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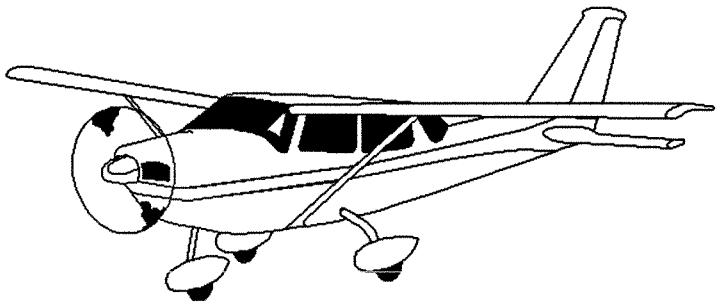


A Public Enterprise

Dehydrated Business Plan 1996-2001

Not For Profit

Not Subsidized

- Prepared By Jim Slavin on behalf of The Town of Peace River.

YPE
Peace River
Airport

09 April 1996

Index

Executive Summary:

NOT SUBSIDIZED AND NOT FOR PROFIT PUBLIC ENTERPRISE.

This "dehydrated business plan" includes out a series of strategic and tactical objectives to assure the survival of the Peace River Airport on a self sustaining, not for profit basis. These objectives are highlighted in the body of the report. Only one revenue enhancement initiative is considered to be essential, all others can be altered modified, substituted or offset by cost reduction measures not included in this plan.

Based upon a series of test scenarios and assumptions the airport can continue to provide the current level of service to the people of Peace River and surrounding areas for years on a self funded basis. The results are summarized herein:

1996:

The airport **MUST** implement a passenger facility charge(PFC)as soon as practicable upon transfer of the airport from Transport Canada to the Town of Peace River. There are no alternatives. From a financial perspective the charge that would allow the airport to operate indefinitely on a self funded basis is $8.50 per enplanement and per deplanement, for a round trip ticket cost increase of $17.00.

Despite the increased revenue from the PFC the airport will lose money in 1996. Depending on passenger volumes these net losses will be between $89,600 and $130,000. That last figure is half the loss that ocurred in 1995.

The airport should deposit the proceeds from negotiation with Transport Canada into a sinking fund account and draw from the year end balance to finance the airport operations in 1996. For reporting purposes it is recommended that all revenues from airport operations be accounted for/held seperately from the sinking fund until all of the Federal Government contributions are extinguished. This action will minimize the time period where reports to the Federal Government are required.

1997:

The airport will make the **first ever** operating surplus in 1997. These monies will be used to offset the prior losses. A piston engined aircraft landing fee of $2.00 is proposed to be implemented at some point in 1997. If that fee is implemented, then a surplus of $54,718 is anticipated, based upon the lower bound of anticipated passenger volumes. This surplus is due partly to the first full year of PFC revenues

and more directly to several cost control measures. For example, cross utilization of staff with town departments, reduced costs for legal services, use of stockpiled material(sand and urea), some energy conservation and minor service reductions. A ½ ton truck is scheduled for replacement in 1997 at a cost of $20,000.

1998:

The airport will make an operating surplus quite similar in size to that of 1997. Additional revenue is anticipated to accrue from a proposed revenue sharing agreement with MD of Peace #135 should they wish to participate in the governance of the airport. A fee on air cargo throughput is also proposed to be implemented in 1998. That fee will generate approximately $7,500 and represents the last proposed new fee during the planning period.

Based upon the anticipated 1996 shortfall, a small operating surplus in 1997, and a similar surplus in 1998, the airport finances would be at **a net break even level at the end of 1998**. This would be an appropriate time to revisit the fee structure and determine whether Peace River Airport should maintain current fees, decrease fees, or increase fees in certain areas depending upon the level of cost recovery and results achieved.

1999:

Assuming all fees and charges remained the same, the airport would end 1999 with an operating surplus of between $72,800 and $84,600. This surplus would coincide with the scheduled major replacement of airside snow removal equipment. The operating surplus would defray approximately 50% of the cost of the machinery and the balance would have to come from the sinking fund. In addition, the scheduled refurbishment of the ATB roof is scheduled for that year, further reducing the sinking fund balance by $50,000.

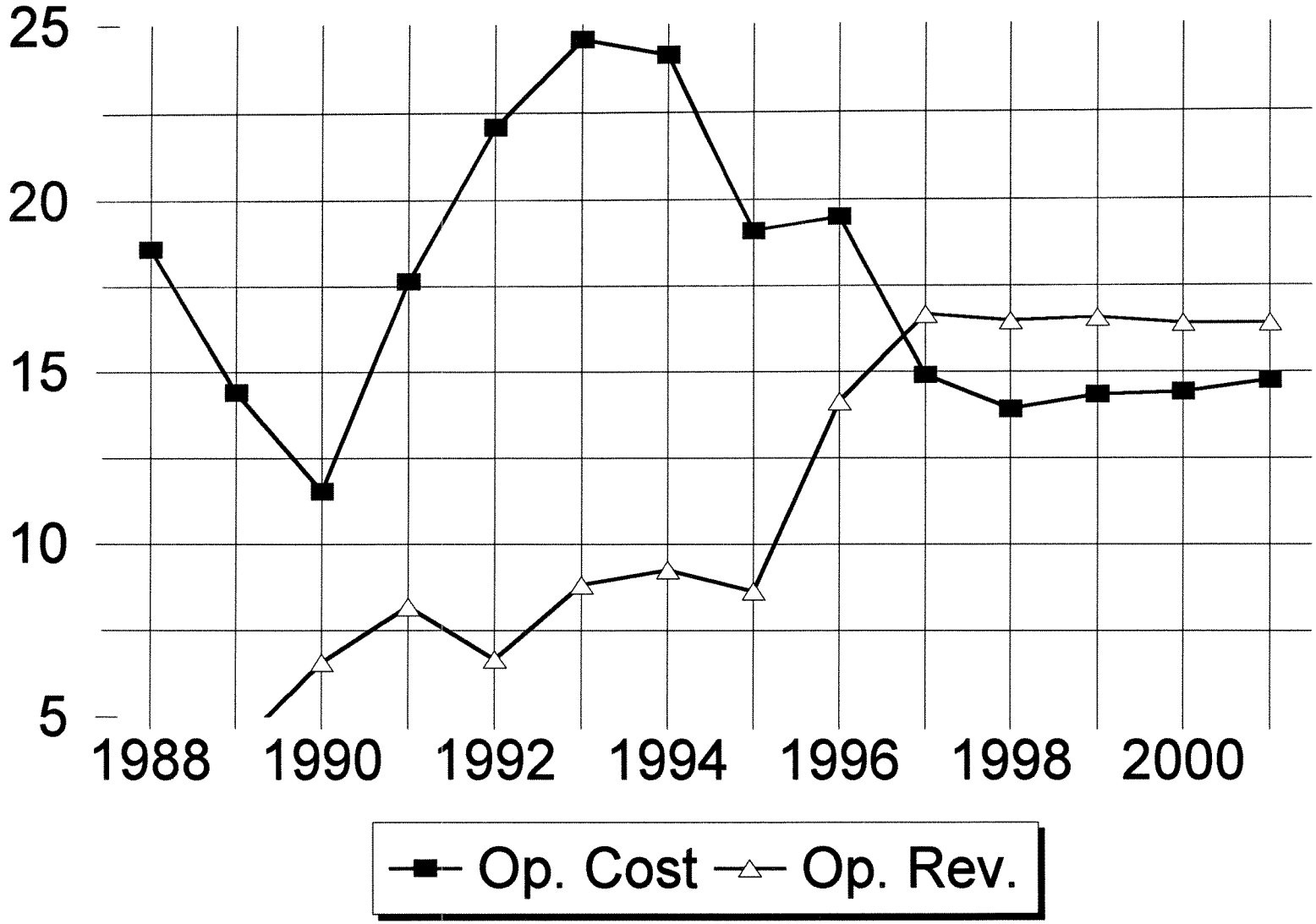
2000:

The airport would end the year with an operating surplus of $66,500 at the lower bound of expected passenger volumes. That amount of operating surplus would offset the outstanding balance from prior equipment purchases. The heating and ventilating system of the Air Terminal Building is scheduled for major repairs in that year for a cost of $20,000 and a 3/4 ton truck is also scheduled for replacement in that year at an additional cost of $20,000.

2001:

The airport would end the year with an operating surplus of $55,000 at the lower bound of expected passenger volumes. There are programmed expenses for major replacement of automatic doors in the air terminal building at a cost of $30,000 and a major replacement of several pieces of mobile equipment at a cost of $131,000 that would require monies from the sinking fund to finance. The expected balance remaining in the sinking fund at the start of 2002 would be approximately $980,000 if all revenues and expenses follow the lower bound of expectations. Again, it is recommended that a fees and charges review occur to ensure that these amounts are neither too high nor too low to preserve the viability of the airport into the future.

Cost & Revenue Per Pass.



Strategic objectives:

1. Forge improved relationship with Hubs-Calgary,Vancouver and Edmonton.
   Seek their reciprocal participation in marketing and promotional activities; route development studies; specialized staff training; specialized equipment sharing/rental.

2.Operate within set financial parameters to ensure:
   1. User's pay.
   2. Taxpayer risk is minimal.
   3. Not for Profit/loss objectives are met in the longer run(cyclical market).
   4. Proper stewardship of sinking fund to protect ratepayers.

3. Continue to improve efficiency in the operation and maintenance of the airport through:
   1. Cross utilization(on a cost recovery basis) with Town staff to keep payroll costs down.
   2. Service contracts for non-essential activities.
   3. Volunteer and subsidized labour assistance for airport projects.
   4. Public enterprise initiatives.

4. Seek a non aviation development at the airport(stabilizer):
   1. Hospital/medical.
   2. Forestry servicing.
   3. Other modal or multi modal(Trucking/Rail)cargo service.
   4. Light industrial.
   5. Self storage yard.

5. Active participation in Tourist and Economic Development initiatives (in partnership) with local agencies, airlines, hub city airport authorities, Alberta tourism etc..

6.Active use of airport building as a marketing and promotion tool for town businesses, and regional interests through :
   1. Volunteer promotions
   2. Business sponsorships
   3. Airshow development
   4. Providing meeting facilities

7.Secure Airport tax revenue sharing agreement with M.D. of Peace #135.

8.Actively offer Peace River Airport skills and services, on a cost recovery basis, to:
   1. Town uses.
   2. Other regional airport uses.

FINANCIAL HISTORY:

The airport derives revenue from four basic sources at present, these are:

1. Service Fees- consisting mostly of aircraft landing fees and aircraft parking charges. In 1995 twonew revenue sources were added to this category, a general terminal fee and metered public parking.

2. Rentals- consisting of land and space rentals.

3. Concessions- consisting of revenue-based fees from aviation fuels, car rental businesses, restaurant and vending activities.

4. Sales- consisting mostly of cost recovery of utility charges, and miscellaneous sales.

These historical revenue sources are typical of, and consistent with, small Canadian airport operations. Small American airports of a similar size tend to have additional revenue from non-aviation developments. The revenue amounts obtained by Peace River airport are proportionately equivalent to neighboring Alberta airports. I was looking for areas where neighboring airports were achieving significantly better results than Peace River airport but no significant discrepancies have been noted.

The **Historical Total Revenue** profile from operations at Peace River Airport is:

1992	*1993*	*1994*	*1995*
$134,276	$192,994	$211,272	$267,081

The **Historical Total Cost** profile from operations, and the net deficit, for the same time periods are:

	1992	*1993*	*1994*	*1995*
Operating cost	$613,130	$649,467	$628,023	$555,377*
Net deficit	($478,854)	($456,473)	($416,751)	($288,296)

*Note: the 1995 deficit included some one time cost that will not recur, therefore the operating deficit would actually be less than shown if those costs were removed.

The foregoing shows recent **impressive progress in cost control** measures. It is noted that the operating deficit was reduced by 30% in the period between 1994 and 1995. The proposed 1996 business plan budget will further reduce the operating deficit to $129,941. That is, less than 50% of the 1995 deficit. That is on the assumption that passenger volumes will be at only 24,260 passengers. In 1995 the airport handled 29,000 passengers. If passenger counts meet expectations and volumes are the same as 1995, the year end deficit will be $89,600. If so, the deficit will be less than one third of the 1995 deficit.

THE FUTURE:

The dramatic shift in operating conditions, from a mostly subsidized to completely self sufficient entity, can only be achieved by a combination of rigorous cost control and revenue enhancement initiatives. There will be periods of uncertainty and upheaval as an inevitable consequence of the rapid change from one style of operation to another. I would advise a firm resolve to press forward with the new revenue initiatives as quickly as possible because these beginnings, difficult as they may be, will have a huge impact on the prosperity of the airport in the years following. Thomas Edison is quoted as saying: ***"Many of life's failures are people who did not realize how close they were to success when they gave up."***

Since this business plan is the very first effort by the Peace River Airport, some explanations concerning the financial statements are offered. A *pro forma* financial statement is an attempt to depict what the airport finances would look like in some future year "X." They are intended to look a lot like the year end financial statements usually prepared for the airport. A business plan that was wildly optimistic about the future would serve no purpose. Therefore, there is a certain bias towards presenting an understated, but realistic, prediction of the future financial performance of the airport. Of itself, the business plan serves only a limited purpose by documenting the planned course of events at a given point in time. The real value of the excersize is the planning process itself, to examine the entire airport situation, to think strategically, and to chart a course. For that reason, the airport manager and myself went through a two day long process of "what if" scenarios, adjusting prices and forecasts and measuring the net effect of a multitude of variables. The results of that planning effort are the substance of this report and many of the "what if's" are presented in the risks section.

So to be as conservative as possible, all expectations of revenue are understated through the use of historical average amounts rather than the more recent, higher, figures. **None** of the revenue amounts have been escalated for the effects of inflation. On the other hand, all cost figures tend to be overstated, using the most recent amounts, rather than lower, average figures. **All** expense figure include an inflation factor.

The amount of the financial settlement with Transport Canada has a fundamental bearing upon the results for 1996-2001 and beyond. I have relied upon the Town of Peace River to supply an estimate of the value of that contribution in preparing these *pro forma* statements. The effects of variations from the expected value are discussed in the risks section. The proceeds of the settlement with Transport Canada are dealt with as a separate line item within the statements.

The objective of all the foregoing is to bolster your confidence in the projections to present fairly a realistic financial outcome for the Peace River Airport. In view of the multiplicity of variables that could alter the expected outcomes, a business planning tool called "sensitivity analysis" has been applied. This method cuts all revenue projections downwards by 15% from the lowest expected value, to help assess the risk associated with outcomes being far lower than anticipated. This sensitivity analysis is contained and more fully described in the risk section.

Areas of change from current normal operation are marked in red fields and a note

describing the change is presented at the bottom of the page. Cost reductions initiatives and areas of additional revenue are treated similarly in the statement of expenses and statements of revenue respectively. proposed additional revenue elements are labelled in red text boxes. The new revenue initiatives are by no means an all inclusive list. In fact, only five additional revenue sources have been included in the computations over the 1996-2001 period. It is expected that management will add many other revenue improvements and find more innovative ways of reducing operating costs as time goes by. However, there are discussions on new revenue initiatives, that did not make it into the business plan, contained in the end notes section. This plan sets out to prove the viability of the Peace River Airport as a going concern with as few changes as possible to what is, in my opinion, a well run and efficiently managed operation.

Peace River is on Alberta Provincial Highway 2, roughly 500 km northwest of Edmonton. The airport is approximately 5.6 km west of the Town boundary, in the adjacent Municipal District of Peace #135. The site occupies 182.1 ha immediately south of Highway 2. The airport site ranges from 565 to 573 m above sea level. The airfield includes a paved 1,524 m primary runway (04-22) and a turf crosswind runway. The primary runway, taxiways A and B, and the aircraft apron are capable of handling aircraft up to the Boeing B737 (formerly operated on a scheduled basis by Pacific Western Airlines). Taxiway C is capable of handling smaller general aviation aircraft. Time Air has operated scheduled passenger services using Convair equipment and their successor company, Canadian Regional Airlines, presently operate Dash-8(100) aircraft between Edmonton, Peace River, High Level and Rainbow Lake. There are also a number of fixed and rotary wing operators based at the site. Airside and groundside commercial development is limited principally to the north side of the primary runway, adjacent to the highway. Unused lands south of the airfield are poorly drained and difficult to provide with access and services.

The airfield is equipped with PAPI, Low and Medium intensity approach lights. These are visual aids for pilots approaching the airport. The airfield is not equipped with precision electronic approach aids since there are zoning restrictions that would preclude such an installation of current technology. There are non-precision, non-visual electronic approach aids available to pilots at Peace River. These include Very High Frequency Omnidirectional Radio Range/Distance Measuring Equipment (VOR/DME) and a nondirectional beacon (NDB).

The Air Terminal Building was completed in 1983. It is an efficient design capable of handling a peak hour load of approximately 120-150 passengers with only moderate congestion. It is unlikely that demand will reach that level within the 5-7 year business plan horizon.The modern appearing two storey facility is built to institutional standards and all public areas are finished in durable, low maintenance, surfaces. The building design allows for modular expansion, if necessary. A Flight Services Station (FSS) cab is located on a third level of the ATB.

The commercial power supply to the airport is provided by an overhead pole line. On site distribution to the ATB and field lighting facilities are provided by underground cable from northwest of the main airport access road intersection. A standby power supply is available to operate the essential electrical services in the event of a commercial power failure. The IPU (Interruptible Power Unit) has a 35 kw capacity and was installed in 1983. Northwestern Utilities Ltd. provide a natural gas service to the site from a main running parallel to Highway #2. No deficiencies or capacity problems in the electrical or Gas utility services have been identified.

The sanitary sewer system drains from west to east and serves the airside and groundside development areas. The holding pond overflows to a ravine near the Runway 22 approach. The water distribution system comprises a fire supply and a domestic supply main. The 305 mm fire supply main is pressurized by a three phase electric jockey pump, backed by two diesel-powered fire pumps. The reservoir capacity is adequate for forseeable domestic and fire supply requirements.

Transport Canada statistics and forecasts(1994):

Year	Passengers	Movements	Cargo (tonnes)
1979	31,500	26,400	77
1980	40,000	23,871	97
1984	27,000	27,276	60
1996	35,000	36,200	80
2001	39,000	42,500	95

SOCIO-ECONOMIC ENVIRONMENT:

The primary catchment area has a total population of approximately 19,000 people, 6000 of whom are resident in the Town of Peace River. Secondary catchment areas to the north and west comprise a total population of approximately 18,000 people. The area economic base is primarily dependent on agriculture, forestry ,oil and, gas production. Based on recent trends, population growth in the order of 2% annually is probable.

Tenant Developments:

- Peace Air Limited - hangar
- R.C.M.P. Air Detachment - hangar
- Peace Helicopters - hangar
- Northern Air Charter - hangar
- Highland Helicopters - hangar
- Canwest Aviation - office trailer
- Imperial Oil - fuel sales
- Alberta Forestry - temporary water bomber operation
- Strong Creek - community hall

Introduction:

The Peace River Airport has been operated by the Town of Peace River for more than 35 years but the Federal Government retained ownership of the land and many of the buildings. In addition the Federal Government provided a substantial operating subsidy each year (approximately 70% of operating costs) and all capital investment needs. By all accounts, the Town of Peace River has managed the property in the very best interests of the community and Transport Canada.

The National Airports Policy of Transport Canada represents both a challenge and an opportunity for the Town of Peace River. The basic challenge is to preserve air access to important markets for business after all Federal subsidies are eliminated. A secondary challenge is to devise a plan that minimizes the potential for, or eliminates, the need for another level of government to subsidize the airport. This transition from government subsidized to a "not for profit" public enterprise involves a dramatic shift in cost and revenue structures.

The opportunities for the Town of Peace River are limited only by ones imagination. The prospect of using the airport as a lever for economic development and growth stands out as perhaps the most compelling reason to assume the risk of ownership. Through this Business Plan the Town of Peace River can build the financial foundation for the future they choose, rather than the one imposed by Federal Rules.

The road ahead is by no means completely uncharted territory. One can look to the model of the United States airport system for considerable insight into the pitfalls and benefits of a deregulated environment as it relates to airport ownership. A most interesting statistic is that through the decade of upheaval that American markets experienced, not one airport went into receivership or defaulted on a bond payment.
(Source: R.H. Bates in his 1982 address to the Airport Operators Council International(AOCI)) That is, the airPORT business was relatively stable in a time period when airLINES suffered massive multi-billion dollar losses.

The Peace River airport financial history shows that it has already begun to evolve into an enterprise **similar in cost structure** to the American small airport model:

		Small Airport				
		Comparative information				
		Expenses(Expressed as a %)				
			Surface	**buildings**	**staff**	**other**
	BC		52.1	3.5	38.6	5.8
	ONT		34.4	13.8	49.9	1.9
	Peace River		**14.2**	**31**	**33.8**	**21**
	USA		3.5	4.3	55.4	36.8

One noteworthy factor gives the typical US airports an edge over their Canadian counterpart: the municipal works departments do not charge the airport for their maintenance of surface structures nor building repairs. Thus, contrary to popular myth the typical small US airport is in fact heavily subsidized by the municipal authorities. As can be seen from the chart, the Peace River Airport is already quite different in cost structure from the typical Canadian/Transport Canada operation and costs are balanced fairly evenly across the cost centres.

Aviation Outlook:

Canadian Regional Airlines has built a loyal customer base in the Peace River region. This relationship developed because the airline continued to serve this market throughout the last economic downturn when passenger volumes were at all time lows and planes were flying virtually empty. The airline now enjoys the benefit of a monopoly position in the air passenger market. It is readily apparent that Canadian Regional Airlines has targeted the domestic business traveller to be their primary customer and have priced the (air seat) product to suit that market segment. Statistical information shows that the passenger volume is increasing at this time (March 1996) and casual observation of the flight loads suggest that the airline is approaching the practical capacity of the aircraft type in use(Dash 8-100).

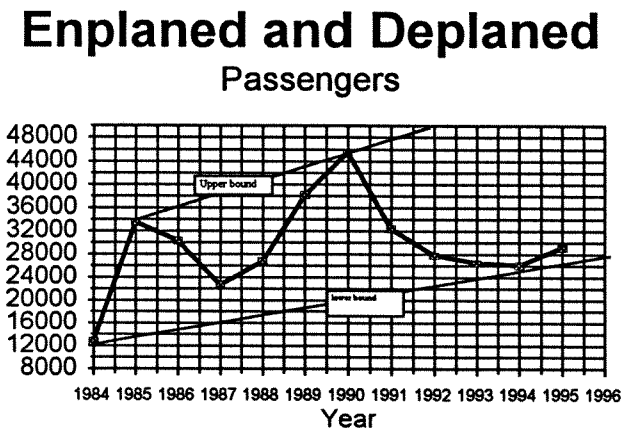
Canadian Regional Airlines are running their business in their own best interests and in view of substantial losses by their parent company they probably have less flexibility in their fare structure than one would expect. While not suggesting that the airline is being unduly exploitive of the monopoly position they

hold, I do suggest that understanding the characteristics of a classic monopoly can provide insight into the real world situation at Peace River Airport. As with all monopolies, the producer controls price and volume output(seats available). The forecasts and currend passenger volumes point towards a general increase in demand. Based upon the textbook economic models, a monopoly will shift prices upwards (and maintain output constant) or increase output(and maintain prices constant) under circumstances of increasing demand. Of the two choices, the latter, that is, "increase output" is more beneficial to the community and the Peace River airport. Increased "capacity" through more flights, or larger aircraft, is the way to increase output. Such action puts increased pressure on the airline to fill those seats. This usually translates into the airline marketing to a broader range of customers through price incentives and so on. In the case of Canadian Regional Airlines, a switch from Dash-8(100) to Dash-8(300) would add 17 seats per flight (equivalent to approximately 12,000 passengers per year at 65% load factor).

1.OBJECTIVE: **Lobby airline for more flights or bigger aircraft within one year.**

It is important for you to understand the general characteristics of the air transport sector in interpreting the concepts contained in this business plan. Therefore some general principles are explained here.

The air transport business follows the underlying economy in a perfectly correlated fashion, that is when the local economy is up, so are air passenger statistics. The reverse is also true, a downtrend in the economy results in a downtrend in passenger activity.



As can be seen from the graph, 1985 and 1990 were peak years and 1984, 1987 and 1994 were the low points in a well defined pattern (a five to seven year cycle). The pattern implies that Peace River airport can expect an upturn in passenger volumes in the short run. Naturally this trend will only continue as long as there are no negative "surprises" in the underlying economy and providing that the airline does not act like a monopoly and step in with higher fares to curtail demand.

The potential for increased passenger volumes offers the airport a financial gain in the short run, through the use of Passenger Facility Charges(PFC). There is no better time to implement such a new charge than when demand is on the increase. This new charge is the single most important change to the airport revenue structure.

2. OBJECTIVE: **Implement a Passenger Facility Charge(PFC).**

However, the PFC creates a fare price increase that, of itself, tends to reduce demand and therefore the amount charged should be at the minimum level possible. The business plan does address that issue from a financial perspective, but there are other considerations. If the Town of Peace River is prepared to assume a higher level of risk (that is, the potential need for injections of local tax money) then a lesser fee could be assessed.

The prospect of a new peak in passenger volumes also hastens the day when the cycle reverses. Therefore it is incumbent upon the airport operator to take advantage of these upturns by generating a temporary surplus of operating funds that will cover the shortfalls during the low demand periods.

3.OBJECTIVE: **Build a "Sinking Fund" that can cover anticipated shortfalls in future cash flows.**

With history as a guide, it is virtually inevitable that either an upstart airline (eg. Greyhound/Westjet) or an established carrier (eg. Air BC) will challenge Canadian Regional Airlines in this market within the planning period. In the context of a $138.00 (no frills) return airfare between Edmonton and Vancouver, the $443.00 business class return fare between Edmonton and Peace River is at odds with the emerging overall market conditions. There will be price competition if another airline chooses to enter the market. I have researched the effects of an upstart airline entering the market and the effect on passenger volume is spectacular. In economic terms, the new entrant causes a large shift in demand(that is, it generates growth in passenger volumes across all market segments). In the context of Peace River, that means that people that currently drive their cars to the Edmonton area begin to find air travel as a more economical alternative. To summarize some of the observed demand shifts:

Baltimore-372,000 passenger increase in 3 years, from an original base of 515,000 passengers per year.
Dallas to Little Rock-188,000 passenger increase in 3 years, from a base of 100,000 passengers per year.
Detroit to St. Louis-300,000 passengers per year increase, from a base of 151,000 passengers per year.

While the overall market is much smaller in the case of Peace River, there is a historical high of 45,500 passengers in 1990 that represents 16,000 passengers more than current levels. Any growth in passenger volume, regardless of ticket prices, translates into immediate revenue gains for the airport. In the context of potential DMI expansions and other large industrial developments, a demand shift is quite likely, with or without marketing to new segments of the air transport business. While Canadian Regional Airlines business acumen will be tested by a competitive entry, the Peace River airport and the community can only benefit.

4. OBJECTIVE: **Encourage either a competitive entry or an upstart airline into the Peace River Airport.**

However, the incumbent airline is often treated unfairly at such times. Peace River has the benefit of experience with Air BC to serve as a guide. So to avoid giving another airline an unfair edge over the existing company, and avoid an "easy come/easy go" skimming problem, the airport could plan some safety measures.While relatively "revenue nuetral" these measures would reward loyalty and long term commitment to the airport. For example, if another airline does enter the market, Canadian Regional Airlines would automatically get some relief from General Terminal Fees(GTF) and the new entrant should be required to pay a premium GTF for the right of initial access. This premium might also include a refundable deposit if the new airline meets an obligation to serve the market for at least seven years(a full business cycle). The GTF for the new entrant would be harmonized after they had operated at the site for a number of years.

The Peace River airport is a feeder route primarily to Edmonton, Calgary and Vancouver airport hubs. The shift of access away from the Edmonton Municipal Airport to the Edmonton International Airport represents increased inconvenience and costs to the business traveller **from** Peace River. There is a far lesser impact upon Edmonton based business travellers heading to the Peace country. There is no impact whatsoever to Peace River based travellers heading to Calgary. There is a perceived improvement in access to the Vancouver market area through the Edmonton International Airport and Calgary Airport. Because Peace River Airport

is presently served by only one air carrier, Origin and Destination statistics are held to be corporate secrets and not publicly available. I have obtained data for 1991 that indicates that 83% of all travellers originated in the domestic market. Anecdotal information suggests a majority originate from Edmonton, in the range of 60-70%.The figures tend to confirm the observation that business(and government), rather than tourism, is driving the air sector at Peace River. In 1991 there were approximately 500 persons originating/destined for Transborder or International points, not a particularly large number. The change in hub access does offer **the potential** for improved access to/from Transborder and International markets in the future. With the cooperation of one of these hubs, it is quite conceivable that a route development study would uncover unexploited demand for the benefit of Peace River airport. For example, Lufthansa serves German tourists coming to Canada through Calgary. Both Air Canada and Lufthansa are projecting substantial growth in that route. It is well known that a significant proportion of the German population enjoys deerhunting and while such tourists are already finding their way to the Peace River area, it is predominantly by automobile. A recent study by an upstart airline also showed unexploited demand for access to Las Vegas through Edmonton. It is quite likely that some of these passengers actually originate at Peace River, but choose to drive to Edmonton.

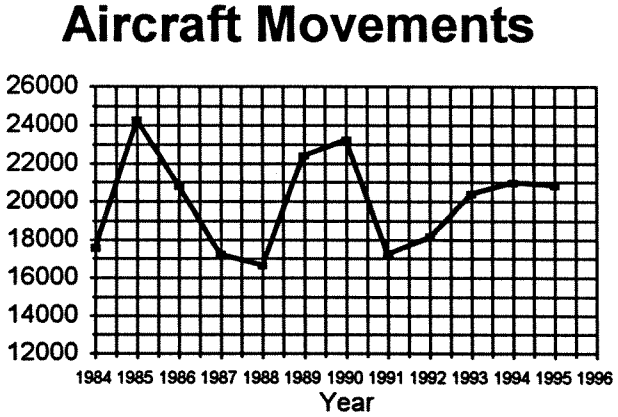
Subjectively, I believe the short run effect of the hub changes at Edmonton will be negligable on total passenger volumes. However, Calgary and Vancouver airports are now of increasing importance to the Peace River Airport. This importance will increase dramatically if either Canadian Regional or another carrier begins to serve the airtourist market from Peace River.

5.OBJECTIVE: **Forge alliances with Calgary and Vancouver Airport Authorities, utilize their assistance in marketing and promotion of Peace River.**

6.OBJECTIVE: **Press Edmonton Regional Airport Authority to improve their access to the downtown area (through price incentives and service improvements) for the benefit of the residents of Peace River that do business in Edmonton.**

The Peace River airport also serves as an operating base and destination point for General Aviation activity. This category includes private, commercial charter, general business flight, med-evac, government, military and a host of others. Based upon revenue and expenses, this element is something of a sideline business for airport management since most of the facilities and services were intended to serve the commercial airline user. With the exception of night\winter landings,and aircraft parking, these services are "available" to General aviation with limited incremental cost to the airport.

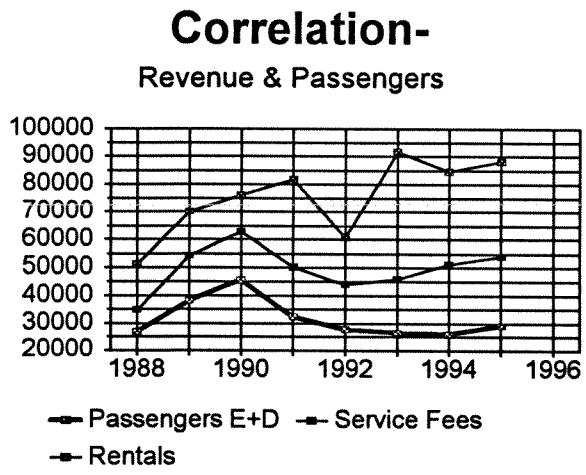
As can be seen from the historical statistics on aircraft movements, these too tend to follow the cycle of economic activity in the underlying economy. However, the graph appears to show that general aviation activity has already peaked and may not reach historical highs. In addition, the overall trend is one of decline rather than expansion and growth. Direct revenue from general aviation(GA) activity is not a large component of the financial picture for the typical airport, but services are rendered (landing lights, runway condition reports, parking, etc.) and an appropriate fee should be collected for these services. The airport does make money from secondary businesses set up to serve the general aviation market. These businesses are aviation refueling; aircraft maintenance; and, flight training. These businesses depend on a steady stream of GA traffic in the same way that gas stations need automobile traffic. A price structure that impedes the flow of that traffic (or encourages movement to alternate sites) would impair the ability of the tenants to make their living and their ability to support the airport through rent payments. In view of the apparent levelling off in the activity level, it is apparent that some caution will be required in altering the pricing structure to that market segment. Therefore the GA sector is an area of competitive product pricing where market forces (what other neighboring airports charge) will be of great importance. One factor does present an **interesting opportunity** for the commercial GA businesses operating from Peace River airport. With the impending loss of airliner service to the Edmonton Municipal/City Centre airport, there is some potential for commercial GA operators to fly 8-10 seat "unscheduled" charter style flights to the Edmonton city centre for Peace River based travellers.



7.OBJECTIVE: **Price GA services competitively with neighboring markets.**

Revenue Outlook:

The Peace River Airport revenue stream is correlated directly to the passenger throughput volume.Therefore, it is cyclical and downturns cannot be avoided. One can only plan for the inevitable. The chart superimposes the major sources of current revenue above the passenger statistics to emphasize this point.



One method of dampening the effect of a cyclical business, is to diversify into other businesses that have different patterns to their cycle. Farmers for example diversify by producing both grain and livestock on the premise that when grain is up, livestock prices are down and vice versa. In this way the pragmatic farmer ensures that his income stream is more stable than if he were in livestock alone or grain alone. In financial markets stock broker's design "risk free" portfolio's with many risky stocks using exactly the same principles. As was mentioned earlier, the typical small US airport contains at least one non-aviation related business. Lethbridge airport has a major industrial operation on the airport grounds and Grande Prairie airport has the potential to attract such a business in the near future. To remain competitive, Peace River should diversify in a similar fashion.

8.OBJECTIVE: **Seek out a non-aviation business that, preferably, is counter cyclical to the aviation business.**

At the outset, the Peace River airport will receive a relatively substantial sum of money from Transport Canada. This amount is subject to negotiation but is based upon the present value of the subsidy that Transport Canada would have had to pay over a certain five year term as well as an allowance for small capital works. I believe that Transport Canada will most probably include a stipulation in the contribution agreement that will require the Town of Peace River to maintain the funds in a separate account **exclusively dedicated for airport management, operation and maintenance.** In order to survive the aviation business cycle, and

be able to afford the inevitable major repairs, the careful and prudent stewardship of this resource is an essential requirement. This sinking fund will be needed to pay for operational shortfalls when they occur; to finance unplanned major repairs as quickly as possible; to finance equipment replacements when these become necessary, and so on. The sinking fund also stands between the airport and the Town of Peace River to **shield the community ratepayers** from the need to pay supplementary taxes to fund the airport. The finances of the airport will therefore require sophisticated management to optimize returns on investments, where possible; shortfall planning and cash flow management, where necessary; entrepreneurship to foster revenue growth; and, public accountability. This "Public Enterprise" approach to finance and operations that set it in a somewhat different role than the other Town operations. This approach requires certain enhanced freedoms to manage in a businesslike manner. For example, new ventures involve taking calculated risks that are not normally countenanced by government. Therefore, it is recommended that the airport remain as a separate unit of the Town Administration. Airport finances will likewise require segregation from other town funds to satisfy operating agreement requirements, but the sinking fund should be administered by the Town Manager or other financial expert.

9. OBJECTIVE: **Establish a sinking fund account, administered by the Town Manager, that will receive the initial lump sum payment and any operating surpluses in good years. This sinking fund will provide the mechanism to finance any deficits in bad years, and other airport related costs.**

The air cargo market is emerging as an important component of air services for the Peace River airport. In 1994 approximately 75,000 KG's of cargo were enplaned/deplaned at Peace River. The airport derives no direct revenue from the air cargo throughput. In comparison to other similarly sized and similarly remote locations, it would appear that air cargo at Peace River is somewhat underutilized at present. (For example-Fort Nelson, B.C. throughput volume is is approximately 124,000 KG's). It is a common practice in Europe for the airport operator to charge a cargo throughput fee. Such fees are not yet established in Canada.

10.OBJECTIVE: **Introduce a revenue stream from cargo operations, a cargo throughput charge.**

Other new revenue intiatives will be required to replenish amounts drawn from the sinking fund for capital improvements. The following list is by no means exhaustive, but

is roughly grouped into priority status for implementation:

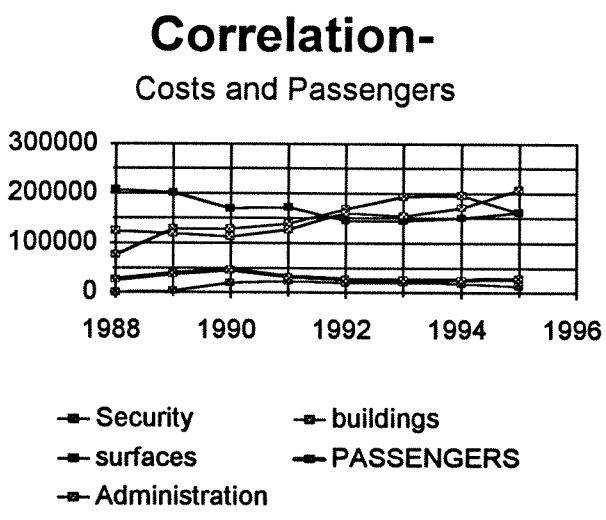
Landing fee changes(piston driven aircraft).
Tax revenue sharing agreement(MD of Peace #135).
Aircraft Parking fee adjustment.
Fuel concession fee adjustment(turbo/avgas).
Alternate uses(Trade show/drag racing/air shows).
Land lease changes-Agricultural/Industrial rents(cover inflation).
Night and extra service fee-piston aircraft.
Increase advertising revenue (Groundside).
Passenger security clearance for hubs(chargeback)

.11. Objective: **Implement all proposed and new revenue generating initiatives where a positive net present value exists.**

Cost Reduction Outlook:

The typical airport, regardless of size or location, involves a relatively high level of fixed costs. In addition, many of the variable costs, the ones that are controllable by management, are not dependent on airport activity. In other words, regardless of the volume of passengers and aircraft activity, most costs tend to remain the same. By way of example, snow removal must be carried out when an aircraft needs it, regardless of the number of passengers, if any, on the aircraft. Since costs are relatively fixed, there is an incentive for airport management to increase the "throughput" of passengers. Revenues will increase more rapidly than costs. The graph here depicts the lack of correlation between passenger activity and costs at Peace River Airport.

However, Peace River Airport has shown a **sustained ability** to control and reduce the variable portion of costs over time. This effort must continue and the new funding arrangements do provide some incentives for airport management to "save" money from operating accounts to finance major capital budget items.



One reason for the success of the airport in reducing annual cost is the budget setting arrangement with the Town Administration. This flexible

type of "Expenditure Control Budget" allows the airport manager to move funds from one line item to another without seeking further approvals, provided he lives within the overall budget. Town administration reviews and approves annual operating budgets in advance. The continuation of that arrangement is recommended. A similar procedure should be established for disbursements from the sinking fund. That is, advance approval would be required to finance major expenditures, for example the purchase of new snow removal equipment. Any other uses would be contingent upon proof that the funds would be replenished through revenue mechanisms. All annual operating surpluses would be directed to the sinking fund, and all shortfalls would be taken from the fund. Based on the aviation cycle previously described, a set of operating rules of thumb should be developed to preserve the fund within a preset range of values. It will be up to the elected officials and Town Administration to determine the acceptable level of risk. For example, a rule might be that three consecutive years of shortfall would trigger an adjustment to the cost or revenue situation back to an equilibrium level. A more pleasant dilemma would be if revenues greatly exceeded costs for a sustained period, then user fee reductions could be contemplated to preserve the "**not for profit**" philosophy. Naturally, the sinking fund would provide the financing vehicle for major facility improvements; large unplanned repair needs; major equipment replacements and so on.

The replacement of high value equipment such as snow throwing machines and graders/trucks etc. is a concern. If the original value of the sinking fund is in the range of $900,000 to $1,100,000 then the airport can self finance the new replacement of vehicles. If the initial value of the sinking fund is far less than the described range, or if a major source of revenue is not quickly implemented, then the airport will have to alter tactics. Put simply the airport cannot afford to replace this equipment at the relatively frequent intervals one would probably see in the private sector. It has been my experience that airport uses tend to involve a lesser degree of wear and tear than typical municipal operations, and that high maintenance standards allow a telescoped replacement schedule. That is, if a vehicle had a life expectancy of ten years in private use, it will get 13 years in municipal use, and the same machine may last 20 or more years in airport use(with proper maintenance). Even so, the capital cost of any **new** replacements would have a dramatic impact upon the sinking fund. For this reason it is proposed that, wherever possible, the airport purchase used equipment, or "half life" equipment from the Town inventory. In other words, the town would sell to the airport any needed equipment that has already reached half of it's expected life span. A price arrangement of 50% of replacement value would result in a relatively nuetral net cost position for the town and a substantial benefit for the airport operation. There are specialized pieces of equipment that the town does not use routinely, therefore some new purchases will still be required periodically.

12.OBJECTIVE: **Airport to receive "hand me down" equipment from town inventory, priced at ½ replacement cost, instead of new equipment (wherever possible).**

Personnel costs have received considerable attention and some cost reduction strategies have already been implemented in this area. The effect of the reductions are that the airport presently runs with two administrative and three operational staff. (Three persons from the Public Works department have also received training to supplement the airport operating staff during major snow removal and other such labor intensive activities -but have not yet been used). I believe a total staff of four(one less than present level) to be the minimum practicable for an airport of this size. Any fewer than that and the airport will experience difficulty in managing operations during periods of illness, vacations, training, and peak demand (where lesser skilled persons may be added to the workforce). There is however, room to further reduce airport costs by cross utilization with the Town in non-peak periods. For example, operational staff could be temporarily deployed to the Public Works department for summer projects. If that were to occur on a strictly "cost recovery" basis it has the effect of reducing the personnel cost of the airport by a fraction of a person year(say 20%) without any loss of skills to the airport. Further, this type of exchange benefits the Town works department who receive a tradesman well versed in their operations and procedures; without uncurring any extra hiring costs; and at optimal value since the staff would be there only for exactly the required hours. Similarly, administrative staff from the airport could serve in Town administration for scheduled periods.The reverse scenario could also benefit the airport. For example, snow removal activities are an urgent necessity for the airport. Based upon the winter just past(95/96) the Peace River Airport needed three people during these temporary events. It would be advantageous for them to stand with a complement of two that was augmented by an additional person from the works department during the removal operation. Again, this would be on a cost recovery basis and only for the required time period. In the longer term the airport could consider "contracting out" the entire snow removal and airfield operations role to private sector interests.

13.OBJECTIVE: **Cross utilize staff to the maximum extent practicable,on a strictly cost recovery basis.**

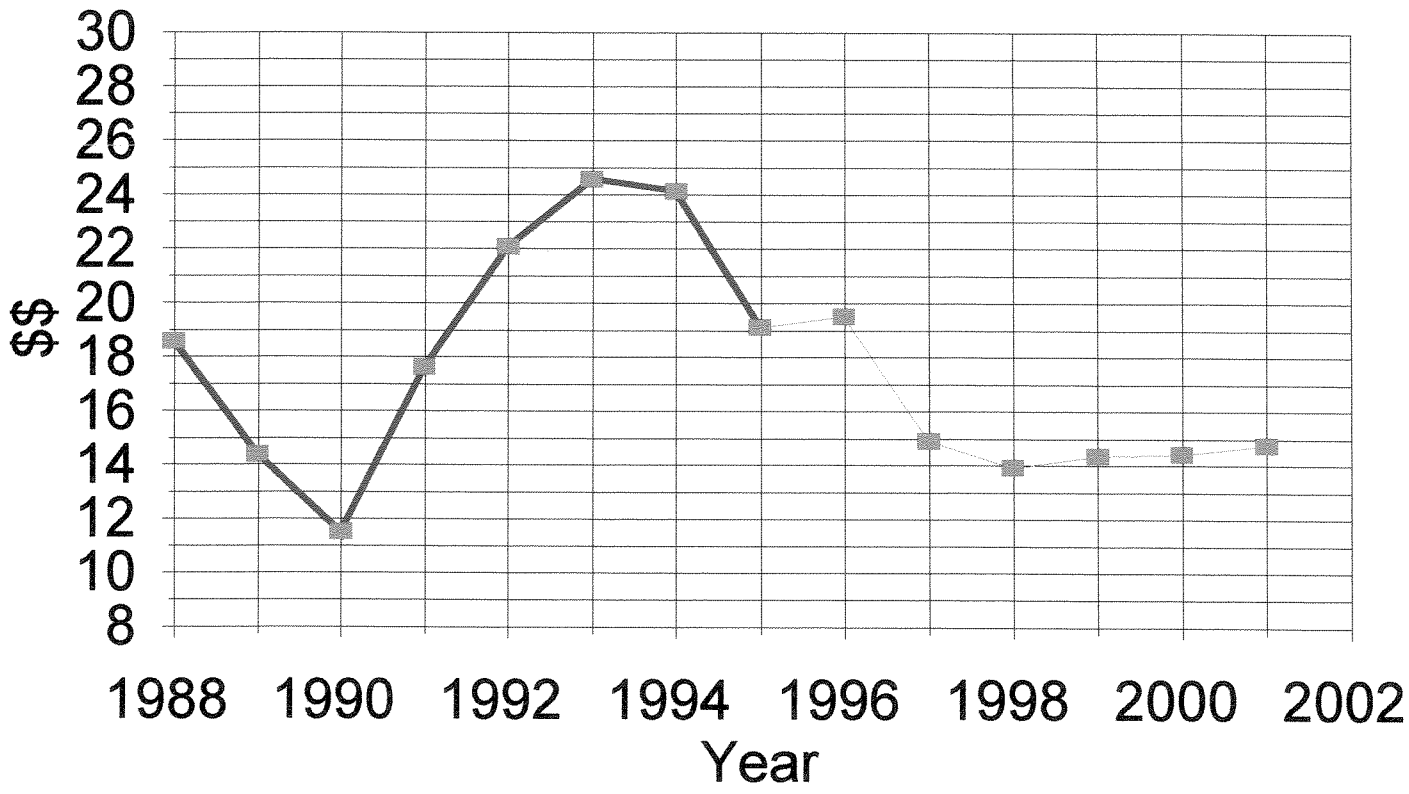
Note: The airport and Public Works department appear to have peak labour demands that are complementary-so there is potential for such an exchange to be of mutual benefit.

There are other opportunities for the airport to optimize personnel costs by offering services to other airports in the region. It has been observed that some of these airports are in need of expert assistance in maintaining their facilities, and the Town of Peace River could efficiently provide these services at modest cost to the other communities.

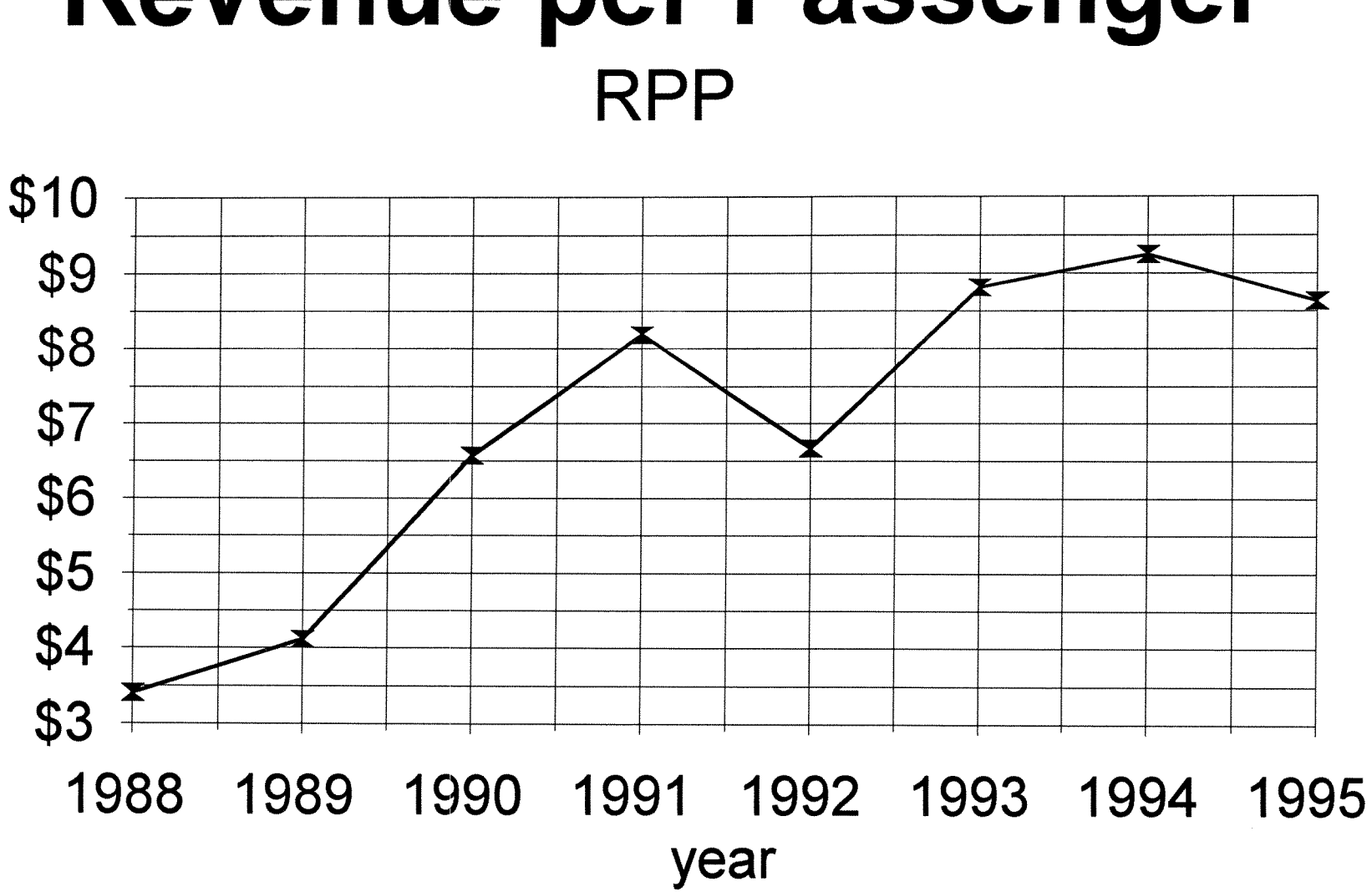
The specific opportunities for cost reduction are detailed in the financial statements that follow. As with the revenue proposals the list of cost reduction ideas are not exhaustive and it is expected that management will be able to improve on the forecast results quite easily. All expenses are segregated into a fixed(relatively inflexible) and a variable (flexible) component. While somewhat of an oversimplification, the vast majority of cost reduction initiatives are likely to come from the variable component of costs. As will be demonstrated, the variable component of costs are shrinking quite dramatically to the point where one would be hard pressed to improve upon historical results without a dramatic change in the level of service provided.

In 1993 the Peace River Airport spent $24.58 for every passenger that went through the facility. In 1997 the airport expects to spend $14.89 for every passenger. Both of these figures represent operating costs and do not consider capital nor equipment replacement costs.

Cost Per Passenger



Revenue per Passenger



PROFORMA REVENUE & EXPENSE SUMMARY

FOR THE YEARS ENDED DECEMBER 31st, 19xx

		Low Range	Mid Range
1996	Operating Revenue	$343,189	$383,530
	Operating Cost	($473,130)	($473,130)
	Net operating income/deficit	**($129,941)**	**($89,600)**
1997	Operating Revenue	$512,883	$548,710
	Operating Cost	($458,165)	($458,165)
	Net operating income/deficit	**$54,718**	**$90,545**
1998	Operating Revenue	$544,049	$573,000
	Operating Cost	($459,354)	($459,354)
	Net operating income/deficit	**$84,695**	**$113,646**
1999	Operating Revenue	$538,853	$550,690
	Operating Cost	($465,992)	($465,992)
	Net operating income/deficit	**$72,861**	**$84,698**
2000	Operating Revenue	$549,873	$595,360
	Operating Cost	($483,315)	($483,315)
	Net operating income/deficit	**$66,558**	**$112,045**
2001	Operating Revenue	$549,873	$595,360
	Operating Cost	($494,372)	($494,372)
	Net operating income/deficit	**$55,501**	**$100,988**

PROFORMA 1996 EXPENSES

For the year ended December 31st, 1996.

Security	-Schedule B				
Fixed	contract security	3850	Variable	repairs	250
				cfr	1900
					2150
Buildings	-Schedule D				
Fixed	Janitorial	20000	Variable		10000
	Garbage	1695			
	utilities	57000			5000
	salaries	10000			5000
	elev rep	5600			1400
	HVAC mtce	5000			
	ATB repair	10000			3000
	Duplex repair	1000			
	Eng Services				5000
	materials				4000
					33400
Surface	-Schedule E				
Fixed	Salaries	75000	Variable		5000
	cracks/paint	5000			2000
	fuel	12000			
	rentals	300			1200
	gate security	12000			
	travel				1000
	repair eqpt	17000			
	power	256			
	plug-ins	464			
	sand/urea	6000			6000
	radio/training	1150			1000
	electrical	500			
					16200
Management	-Schedule F				
Fixed	Salaries	81600	Variable		
	audit serv	3000			
	office eqpt rent	2500			
	tel &post	4000			4000
	legal	10000			
	municpl serv fee	23000			4500
	computr svs				2000
	materials	2500			
	misc	6000			9000
	Prof. Dev	1000			765
	advertising				1500
	travel	3000			4000
	taxes	1200			
	insurnce	14000			25765
	SUB TOTAL	**$395,615**			**$77,515**
				TOTAL FIXED +VARIABLE	**$473,130**

PROFORMA 1996 REVENUES

For the year ended December 31st, 1996.

Revenues	-Schedule A	aircraft mvmt			20000	20600
		Passenger E+D			24260	30000
					Low range	**Mid range**
Cash from Operations:						
	service fees					
		Landings-airline			27527	28353
		Landings-other			10424	10737
		Aircraft parking			3987	4106
		general terminal fee			50000	50000
	(1)	pass. fac. chg.		$8.50	103105	127500
	rentals				88181	88181 (2)
	concession					
		Aviation fuel			17349	21453
		Car rental spaces			18199	22505
	(4)	Restaurant			0	500
		Advertising			3191	3946
		Vending			231	285
		Telephones			219	271
		Amusement			476	589
	(3)	car parking			14234	17602
	sales					
		Util. -Electr.			2987	3694
		Util.-Water			1548	1914
		Gasoline			1201	1485
		Misc.			329	407
				Sub total	$343,189	$383,530
			Less OP. Cost		($473,130)	($473,130)
			INCOME/LOSS FROM OPS.		($129,941)	($89,600)
Cash from Investments:						
		Sinking fund account				
	Begin	900000				
	End	$770,059				
		Interest	carried to 97	0.06	$23,102	
			Total Sink fund		$793,161	

Note 1: PFC rate set to maintain fund @ $1M if no Cap. purchs.
2 3 year average(93/4/5)
3 aggregate of meter parking RPP(.11598)plus public lot RPP(.666353) commencing in April(.75 of year)
4 Business re-start.

PROFORMA 1997 EXPENSES

For the year ended December 31st, 1997.

Security -Schedule B

Fixed			Variable		
contract security	3927		repairs	255	
			cfr	0	
				255	

Buildings -Schedule D

Fixed			Variable		
Janitorial	20400		Janitorial(5)	5100	
Garbage	1729				
utilities	58140		Electr.(4)	4080	
salaries	10200			5100	
elev. rep	5712			1428	
HVAC misc	5100				
ATS repair	10200			3060	
Duplex repair	1020				
Eng. Services				5100	
materials				4080	
				27948	

Surface -Schedule E

Fixed			Variable		
Salaries	78500		salaries(2)	3060	
cracksealant	5100			2040	
fuel	12240				
rentals	306			1224	
gate security	12240				
travel				1020	
repair eqpt	17340				
power	281				
plug-ins	473				
sand/urea	6120		sand/urea(3)	0	
radio/training	1173			1020	
electrical	510				
				8364	

Management -Schedule F

Fixed			Variable		
Salaries	83232				
audit serv.	3060				
office eqpt rent(1)	2500				
tel &post	4080			4080	
legal(6)	2040				
municpl serv fee	23460			4590	
comput. svs.				2040	
materials	2550				
misc.	6120			9180	
Prof. Dev	1020			780	
advertising				1530	
travel	3060			4080	
taxes	1224				
insurnce	14280				
				26280.3	

SUB TOTAL $395,317

$62,847

TOTAL FIXED +VARIABLE $458,165

Note: 1. Equipment rental agreement expires at end of 1997.
2. Cross utilization of staff with Works dept.
3. Sufficient stockpile to defer purchase.
4. Energy conservation measures.
5. Reduce level of service.
6. Returns to historical level

PROFORMA 1997 REVENUES

For the year ended December 31st, 1997.

Revenues	-Schedule A	aircraft mvmt		20100	23653
		Passenger E+D		30750	33702
				Low range	**Mid range**
Cash from Operations:					
	service fees				
		Landings-airline		27665	32555
		Landings-other		10476	12328
		(1) piston landing fee	$2.00	16324	16324
		Aircraft parking		4007	4715
		general terminal fee		50000	50000
		pass. fac. chg.	$8.50	261375	286467
	rentals			88181	88181
	concession				
		Aviation fuel		21990	24101
		Car rental spaces		23068	25282
		Restaurant		500	800
		Advertising		4045	4433
		Vending		293	321
		Telephones		278	304
		Amusement		604	662
		car parking		24057	26366
	sales				
		Util. -Electr.		3786	4149
		Util.-Water		1962	2151
		Gasoline		1522	1668
		Misc.		417	457
			Sub total	$512,883	$548,710
		Less OP. Cost		($458,165)	($458,165)
		NET INCOME		$54,718	$90,545

Cash from Investments:

	Sinking fund account			
Begin	793161			
End	$847,879			
	Interest	carried to 98	0.06	47590
		less purchases		($20,000)
		Total Sink fund		$875,469

PROFORMA 1998 EXPENSES

For the year ended December 31st, 1998.

Security	-Schedule B					
Fixed	contracted security	4645	Variable	repairs		263
				cfr		0
					262.65	
Buildings	-Schedule D					
Fixed	Janitorial	21012	Variable			5253
	Garbage	1761				
	utilities	59884				4202
	salaries	10506				5253
	elev. rep	3883				1471
	HVAC mtce	5253				
	ATE repair(1)	8405				3152
	Duplex repair	1051				
	Eng. Services			Eng. Svcs(6)		2101
	materials					4202
					25634.64	
Surface	-Schedule E					
Fixed	Salaries	78795	Variable	Salaries(2)		2627
	cracks/paint	5253				2101
	fuel	12607				
	rentals	315				1261
	gate security	12607				
	travel					1051
	repair acpt	17860				
	power	289				
	plug-ins	467				
	sand/urea	6304				6304
	radio/training	1208				1051
	electrical	525				
					14393.22	
Management	-Schedule F					
Fixed	Salaries(3)	82577	Variable			
	audit serv	3152				
	office eqpt rent	525				
	tel &post	4202				4202
	legal	2101				
	municpl serv fee	24184				4728
	comcutr svs					2101
	materials	2627				
	misc	6304		Misc.(5)		4728
	Prof. Dev	1051				804
	advertising					1576
	travel	3152		Travel(4)		1051
	taxes	1261			19189.21	
	insurnce	14708				
		$399,874				**$59,480**
				TOTAL FIXED +VARIABLE		**$459,354**

Note: 1. Contracted maintenance(20% savings).
2. Cross utilization of staff with Works dept.
3. Cross utilization with Town Administration.
4.Reduce frequency.

PROFORMA 1998 REVENUES

For the year ended December 31st, 1998.

Revenues	-Schedule A	aircraft mvmt		20300	24475
		Passenger E+D		33000	35500
				Low range	**Mid range**
Cash from Operations:					
	service fees				
		Landings-airline		27940	33686
		Landings-other		10581	12757
		piston landing fee	$2.00	16324	16324
		Aircraft parking		4047	4879
		general terminal fee		50000	50000
		pass. fac. chg.	$8.50	280500	301750
	rentals			88181	88181
	concession				
		Aviation fuel		23599	25387
	(1)	Cargo thruput fee		7500	7500
		Car rental spaces		24756	26631
		Restaurant		800	1000
		Advertising		4341	4670
		Vending		314	338
		Telephones		298	320
		Amusement		648	697
		car parking		25817	27773
	sales				
		Util. -Electr.		4063	4371
		Util.-Water		2106	2265
		Gasoline		1634	1757
		Misc.		448	482
	(2)	Tax rebate		25000	25000
			Sub total	$544,049	$573,000
		Less OP. Cost		($459,354)	($459,354)
		NET INCOME		$84,695	$113,646
Cash from Investments:					
		Sinking fund account			
	Begin	875469			
	End	$960,164			
		Interest	carried to 99	0.06	52528
			Total Sink fund		$1,012,693

Note 1 cargo volumes of 75,000kg charged a fee of $0.10 per kg

2 Revenue sharing agreement with MD of Peace #135 rebates corp. tax from airport.

PROFORMA 1999 EXPENSES

For the year ended December 31st, 1999

Security	-Schedule B					
Fixed	contract security	4166	Variable	repairs		271
				cfr		0
					270.5295	
Buildings	-Schedule D					
Fixed	Janitorial	21642	Variable			5411
	Garbage	1334				
	utilities	616881				4328
	salaries	108221				5411
	elev. rep	6080				1515
	HVAC mtce	5411				
	ATB repair	9657				3246
	Duplex repair	1082				
	Eng. Services					2164
	materials					4328
					26403.68	
Surface	-Schedule E					
Fixed	Salaries	81159	Variable			2705
	cracks/paint	5411				2164
	fuel	12985				
	rentals	325				1299
	gate security	12985				
	travel					1082
	repair eqpt	18396				
	power	277				
	plug-ins	502				
	sand/urea	6493		Sand/urea(1)		3246
	radio/training	1244				1082
	electrical	541				
					11578.66	
Management	-Schedule F					
Fixed	Salaries(2)	81159	Variable			
	audit serv	3246				
	office eqpt rent	541				
	tel &post	4328				4328
	legal	2164				
	municipl serv fee	24889				4870
	comptr sys					2164
	materials	2705				
	misc	6493				4870
	Prof. Dev	1082				828
	advertising					1623
	travel	3246				1082
	taxes	1299			19764.89	
	insurnce	15150				
	SUB TOTAL	**$407,975**				**$58,018**
				TOTAL FIXED +VARIABLE		**$465,992**

Note: 1. Sufficient stockpile to reduce qty. purch.
2. additioanl Cross utilation with Town Administration.

PROFORMA 1999 REVENUES

For the year ended December 31st, 1999.

Revenues	-Schedule A	aircraft mvmt		21237	24600
		Passenger E+D		32500	33500
				Low range	**Mid range**
Cash from Operations:					
	service fees				
		Landings-airline		29230	33858
		Landings-other		11069	12822
		piston landing fee	$2.00	16324	16324
		Aircraft parking		4233	4904
		general terminal fee		50000	50000
		pass. fac. chg.	$8.50	276250	284750
	rentals			88181	88181
	concession				
		Aviation fuel		23241	23956
		Cargo thruput fee		7500	7500
		Car rental spaces		24381	25131
		Restaurant		1000	1000
		Advertising		4275	4406
		Vending		309	319
		Telephones		293	302
		Amusement		638	658
		car parking		25426	26208
	sales				
		Util. -Electr.		4001	4124
		Util.-Water		2074	2138
		Gasoline		1609	1658
		Misc.		441	455
		Tax rebate		25000	25000
			Sub total	$538,853	$550,690
		Less OP. Cost		($465,992)	($465,992)
		NET INCOME		$72,861	$84,698
Cash from Investments:					
		Sinking fund account			
	Begin	1012693			
	End	$1,085,554			
		Interest	carried to 2000	0.06	60762
			less purchases		-205000
			Total Sink fund		$941,316

PROFORMA 2000 EXPENSES

For the year ended December 31st, 2000

Security	-Schedule B				
Fixed	contract security	4291	Variable	repairs	279
				cfr	0
					278.645
Buildings	-Schedule D				
Fixed	Janitorial	22292	Variable		5573
	Garbage	1889			
	utilities	63531			4458
	salaries	11146			5573
	elev. rep	6242			1560
	HVAC mtce	5573			
	ATB repair	8917			3344
	Duplex repair	1115			
	Eng. Services				2229
	materials				4458
					27195.75
Surface	-Schedule E				
Fixed	Salaries	83594	Variable		2786
	cracks/paint	5573			2229
	fuel	13375			
	rentals	334			1337
	gate security	13375			
	travel				1115
	repair eqpt	18948			
	power	285			
	plug-ins	517			
	sand/urea	6687			6687
	radio/training	1282			1115
	electrical	557			
					15269.75
Management	-Schedule F				
Fixed	Salaries	83594	Variable		
	audit serv.	3344			
	office eqpt rent	557			
	tel &post	4458			4458
	legal	2229			
	municpl serv fee	25635			5016
	computr svs.				2229
	materials	2786			
	misc.	6687			5016
	Prof. Dev	1115			853
	advertising				1672
	travel	3344			1115
	taxes	1337			20357.8
	insurnce	15604			
	SUB TOTAL	**$420,213**			**$63,102**
				TOTAL FIXED +VARIABLE	**$483,315**

PROFORMA 2000 REVENUES

For the year ended December 31st, 2000.

Revenues	-Schedule A	aircraft mvmt		20500	24600
		Passenger E+D		33500	37500
				Low range	**Mid range**
Cash from Operations:					
	service fees				
		Landings-airline		28215	33858
		Landings-other		10685	12822
		piston landing fee	$2.00	16324	16324
		Aircraft parking		4086	4904
		general terminal fee		50000	50000
		pass. fac. chg.	$8.50	284750	318750
	rentals			88181	88181
	concession				
		Aviation fuel		23956	26817
		Cargo thruput fee		7500	7500
		Car rental spaces		25131	28131
		Restaurant		1000	1000
		Advertising		4406	4933
		Vending		319	357
		Telephones		302	338
		Amusement		658	736
		car parking		26208	29337
	sales				
		Util. -Electr.		4124	4617
		Util.-Water		2138	2393
		Gasoline		1658	1856
		Misc.		455	509
		Tax rebate		25000	25000
			Sub total	$549,873	$595,360
		Less OP. Cost		($483,315)	($483,315)
		NET INCOME		$66,558	$112,045
Cash from Investments:					
		Sinking fund account			
	Begin	941316			
	End	$1,007,874			
		Interest	carried to 2001	0.06	56479
			less purchases		-40000
			Total Sink fund		$1,024,353

PROFORMA 2001 EXPENSES

For the year ended December 31st, 2001.

Security	-Schedule B				
Fixed	contract security	4420	Variable	repairs	287
				cfr	0
					287.005
Buildings	-Schedule D				
Fixed	Janitorial	22960	Variable		5740
	Garbage	1946			
	utilities	65437			4592
	salaries	11480			5740
	elev. rep	6429			1607
	HVAC mtce	5740			
	ATB repair	9184			3444
	Duplex repair	1148			
	Eng. Services				2296
	materials				4592
					28011.69
Surface	-Schedule E				
Fixed	Salaries	86102	Variable		2870
	cracks/paint	5740			2296
	fuel	13776			
	rentals	344			1378
	gate security	13776			
	travel				1148
	repair eqpt	19516			
	power	294			
	plug-ins	533			
	sand/urea	6888		Sand(1)	3444
	radio/training	1320			1148
	electrical	574			
					12283.81
Management	-Schedule F				
Fixed	Salaries	86102	Variable		
	audit serv	3444			
	office eqpt rent	574			
	tel &post	4592			4592
	legal	2296			
	municpl serv fee	26404			5166
	computr svs				2296
	materials	2870			
	misc	6888			5166
	Prof. Dev	1148			878
	advertising				1722
	travel	3444			1148
	taxes	1378			
	insurnce	16072			20968.59
	SUB TOTAL	**$432,821**			**$61,551**
				TOTAL FIXED +VARIABLE	**$494,372**

Note: 1.Sufficient stockpile on hand to defer purchase.

PROFORMA 2001 REVENUES

For the year ended December 31st, 2001.

Revenues	-Schedule A	aircraft mvmt		20500	24600
		Passenger E+D		33500	37500
				Low range	**Mid range**
Cash from Operations:					
	service fees				
		Landings-airline		28215	33858
		Landings-other		10685	12822
		piston landing fee	$2.00	16324	16324
		Aircraft parking		4086	4904
		general terminal fee		50000	50000
		pass. fac. chg.	$8.50	284750	318750
	rentals			88181	88181
	concession				
		Aviation fuel		23956	26817
		Cargo thruput fee		7500	7500
		Car rental spaces		25131	28131
		Restaurant		1000	1000
		Advertising		4406	4933
		Vending		319	357
		Telephones		302	338
		Amusement		658	736
		car parking		26208	29337
	sales				
		Util. -Electr.		4124	4617
		Util.-Water		2138	2393
		Gasoline		1658	1856
		Misc.		455	509
		Tax rebate		25000	25000
			Sub total	$549,873	$595,360
		Less OP. Cost		($494,372)	($494,372)
		NET INCOME		$55,501	$100,988
Cash from Investments:					
		Sinking fund account			
	Begin	1024353			
	End	$1,079,854			
		Interest	carried to 2002	0.06	61461
			less purchases		-161000
			Total Sink fund		$980,315

SCHEDULE OF CAPITAL REPLACEMENT DECISIONS

IMPACT ON SINKING FUND

Sinking fund account balance LOW RANGE

		1996	1997	1998	1999	2000	2001
proforma							
value est.	***year start***	$900,000	$793,161	$875,469	$1,012,693	$941,316	$1,024,353
	Int. Earne	$23,102	$47,590	$52,528	$60,762	$56,479	$61,461
	op. Inc.	($129,941)	$54,718	$84,695	$72,861	$66,558	55501
	sub tot	$793,161	$895,469	$1,012,693	$1,146,316	**$1,064,353**	**$1,141,315**
project							
MOBILE:							
1/2 ton truck			($20,000)				
Runway sweeper+plough					($155,000)		
3/4 ton truck						($20,000)	
3 ton truck+tractor+bat wing mower							($131,000)
	year end						
	Revised value	$793,161	$875,469	$1,012,693	$991,316	$1,044,353	$1,010,315
project							
Buildings:							
ATB roof rehab					($50,000)		
ATB HVAC						($20,000)	
ATB auto doors							($30,000)
	year end						
	Revised value	**$793,161**	**$875,469**	**$1,012,693**	**$941,316**	**$1,024,353**	**$980,315**
	cash from ops.						

Risks:

What if the **PASSENGER FACILITY CHARGE(PFC)** is not implemented?

If passenger counts follow the lower forecast: The airport will lose approximately $200,000 per year, every year. The airport will not be able to replace any mobile equipment nor finance any major repairs. If the sinking fund had an opening balance of $900,000 in 1996 it would end up owing the Town about $82,000 in the year 2000.
If the passenger counts follow the mid range forecast: The same ultimate outcome, assuming a $1.1 Million sinking fund balance in 1996 it would just take one year longer. The original $1.1 Million would be eroded to $15,000 by 2001 and begin borrowing from the Town coffers in 2002.

What if **COSTS ARE 15% HIGHER** than expected?

If passenger counts follow the lower forecast: The sinking fund balance would be $888,569 in the year 2001(assumes no capital investments were made during that time frame) and the largest net operating loss for any year would be $18,654(occurring in year 2001). In other words, the airport could survive for a very long time under such conditions.
If the passenger counts follow the mid range forecast: The airport would be able to make a modest contribution to the sinking fund in each year from continued operating surpluses. The sinking fund would end up at $1,387,811 in 2001 from an original value of $1.1 Million.(again assuming no capital investments were made during the time frame-even though they could be afforded.)

What if the sinking fund **STARTS AT HALF OF THE EXPECTED AMOUNT?**

If passenger counts follow the lower forecast: The sinking fund was expected to start at $900,000. If it started out with only $450,000 then the sinking fund will end the year 2001 with an available balance of $74,911 after paying for **all** of the planned major capital expenditures.
If the passenger counts follow the mid range forecast: If the sinking fund started 1997 with a balance of $ 650,000 the fund will end the year 2001 with an available balance of $249,761 after paying for all of the planned major capital expenditures.

What if the **PASSENGER FORECASTS ARE WAY OFF?**

The lowest level of passenger activity in the ten year period between 1985 and 1995 was 22,634 Enplaned and Deplaned passengers. If that number of passengers went through the airport in each year of the business planning period, there would be modest operating losses in the latter three years. If the sinking fund started 1996 with $900,000 it would end the year 2001 with $738,948(assuming no capital investments were made during the time frame-even though they could be afforded.).

What if the **AIRLINE DOESN'T WANT TO COLLECT THE PFC** for us?

The answer to this question is somewhat complex and I must start from an indirect point. The PFC based charge is a legitimate attempt to recover the cost of services provided to airport users. The amount to be charged is not capricious but is based upon a valid estimate of costs for airport services rendered. Therefore, from a common law perspective the courts should respect the validity of such a fee, in principle.

The preferred method of collecting the PFC is through a direct charge on the airline ticket. That is, a direct "user fee" which again has some validity from a legal perspective since a user can simply choose to forego the purchase if unwilling to pay such a charge. The direct charge method will have to be negotiated with the airline and there is a chance that the airline would not want to cooperate with the process. Based upon history, I believe that the airline, in this case, will accommodate the fee collection process quite willingly. However, they may, through negotiation wish to transfer some of the expected PFC revenue to other fees and charges. For example, an increased amount in landing fees, or general terminal charges. Be aware that such a shift increases the "fixed" rate of revenue (not sensitive to increases in passenger volume) and reduces the variable rate of return if passenger volumes are on the increase. This enhances the certainty of costs for the airline and improves their bottom line during periods of increased traffic. Unfortunately, in a downturn it is quite likely that the airline would challenge the revised GTF and landing fees as being "out of line" with fees charged by other airports. The net effect is that the Peace River airport would gather lesser surpluses in good times and face airline pressure to reduce the fixed fees in bad times(loses in both directions of the cycle). The pressure would be hard to resist since the alternative might be complete loss of the airline service. Now a relatively fixed revenue base does provide an advantage to the airport in that it can plan finances from a somewhat more consistent basis-if consistency is required for some reason such as capacity to repay a debt obligation. However, the premise of this business plan is to "self-finance" the airport, so such a purpose would be unplanned.

Therefore, while a compromise arrangement could be worked out, I would advise avoidance of a shift from the gross revenue collection expected from the PFC to some other type of hybridized charge. So in response to an airline request to alter the PFC fee structure, I would recommend a firm stance that the PFC should be exactly as planned, for two years. In the 1998 season, the matter would be revisited based upon actual performance to see if a "one time" rebate of GTF's or landing fees might be in order. In other words, I would offer the airlines the prospect of a refund rather than restructuring the revenue base.

To get to the main point of the question, the airline may resist the fee collection process for the reason that it places an administrative burden upon them. I would argue that such administration is quite negligible. However, if pressed in the negotiations, Peace River airport should be prepared to pay a percentage fee for the collection and remittance of PFC service. Whatever the negotiated extra amount becomes, that should be added to the proposed fee directly. That is, the net return to the airport would remain constant on a per passenger basis(ie. $8.50 + 2% collection fee=$8.67 PFC charge on ticket). I would firmly tie the collection fee to

prompt remittance of the PFC. In other words if the airline chose to "manage cash flow" by delaying payment an extra 30 days, then the entire amount would be due the airport, another thirty days and the entire amount plus an extra 2% would be due-and so on. The logic of this process is to ensure that the Peace River Airport Sinking Fund does not become a vehicle for the airlines to manage their operating cash flow. There are precedents for this concern since there was a previous time period when Canadian Airlines International delayed payment of landing fees for many, many months.

To stretch the hypothetical scenario to its limit, the airline could simply refuse to collect the PFC from passengers. There are no regulations that can force the airline to collect the PFC on behalf of the airport. However, the airport does have a right to establish whatever fees and charges it may deem appropriate against the airline for use of the airport. In the absence of an airline agreement to collect the fee from passengers, the Peace River airport could simply make a demand for payment from the airline (based upon estimated passenger volumes if necessary) and proceed with the normal unpaid debt collection processes. I would not suggest any attempt to collect PFC charges in any way similar to the Vancouver Airport direct collection method. This method would involve prohibitive costs at Peace River and is highly objectionable to passengers.

What if we decided to **CHARGE THE PFC ONLY AND DIDN'T IMPLEMENT ANY OF THE OTHER** revenue initiatives?

The airport could survive. The initial operating losses would take longer to repay and the airport would not be in a net break even position until the end of 1999. At the end of 2001 the five year total surplus from operations would be $53,768.

YEAR	OPERATING SURPLUS/DEFICIT	**NOTES**
1996	($ 129,941)	
1997	$ 37,894	
1998	$ 51,395	
1999	$ 39,361	Net break even.
2000	$ 33,058	
2001	$ 22,001	Cumulative surplus **$53,768**

What if **the PFC reduces demand?**

The PFC represents a fare increase and therefore could actually cause a reduction in the total demand for airline service. Based on study of the effects on airline price reductions to total passenger volumes it can be inferred that for each $1.00 increase in price, 180 people per year would be induced to avoid air travel at Peace River. Therefore, all other things being held equal, approximately 3,020 people per year may no longer use the airport just because of the PFC. So if the PFC were introduced in 1995, instead of 29,000 passengers using the airport the demand level would have been 26,000.

The airport would be well able to sustain both capital and operating expenses at that level, the worst case scenario was established at a passenger demand level of 24,000 passengers per year. However, it is an over simplification to suggest that a price increase will automatically induce a reduction in demand. First, there is a delayed reaction, that is people will not instantly alter their behaviour. Second, there is the price elasticity of demand to consider. That is, of the total number of passengers how many will actually alter their behaviour based upon ticket price? I suggest that (expense account) business and government travellers are less price sensitive than tourist traffic. Since the Business/Government sector drives the Peace River Airport market, the effect is expected to be less than the 3,000 indicated above. In addition, the majority of passengers do not originate in Peace River but in more southerly locations. These people are somewhat less inclined to drive northward than Peace River residents would be in driving southwards. That observation is bolstered by the winter driving conditions that prevail for at least four months of the year where road travel involves an enhanced level of hazard. Third, the underlying Peace River economy is expanding, that of itself increases the demand for air service and can offset the effects of a price increase. Fourth, the potential for competitive entry by another airline will likely alter the entire ticket price structure in a downwards direction. Such a change will increase passenger demand and again completely offset the effects of a PFC. There is no better time to introduce a new fee than at the point where the demand level is beginning to increase.

What if something **really major** has to be replaced?

The sinking fund can handle just about any eventuality. Bear in mind that the capital replacement schedule contained within this document only sets out a list of likely items. If something "unplanned" were to happen, the priorities of management would change and less urgent things would be put off until they could be afforded. Airport operations are expected to earn surpluses in good years that will help grow the sinking fund. On its own, the fund will earn money from investments that can be accumulated to finance major capital outlays. However, the sinking fund is quite dependent upon the original Transport Canada contribution. If the original contribution from Transport Canada is within the range anticipated by airport management and the Town Administration, the airport "sinking fund" can accommodate quite a few unplanned events. If the sinking fund starts out at a much lower level, then the airport will have to be creative in postponing equipment replacements and then using the "half life" replacement method, explained elsewhere, to really avoid the major costs. This action will allow the sinking fund to grow towards the originally conceived comfort level that would be able to finance the really major expenses.

What about **replacing the Air Terminal Building** in the next ten or so years?

Let us suppose that $1 Million was required to replace the existing air terminal building at some future point. That cost would completely deplete the entire sinking fund if no planning was to occur. I suggest that there would be quite a bit of advance notice of such a need. So the first thing a prudent manager would do would be to find some way to "afford" the future expense. The most likely vehicle would be to save up a little by avoiding some capital replacements over a period of time. The sinking fund can earn about $50,000 per year in interest. A second avenue would be to temporarily alter the PFC, a $1.00 increase would earn approximately $30,000 per year. The airport is also expected to earn about $70,000 per year from operations to help finance capital replacements. It would therefore take approximately six years of earnings and a $1.00 PFC increase to finance a $1 Million expense, without resort to the principal amount within the sinking fund. There could be alternative combinations where the manager could choose to build earlier than the six years indicated above by dipping into the principal amount and using subsequent earnings to replenish the fund.

What about **Runway and Landing Light repairs** and replacements?

The airport is scheduled for a runway repair project, within current Transport Canada plans, so the future need is not expected for quite some time. Ideally the Peace River airport should consider receiving the funds for the runway repair project that is already designed into the sinking fund; and, then deferring the actual repairs for as long as possible(for a gain in interest revenue within the fund). However, there will come a time when major airside works will be needed and the sinking fund is not designed to accommodate major airside projects. The Federal Government actually recognises this problem and has developed a grant program, called ACAP, for Airside safety related projects. In other words, the airport can obtain **free money** for such projects provided a good case can be made for the merits of the project. To be eligible for the program, the airport must have completed the terms of the contribution agreement with Transport Canada and used up all of the original contribution funds.

What if the Federal Government **orders us to reintroduce** Crash-Fire- Rescue services?

This concern is quite valid. There is a good change that the government will introduce regulations that increase the overhead burden at the airport in some area. For example, new rules on CFR services. The airport first has a strong case for requiring the Government to fund or make a financial contribution to such an initiative. Secondly, the airport can "recover" any new costs through altered fees, probably to the airline users in this case. Third, the airport can mitigate costs through strategic manouvres such as training existing staff as auxilliary firefighters; basing a unit of the Town or Regional fire crews at the airport during certain time periods; or, developing an electronic call out system for volunteer fire crews.

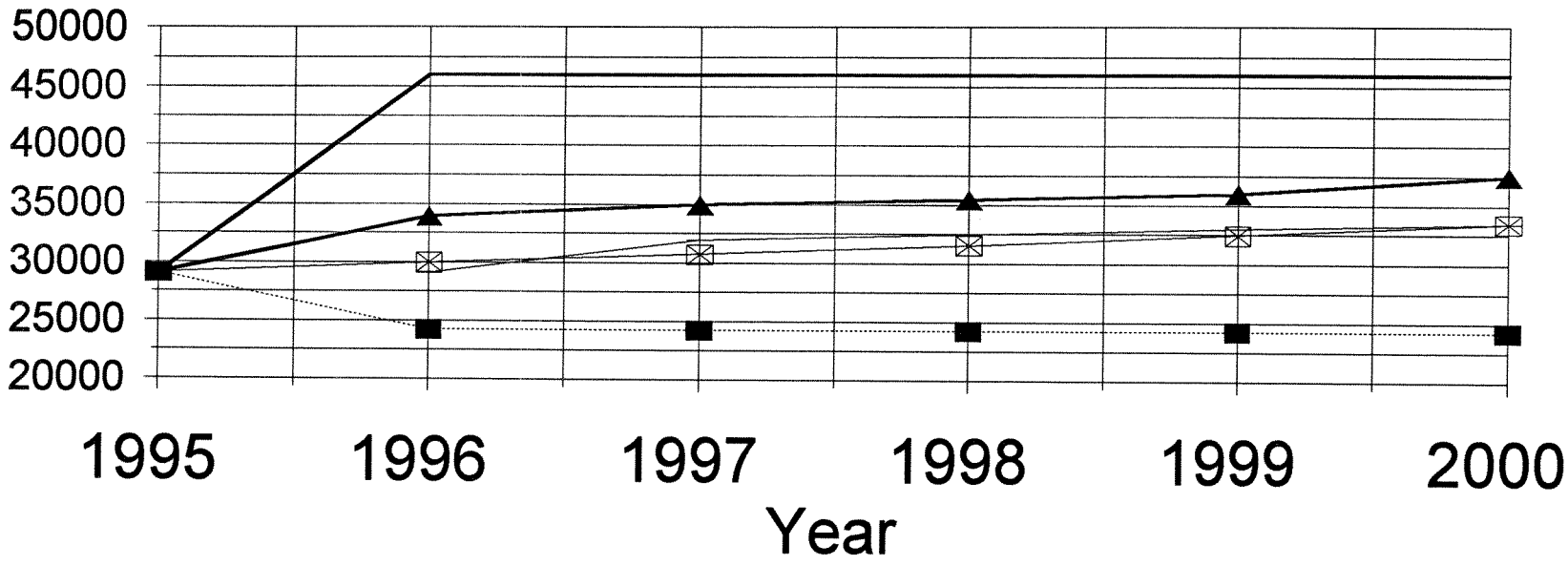
Forecasts:

A general note about all forecasts are in order. First, no one has ever developed an absolutely reliable method of predicting the future- in any endeavour. All aviation forecasts are based upon comparison with historical results, or with reference to "bellweather" historical results. Therefore, all have an obvious flaw that can be explained by analogy. Consider that the front windshield of your car was completely blacked out and the only way for you to gain information about the road was through your rear view mirror. Provided the road was fairly straight, you could navigate down the road for a time using only the rear view mirror. However, eventually you would find a curve and hit the guard rail. Based upon that result you would alter course and again, assuming the road was fairly straight you could continue until the next curve occurred. The aviation business involves a continual series of curves and looks much like the classic sine wave form.

To minimize the risk of being terribly wrong in the forecast, I have chosen to use all of the available forecasting tools. In this way, a "most probable" outcome can be discerned from the convergence of several forecasts along a series of possible outcomes. These results and a brief explanation of the methodologies are detailed in Note 12. The graphs on the next few pages show you all of the predictions and it is plain to see where the "middle of the road" is expected to be. All of the financial results are predicated on these forecasts. It would not matter if actual passenger volumes end up being dramatically better than the projections. This would just put extra money into the sinking fund. A far greater concern is if passenger volumes are far lower than predicted. For that reason, I have developed a "worst case" scenario that doesn't really have much connection to a forecasting technique. This worst case scenario simply assembled the worst enplaning and the worst deplaning month from each of the last five years, including a period when a strike suspended most flight activity, and made up a year of "worst months." It is quite unlikely that such a series of 24 unlucky events would occur in any one year, but to plan for such an eventuality serves to demonstrate the strength of the Peace River Airport financial foundation.

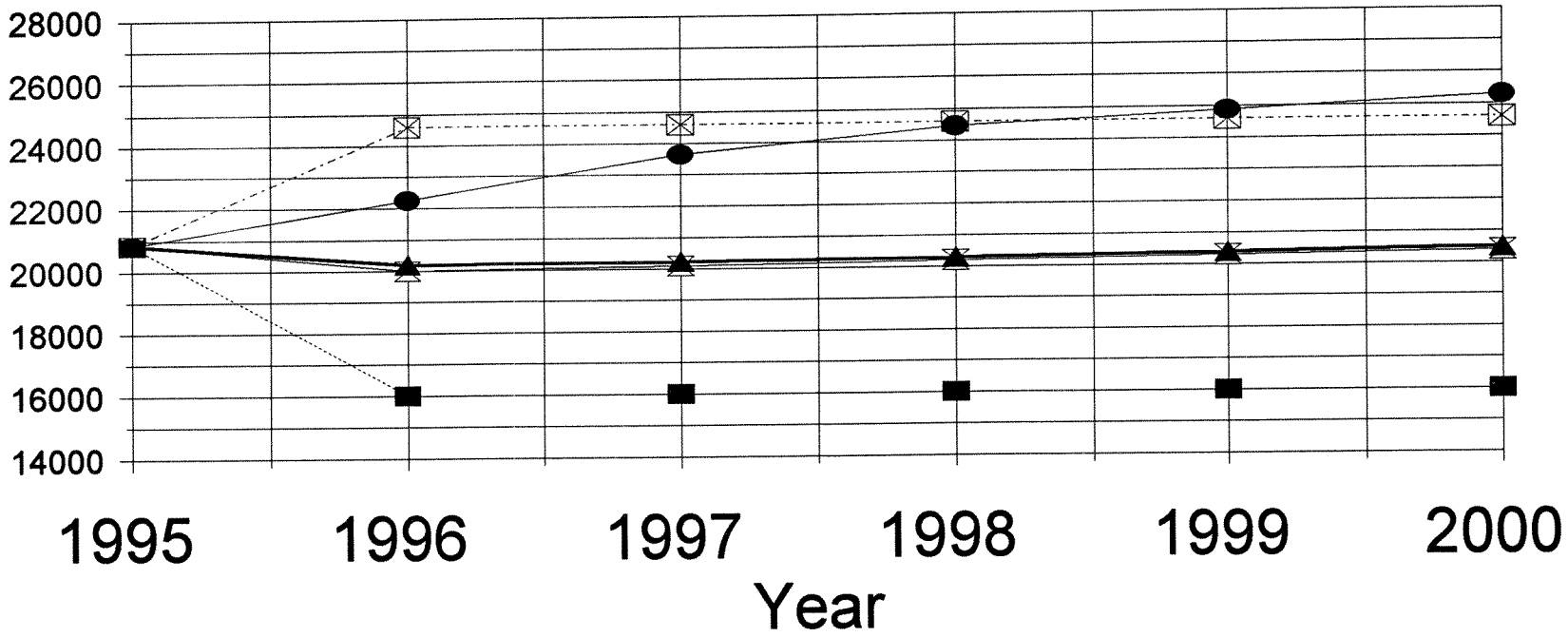
All Forecasts

Passengers



All Forecasts

Aircraft



Management and Governance:

MANAGEMENT:

The Peace River Airport is presently managed through the Town of Peace River Administration. My review, and all accounts, indicate that the present arrangement is quite efficient and has many advantages over alternative management concepts. For example, an independent Local Airport Authority(LAA) would not be able to cross utilize staff with the town departments. Nor would an LAA be able to share accounting, by-law enforcement, payroll and administrative services with the Town. There are also some tax advantages to remaining as a component of Town operations. Other airports that have adopted the LAA concept have usually done so because of a power sharing arrangement with two or more authorities. That is not the case at Peace River. It is noteworthy that Dawson Creek airport, one with a very similar history and passenger profile, operates quite successfully as a department of the town.

An area of future concern is that the Peace River Airport management now has no readily accessible source for assistance on technical matters. Transport Canada maintained a group of technical specialists able to respond to Peace River airport problems, at no charge. Commercial engineering firms are not well versed in the aviation field, and this is especially true for airside electrical skills. An alternative source of expertise must be found so that the Peace River airport is not burdened with having to develop such skills "in-house". A most likely avenue for low/no cost technical assistance would be the neighboring hub airports at Calgary and Edmonton. The Peace River Airport may also be able to offer invaluable experience to interns and trainees from the hub sites. So there is the prospect of reciprocity in forging a technical alliance with a hub airport.

GOVERNANCE:

The responsibility for management of the Peace River Airport has traditionally been held by the Town Council of Peace River. **One would be hard pressed to find a good reason to change** what has been a successful arrangement, based upon results. However, there have been proposals for advisory groups, with more regional representation, to participate in the governance of the Peace River Airport. These arguments are that outlying areas contain stakeholders that wish to have a voice in the management of the airport. From the "public enterprise-not for profit/not subsidized" viewpoint that this business plan is based upon, there is no compelling reason to alter the existing reporting arrangements. The airport is being operated like a business where the town of Peace River assumes certain risks and liabilities in return for the benefit of access to markets. Financial risk is the only valid measure of a stakeholder. Therefore, I would suggest that unless a "stakeholder" participates financially, then they should not interfere with the entity that is managing the airport.

NOTES TO FINANCIAL ASSUMPTIONS:

1.REVENUE PER PASSENGER COMPUTATIONS:

Sources: Audited financial statements 1988-1995 and actual enplaned and deplaned passenger figures(Official Transport Canada Statistics not available-estimates only).

Results:

year	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
Service fees (rev per acft)	n/a	n/a	2.679	2.903	2.423	2.259	2.103	2.374
Rentals	1.907	1.836	1.670	2.536	2.186	3.471	3.251	3.034
Conces-sions	1.385	1.180	1.123	1.326	0.896	1.698	2.575	2.9
Sales	0.122	0.135	0.104	0.421	0.170	0.392	0.326	0.333

Therefore, averages are:

Service fees	$ 2.457 *per aircraft movement*
Rentals	$ 2.486 *per passenger*
Concessions	$ 1.635 *per passenger*
Sales	$ 0.250 *per passenger*

City of Edmonton-Muni PFC=5.20 per passenger E or D.(airport bylaw#9952)

2. AVERAGE MAINTENANCE COST COMPUTATIONS:

Source: Audited Financial statements 1988-1995.(Doane Raymond)

Cautionary Note: Line item classification not entirely reliable due to flex budgeting techniques.

	Eight Year Total Cost	***Average Annual Cost***
Building Structures	$1,195,608	$149,451
Surface Structures	$1,355,18	$169,397
Management and Admin.	$1,181,027	$147,628

3. EQUIPMENT REPLACEMENT SCHEDULE AND VALUATION:

Sources: Sterling Heavy Equipment Appraisals for present and new replacement value.
Airport Manager on replacement priority and estimated year of replacement.

Similar to Town Equipment

Type	*Year*	*Utilization*	*Present Value*
GMC pickup	1992	61,400 km.	$8,875-10,325
Ford pickup	1993	40,600 km.	$9,750-11,275
International Dump Truck(sander).	1980	699 hours	$10,500-12,500
International 4X4 Dump Truck(Plough)	1982	1580 hours	$22,500-27,500
John Deere #544 Loader	1978	8135 hours	$36,500-39,500
Ford utility tractor	1980	2573 hours	$14,500-17,500
Ford utility tractor(sweeper)	1982	642	$2,250-2,575
Champion #565 grader	1971	9628 hours	$7,500-9,500

Equipment Unique to Airport Operation

Type	*Year*	*Utilization*	*Present Value*
VOHL snowblower	1983	538 hours	$67,500-74,500
Richard runway sweeper/blower	1984	1643 hours	$35,500-45,500
Custombuilt line painter/sprayer	1973	end of life span	$1,750-2,250
19 foot FRINK bi-directional plough	1979	unknown	$27,500-31,500

4. HALF LIFE REPLACEMENT SCHEDULE:
Source: Sterling Heavy Equipment Appraisals for new replacement value

Half life replacement schedule

Type	New Cost	Cost to Airport(approx age)
GMC pickup	$19,000	$9,500(4 years)
Ford pickup	$21,000	$10,500(4 years)
International Dump Truck(sander).	$57,000	$28,500(8 years)
International 4X4 Dump Truck(Plough)	$117,000	$58,500(7 years)
John Deere #544 Loader	$148,000	$74,000(7 years)
Ford utility tractor	$59,000	$29,500(5 years)
Ford utility tractor(sweeper)	$24,500	$12,250(7 years)
Champion #565 grader	$157,000	$78,500(6 years)

Total cost of all replacements $301,250 using half life method.

5.PUBLIC PAID PARKING:

Revenue estimates based upon Pro Forma estimate prepared by Transport Canada in 1994/5

6. TAX REBATE:

Source: M. D. of Peace No. 135

1994 tax assessment comprised as follows:

Residences	$ 1,112.24
GILT	$ 4,859.52
Farmland	$ 391.87
Corporate	$20,090.93
Total	$26,454.56

7. CARGO THROUGHPUT FEE:

Source: Aviation Statistics Centre-Statistics Canada

Enplaned and deplaned cargo(KG)29/9/95. For the year 1994.

YMM 164,938

YYE 123,024
YXJ 433,700
YOJ 40,267
YOP 47,141
YPE 74,651

8. FUEL CONCESSION FEE INCREASE.

Federal Authorities note that YPE fuel charges are 2% below other Transport Canada airports.

Turbo fuel rate- $0.00473 per litre
Avgas fuel rate- $0.0497 per litre

Current revenue $29,000 per annum(Source: Don Robertson).

9. TURBINE LANDING FEE INCREASE

Federal Authorities note that YPE landing charges for turbine aircraft are 2% below other Transport Canada airports. Lowest current charge-$7.98 (source-Linda Nuefeld)

Current revenue $45,000 per annum(Source: Don Robertson).

10. LANDING FEE-NON TURBINE AIRCRAFT.

City of Edmonton charges a landing fee of $1.65 per aircraft-regardless of leaseholding or any other consideration.(bylaw#9952)

There were approximately 4,476 landings by piston engined aircraft in 1994(source:Don Robertson).

Rationale: A night landing involves a direct expense for powering up the airport lighting system that would not have been otherwise necessary. Certain other additional costs are involved in winter operations that include runway friction testing, and snow removal.

11. AIRCRAFT PARKING FEES:

Current revenue $6,200(1994) {Source:Don Robertson}

It is proposed that the entire fee structure be revamped so that aircraft parking for durations of less than six hours involves collection of a fee. The existing pay parking machine can serve this purpose without major modifications.

Edmonton Municipal Airport fees and charges:

0-2000kg	5.82
2000-5000	6.98
5000-10000	9.19
10000-30000	17.25
-60000	26.89
60000+	40.36

12. FORECASTS AND METHODOLOGY

Transport Canada(Policy and Coordination group) last published official SHORT RUN forecasts in 1994 but did not include Peace River in this last publication. The method employed by this group was econometric modelling. This technique infers anticipated growth through comparison with a basket of leading indicators (for example Gross Domestic Production-GDP). The passenger growth forecasts for all the major airports surrounding Peace River are depicted below and are consistent across the area (therefore Peace River could expect similar results using that methodology.). The long range projection, beyond 1998 was forecast at 2.9%.

Econometric Modelling

Site Year	1995	1996	1997	1998
Edmonton Muni	1.8%	2.9%	2.2%	2.4%
Fort St. John	2.0%	3.3%	2.4%	2.8%
Fort McMurray	2.1%	3.1%	2.5%	2.7%
Grande Prairie	2.1%	3.3%	2.6%	2.8%

To put this 1994 forecast into perspective, the current GDP is just slightly below nuetral (no growth)The consumer price index is currently showing a growth of 1.3% and Industrial Production is 2.4%. The International Civil Aviation Organization anticipates global domestic passenger market growth at 5%. All of the Northern airports exceed the anticipated growth expected at Edmonton and the maximum variation between any of the sites is 0.2%. An inference can therefore be drawn that Peace River airport would lie somewhere within these ranges. (1996 growth at 3.1-3.3%; 1997 growth at 2.4-2.6%; and 1998 growth at between 2.7-2.8%).

Peace River(Econometric Forecast)

Year	1996	1997	1998	1999	2000

Peace River(Econometric Forecast)					
E+D PAX	30000	30750	31580	32500	33500

A second method to forecast passenger volumes is to utilize basic mathematical trend projections. These methods are proven reliable in the very short run. The results from two sets of computations are depicted below:

Peace River(Mathematical Forecast)					
E+D PAX	1996	1997	1998	1999	2000
Linear Regression	32000	32500	33000	33500	34000
Exponential Smoothing	34000	35000	35500	36000	37500

A third method is "bracketing" where the historical maximum and minimum values are expected to provide an indication of the general range of possible outcomes in the future.

Peace River(Historical Hi/Lo)		
1987	Low	23,000 E + D PAX
1994	Low	26,000 E + D PAX
1985	High	34,000 E + D PAX
1990	High	46,000 E + D PAX

By this method the anticipated floor level of the cycle would be 24,500 passengers per annum and the ceiling level of the cycle would be 40,000 passengers.

Another conservative method of forecasting the "bottom" is to aggregate the lowest enplaning results for any month in a five year period with the lowest deplaning results for any month in the same period.

Peace River(5 year worst results)			
Worst	**Enplaning**	**Deplaning**	**Total**
JANUARY	1086	1073	2159
FEBRUARY	1022	1066	2088
MARCH	1202	1227	2429
APRIL	1056	946	2002
MAY	1064	1083	2147
JUNE	1068	1119	2187
JULY	486	408	894
AUGUST	812	794	1606
SEPTEMBER	1060	1025	2085
OCTOBER	1122	1066	2188
NOVEMBER	1132	1097	2229
DECEMBER	1113	1133	2246
		ANNUAL TOTAL	**24,260 E+D PAX**

13. Competitive Rate Comparison:

Parking Charges-motor vehicles comparative rates:

Fort McMurray	$0.75 per hour to a $3.00 per day Max. $12.00 per week.
Fort St. John	$0.50 per hour to a $3.00 per day Max.
Grande Prairie	$0.50 per hour to a $3.00 per day Max. $18.00 per week.
Lethbridge	$0.65 for first hour, $0.55 per hour thereafter to a $5.35 daily max.
Yellowknife	$0.75 per hour to a daily max. of $3.75.

14. Economic Indicators:

The Economist Magazine(09 March 1996) forecasts consumer price increases for:
Canada at 2-2.3% for 1997.

Vancouver Airport Authority forecasts inflation at:
2.2% in 1996; 2.4% in 1997; 2.3% in 1998; and, 2.5% in 1999.

15. Comparison with other small airports:

This data was published by the Roads and Transportation Association of Canada in "Success Criteria for Small Airports" {ISBN#0-919098-45-2}. A cautionary note is ofered that direct comparison is difficult due to differing operating environments for the various airports.

PROFORMA REVENUE & EXPENSE SUMMARY

FOR THE YEARS ENDED DECEMBER 31st, 19xx

Worst case

1996	Operating Revenue	$343,189
	Operating Cost	($473,130)
	Net operating income/deficit	($129,941)
1997	Operating Revenue	$440,407
	Operating Cost	($458,165)
	Net operating income/deficit	($17,758)
1998	Operating Revenue	$446,447
	Operating Cost	($459,354)
	Net operating income/deficit	($12,907)
1999	Operating Revenue	$446,834
	Operating Cost	($465,992)
	Net operating income/deficit	($19,158)
2000	Operating Revenue	$446,687
	Operating Cost	($483,315)
	Net operating income/deficit	($36,628)
2001	Operating Revenue	$446,687
	Operating Cost	($494,372)
	Net operating income/deficit	($47,685)
	Cumulative Losses	**($264,077)**

PROFORMA 1996 REVENUES

For the year ended December 31st, 1996.

Worst case

Revenues	-Schedule A	aircraft mvmt		20000
		Passenger E+D		24260
				Low range
Cash from Operations:				
	service fees			
		Landings-airline		27527
		Landings-other		10424
		Aircraft parking		3987
		general terminal fee		50000
	(1)	pass. fac. chg.	$8.50	103105
	rentals			88181
	concession			
		Aviation fuel		17349
		Car rental spaces		18199
	(4)	Restaurant		0
		Advertising		3191
		Vending		231
		Telephones		219
		Amusement		476
	(3)	car parking		14234
	sales			
		Util. -Electr.		2987
		Util.-Water		1548
		Gasoline		1201
		Misc.		329
			Sub total	$343,189
		Less OP. Cost		($473,130)
		INCOME/LOSS FROM OPS.		($129,941)
Cash from Investments:				
		Sinking fund account		
	Begin	900000		
	End	$770,059		
		Interest carried to 97	0.06	$23,102
		Total Sink fund		$793,161

PROFORMA 1997 REVENUES

For the year ended December 31st, 1997.

Worst case

Revenues	-Schedule A	aircraft mvmt		20100
		Passenger E+D		24260
				Low range
Cash from Operations:				
	service fees			
		Landings-airline		27665
		Landings-other		10476
	(1)	piston landing fee	$2.00	16324
		Aircraft parking		4007
		general terminal fee		50000
		pass. fac. chg.	$8.50	206210
	rentals			88181
	concession			
		Aviation fuel		17349
		Car rental spaces		18199
		Restaurant		500
		Advertising		3191
		Vending		231
		Telephones		219
		Amusement		476
		car parking		18979
	sales			
		Util. -Electr.		2987
		Util.-Water		1548
		Gasoline		1201
		Misc.		329
			Sub total	$440,407
		Less OP. Cost		($458,165)
		NET INCOME		($17,758)
Cash from Investments:				
		Sinking fund account		
	Begin	793161		
	End	$775,403		
		Interest carried to 98	0.06	47590
		less purchases		($20,000)
		Total Sink fund		$802,993

PROFORMA 1998 REVENUES

For the year ended December 31st, 1998.

Worst case

Revenues	-Schedule A	aircraft mvmt		20300
		Passenger E+D		24260
				Low range
Cash from Operations:				
	service fees			
		Landings-airline		27940
		Landings-other		10581
		piston landing fee	$2.00	16324
		Aircraft parking		4047
		general terminal fee		50000
		pass. fac. chg.	$8.50	206210
	rentals			88181
	concession			
		Aviation fuel		17349
	(1)	Cargo thruput fee		7500
		Car rental spaces		18199
		Restaurant		800
		Advertising		3191
		Vending		231
		Telephones		219
		Amusement		476
		car parking		18979
	sales			
		Util. -Electr.		2987
		Util.-Water		1548
		Gasoline		1201
		Misc.		329
	(2)	Tax rebate		25000
			Sub total	$446,447
		Less OP. Cost		($459,354)
		NET INCOME		($12,907)
Cash from Investments:				
		Sinking fund account		
	Begin	802993		
	End	$790,086		
		Interest carried to 99	0.06	48180
		Total Sink fund		$838,266

PROFORMA 1999 REVENUES

For the year ended December 31st, 1999.

Worst case

Revenues	-Schedule A	aircraft mvmt		21237
		Passenger E+D		24260
				Low range
Cash from Operations:				
	service fees			
		Landings-airline		29230
		Landings-other		11069
		piston landing fee	$2.00	16324
		Aircraft parking		4233
		general terminal fee		50000
		pass. fac. chg.	$8.50	206210
	rentals			88181
	concession			
		Aviation fuel		17349
		Cargo thruput fee		7500
		Car rental spaces		18199
		Restaurant		1000
		Advertising		3191
		Vending		231
		Telephones		219
		Amusement		476
		car parking		18979
	sales			
		Util. -Electr.		2987
		Util.-Water		1548
		Gasoline		1201
		Misc.		329
		Tax rebate		25000
			Sub total	$446,834
		Less OP. Cost		($465,992)
		NET INCOME		($19,158)
Cash from Investments:				
		Sinking fund account		
	Begin	838266		
	End	$819,108		
		Interest carried to 2000	0.06	50296
		less purchases		-205000
		Total Sink fund		$664,404

PROFORMA 2000 REVENUES

For the year ended December 31st, 2000.

Worst case

Revenues	-Schedule A	aircraft mvmt		20500
		Passenger E+D		24260
				Low range
Cash from Operations:				
	service fees			
		Landings-airline		28215
		Landings-other		10685
		piston landing fee	$2.00	16324
		Aircraft parking		4086
		general terminal fee		50000
		pass. fac. chg.	$8.50	206210
	rentals			88181
	concession			
		Aviation fuel		17349
		Cargo thruput fee		7500
		Car rental spaces		18199
		Restaurant		1000
		Advertising		3191
		Vending		231
		Telephones		219
		Amusement		476
		car parking		18979
	sales			
		Util. -Electr.		2987
		Util.-Water		1548
		Gasoline		1201
		Misc.		329
		Tax rebate		25000
			Sub total	$446,687
		Less OP. Cost		($483,315)
		NET INCOME		($36,628)
Cash from Investments:				
		Sinking fund account		
	Begin	664404		
	End	$627,776		
		Interest carried to 2001	0.06	39864
		less purchases		-40000
		Total Sink fund		$627,640

PROFORMA 2001 REVENUES

For the year ended December 31st, 2001.

Worst case

Revenues	-Schedule A	aircraft mvmt		20500
		Passenger E+D		24260
				Low range
Cash from Operations:				
	service fees			
		Landings-airline		28215
		Landings-other		10685
		piston landing fee	$2.00	16324
		Aircraft parking		4086
		general terminal fee		50000
		pass. fac. chg.	$8.50	206210
	rentals			88181
	concession			
		Aviation fuel		17349
		Cargo thruput fee		7500
		Car rental spaces		18199
		Restaurant		1000
		Advertising		3191
		Vending		231
		Telephones		219
		Amusement		476
		car parking		18979
	sales			
		Util. -Electr.		2987
		Util.-Water		1548
		Gasoline		1201
		Misc.		329
		Tax rebate		25000
			Sub total	$446,687
		Less OP. Cost		($494,372)
		NET INCOME		($47,685)
Cash from Investments:				
		Sinking fund account		
	Begin	627640		
	End	$579,955		
		Interest	carried to 2002 0.06	37658
			less purchases	-161000
			Total Sink fund	$456,613