,000**	9,000
Benefits paid	**300,000**	121,000

14. PENSION (continued)

Plan assets consist of:

Equity securities	**62.4%**	58.0%
Debt securities	**29.9%**	31.0%
Other	**7.7%**	11.0%

15. 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 fund in anticipation of those plans.

Under its borrowing agreements, the Authority must satisfy certain restrictive covenants. During the year, the Authority complied with all such covenants.

16. FINANCIAL INSTRUMENTS

The Authority is exposed to:

Financial risk

The financial risk is the risk to the Authority's earnings from fluctuations in interest rates and the degree of volatility of these rates. The Authority does not use derivative instruments to reduce its exposure to financial risk.

Liquidity risk

Liquidity risk is the risk of being unable to meet a demand for cash or fund obligations as they come due. It stems from the possibility of the lender demanding repayment in full of their demand loans.

The Authority manages its liquidity risk by constantly monitoring forecasted and actual cash flow and financial liability maturities, and by holding assets that can be readily converted into cash.

Accounts payable and accrued liabilities are generally repaid within 30 days. As described in Note 6, the demand installment loan requires regular principal payments which do not pose a cashflow concern, however, the lender does have the right to demand payment in full. As at December 31, 2013, the most significant financial liabilities are bank demand loan, accounts payable and accrued liabilities and long-term debt.

Financial assets

The Authority's financial assets consist of cash, accounts receivable and investments. All of these financial assets are measured at amortized cost.

16. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

17. OTHER INFORMATION

During the year ended December 31, 2013, the fees paid to the Board of the Authority for their services as directors amounted to $86,250 (2012 - $86,900).

18. CONTINGENCIES

The Authority is subject to legal proceedings arising in the normal course of business. While the outcome of these matters is not currently determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Authority's financial position, results of operations, or cash flows.

5 Year Business Plan

Business Plan Cash Flow Forecast 2014 - 2018

Shown in thousands of dollars.

YEAR	2014	2015	2016	2017	2018
Revenues	10,276.1	10,519.0	10,961.8	11,486.8	11,704.1
Expenses	6,809.1	6,967.9	7,092.5	7,199.6	7,304.7
Capital	1,330.5	10,487.0	3,119.0	3,515.0	6,681.0

Assumptions:

1. Forecasted revenues and expenses assume annual growth of 2% and modest cargo activity in 2014.
2. Amortization is not included.

TOP10

Community Facts

Over 100 children toured the Prince George Airport in 2013

+

Salvation Army, Spirit of the North Healthcare Foundation and Big Brothers and Big Sisters are just a few of the charities YXS supported in 2013

Over $5,000 in YXS schwag given away at local events

>$5,000

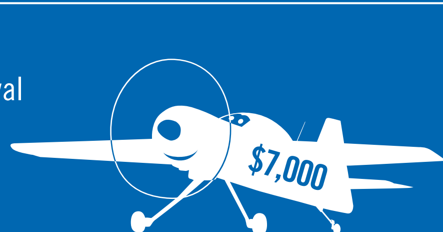
The 2013 PGAA Golf Tournament was the biggest event to date

In 2013, the PGAA Golf Tournament raised $8,500 for Hope Air which was a **70% increase** from the year before

70%

Five artists from the region displayed their artwork at YXS in 2013

#YXSDusty sold for **$7,000** at the Festival of Trees fundraiser



Disney items surrounding #YXSDusty came from all over North America

13 Media Releases were sent out by the PGAA

Media Calls Responded to: **70**

70


HAPPY 10th
ANNIVERSARY
YXS
prince george airport authority
www.pgairport.ca
/FlyYXS