

**Victoria Airport Authority
Annual Report**



2001





Victoria Airport Authority Board of Directors



(From Left to Right)

Carl Kuhnke; Andrew MacGillivray; Vicki Kuhl; Graham Ross; Gordon Denford; Alan Peterson (Chair); Richard Paquette (CEO); Bob Skene; Linda Petch; Geoff Young; John Nicas; Bob McLaren; Mervyn Lougher-Goodey



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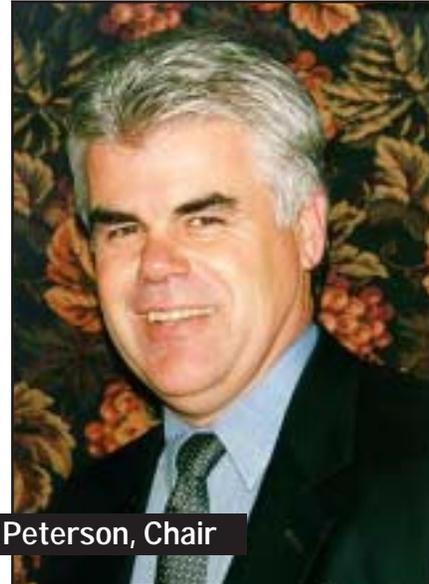
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Message from the Chair

It gives me great pleasure to provide my first report as the Chair of your Airport Authority. In making this report it is appropriate that I comment on both the past year and what I see going forward into 2002.

Three long serving Board Members retired at the end of 2001, Des Easthom, a Sidney Nominee, Bob McLaren, the Central Saanich Nominee, and Graham Ross, a North Saanich Nominee. On behalf of the Authority and the community, we thank these Directors for their dedication and overall contribution.



Alan Peterson, Chair

By any measure, 2001 was both interesting and challenging for airport authorities in Canada. Events in other parts of the continent brought home the fact that the air travel industry in this country is vulnerable to dramatic and unexpected changes; at the time of writing this report, the full impact of those changes were still being felt. We are now operating in an environment marked by rapid change and considerable uncertainty; all of this requires us to be flexible and innovative in our approach to issues, while maintaining full confidence in our future.

Over the past year the ongoing Air Terminal Building expansion remained on budget and on schedule. Your Board is pleased with the results, and I know you will agree with me that the completed parts of the new Terminal are both exciting and functional. Due to additional space requirements for new security equipment, we are now reassessing the final phase of the project involving the Departures Area. Once a decision is made and the Departures Area of the Terminal completed, Victoria will essentially have a brand new airport. I am particularly proud of our progress on this project.

No report from your Chair would be complete without a comment on the perennial issue of airport rents. We continue to work with our other airport partners, through the Canadian Airports Council, on this issue. Some progress has been made in this past year; the Minister of Transport announced in December that a Rent Review Task Force had been formed and a review of rents paid by Canadian Airports is now underway. Victoria continues to take a leadership role on this issue. I am optimistic that once the rent review is complete, we will see significant rent relief. This has been a long and frustrating process for all involved; however, it would appear that we are now closer to the end than to the beginning.



We are also providing input to Government on a variety of new initiatives announced in 2001 that will impact your Airport Authority and the air travelling public. The new Aviation Security Tax is an example; we have made representations to the Government of Canada concerning the amount of the tax and its negative impact on an airport such as Victoria, which is primarily geared to short-haul trips. We have suggested some alternatives to the amount of the tax and have invited other members of the community to do likewise.

We are also making representations to Government with respect to the proposed Canadian Airports Act, which is expected to come into law late this year or early 2003. We are concerned about any changes that could affect the composition of the Board of the Victoria Airport Authority; it being our view that the present Board make-up comprised of Directors from a wide variety of nominators serves our community very well.

On the development side, we continue to work with a number of interested parties on new initiatives, particularly in the aviation services sector, that will result in further development of airport lands. We are fortunate in having a good working relationship with our neighbouring municipalities, North Saanich and Sidney, which has allowed us to address common infrastructure and transportation issues. The Authority remains committed to being an active partner with its neighbours in tackling and resolving common problems.

Looking forward, I feel confident and excited about the future of the Victoria Airport Authority. Steps we take this year to put the Authority on a stronger financial footing, progress on the rent issue, completion of present phases of the Air Terminal Building and a decision on the final phase will mark some of our accomplishments in 2002.

In closing, I very much appreciate the hard work and dedication of my fellow Board members, the CEO, Richard Paquette, the management and all of the staff at the Victoria Airport Authority. On behalf of the Board and staff of the Authority, we are grateful for the community support we continue to receive in our efforts to operate a successful airport for Southern Vancouver Island.

Respectfully submitted.

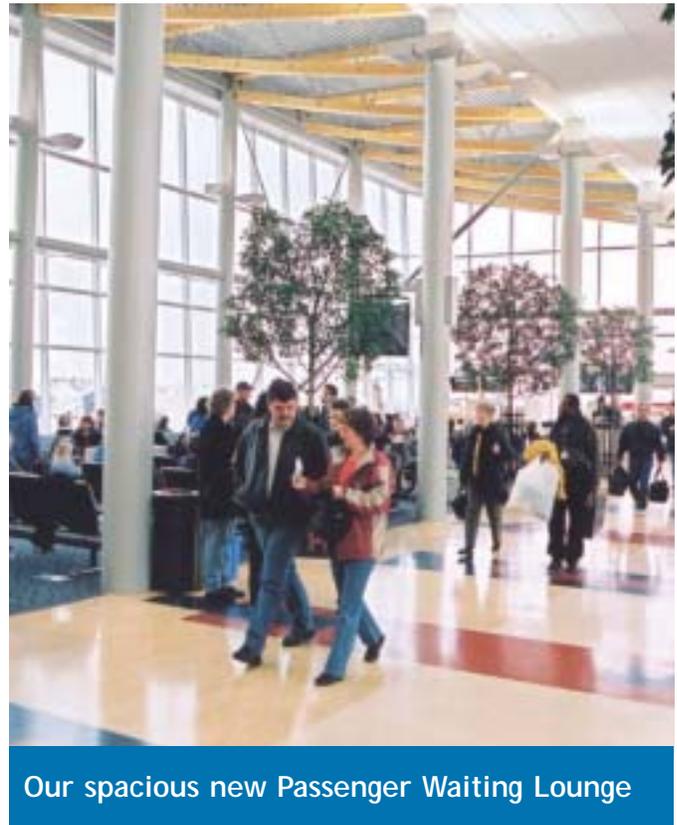
Alan J. Peterson
Chair



2001 Off to a Strong Start

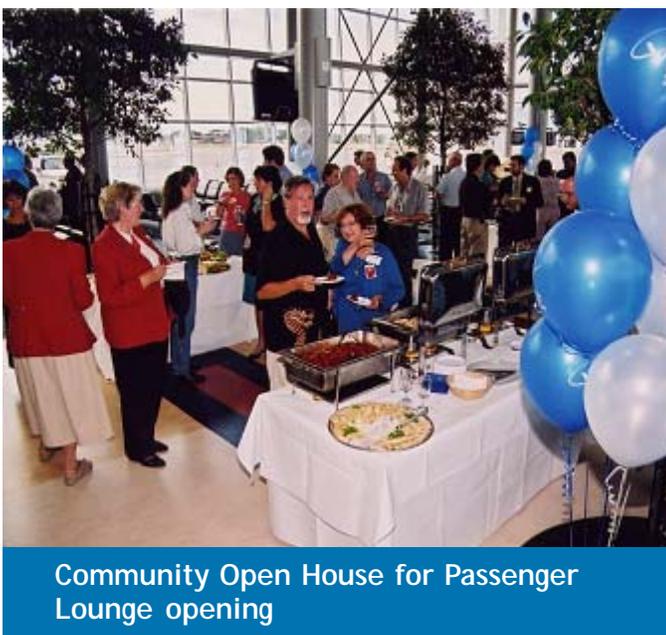
Victoria International Airport saw 2001 off to a strong start. Highlights of the year included the introduction of new airline services, the opening of the Terminal Building's Passenger Waiting Lounge and new Arrivals Area. Passenger activity also increased steadily throughout the year and by August levels were up by 7.6% compared to the same time in 2000.

The good news included Air Canada's continued operation of its daily flight to Toronto and an additional departure for the peak summer season. Air Canada Regional also added two daily non-stop jet flights to Calgary. Canada 3000 started the year with its most extensive winter charter schedule ever, and followed up with a flight to Toronto for the summer season. Pacific Coastal's service to Vancouver's South Terminal continued to grow in popularity offering a competitive alternative to our major carrier.



Our spacious new Passenger Waiting Lounge

By the end of August 2001, passenger levels were up 7.6% compared to 2000



Community Open House for Passenger Lounge opening

WestJet added an additional flight to their nonstop service to Edmonton, Calgary, Kelowna and Prince George. WestJet's eastern expansion also offered more destinations to their route network. SkyWest Airlines - operating as United Express - introduced service between Victoria and Seattle. Horizon Air continued to serve Victoria from Seattle with the same number of daily flights as the year prior and appeared to be unaffected by the new competition.

By the middle of 2001, the North American and world economies were faltering, and airlines were feeling the effect as losses began to mount. Victoria was seemingly not affected until September 11th.



September 11th

The events of September 11th took terrorism to a level never before imagined. When the United States closed its airspace on September 11th, the Victoria Airport team immediately activated plans to handle up to twelve 747-400 aircraft. Victoria was ready to accommodate the passengers that Vancouver could not handle. Although we were not called upon to help, we were prepared to do our part along with the other Canadian communities that distinguished themselves on that day.

In October, three key members of the Authority's management team received official commendations from the R.C.M.P. in recognition of their professionalism during the events of September 11th.

September 11th was a blow to an industry already struggling. After three days of total shutdown the system began to open, but it took a week before operations returned to normal. The repercussions on the airline industry were felt in Victoria, in part, through the bankruptcy of Canada 3000, and the withdrawal of SkyWest from our market. Air Canada and Horizon also reduced capacity in the wake of the events of September 11th. On a positive note, WestJet resumed their fall schedule of flights without any adjustments, and by year-end had increased their frequency from five to seven daily departures.

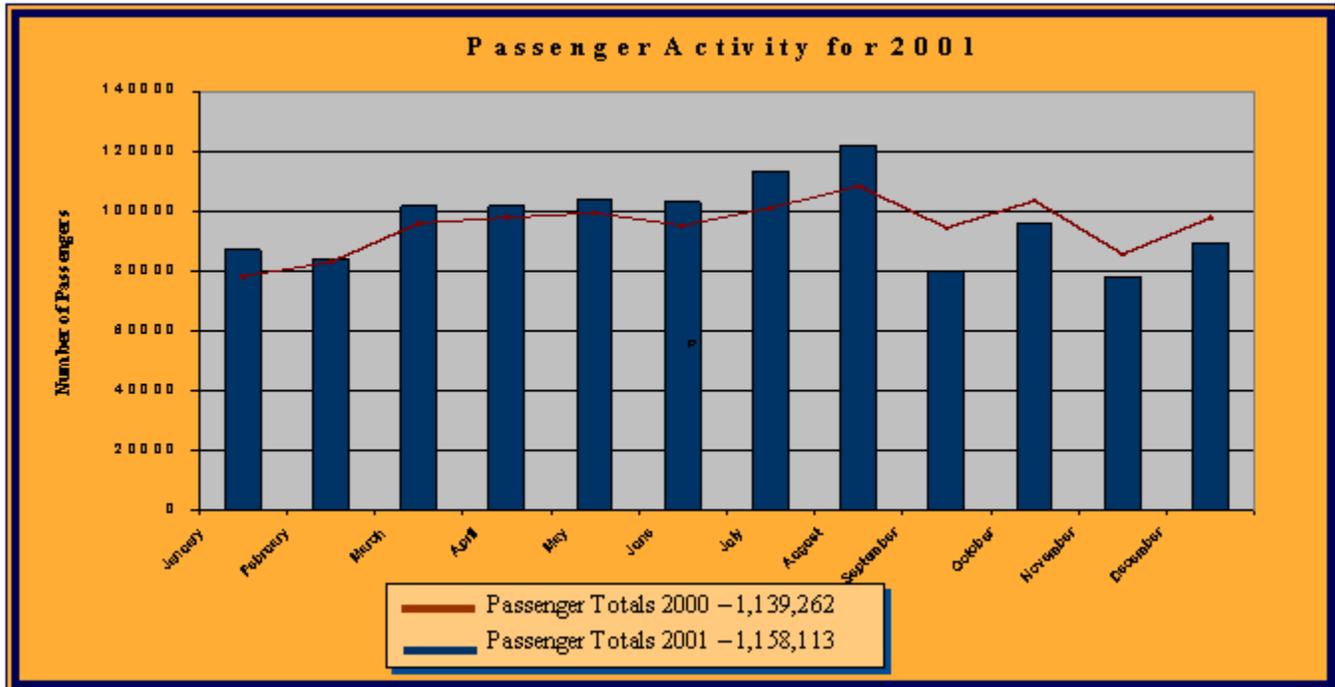
The entire Victoria Airport Team should be commended for their actions on September 11

Going Forward

It is difficult to separate general economic conditions from the effects of September 11th. After events such as the Gulf War in 1991, and the Lockerbie disaster in 1988, air travel returned to normal levels in a relatively short time. No incident in the past has come close to having the impact of the terror attacks on New York and Washington D.C. However, nothing in the past has ever interrupted long-term trends in consumer confidence, and the growth of air travel. The Airport Authority will continue to go forward with our plans for the future growth of the airport, confident in our expectation that air travel levels will not only return to their previous levels, but soon surpass them.



Westjet B737 on take off



2001 Actual vs. 5 Year Business Plan (Thousands of Dollars)

	Plan	Actual	Difference	Explanation
Revenue	10433.7	10910.9	+477.2	-Increased Passengers
Expense	6724.0	6937.7	+213.7	-Increased Security Costs Response to September 11th
Capital	14,715.5	10436.1	+4279.4	-Terminal Building Project Phasing



Business Plan Cash-Flow Forecast - 2002 to 2006 (Note 1)

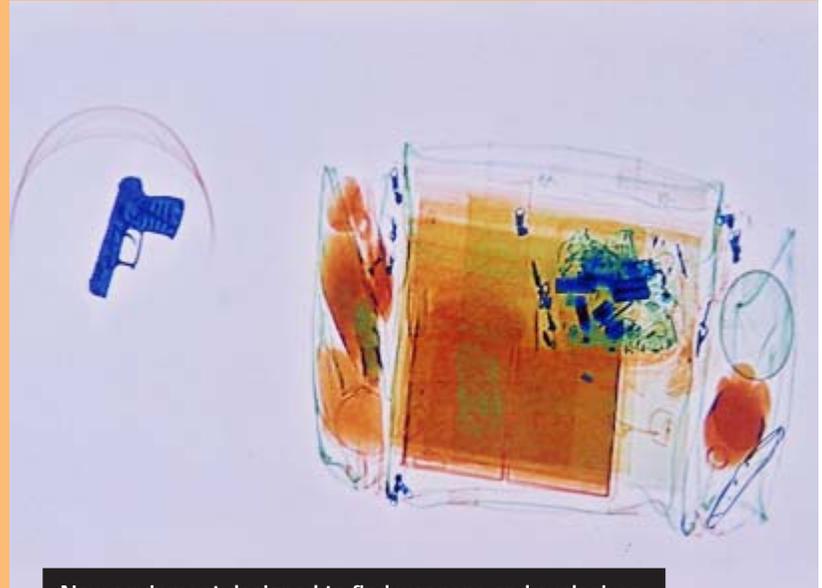
Thousands of Dollars	2002	2003	2004	2005	2006
Revenues	\$10,092.9	\$10,765.1	\$11,351.7	\$12,022.7	\$12,681.8
Expenses	\$ 7,355.9	\$ 7,752.5	\$ 7,985.1	\$ 8,224.7	\$ 8,471.4
Capital	\$ 7,662.2 (Note 2)	\$ 5,401.9 (Note 3)	\$ 2,617.5 (Note 3)	\$ 7,160.1	\$ 1,518.3

- Notes:
- Assumes 3.5% passenger growth per annum from 1 January, 2003.
 - Airside Pavements Rehabilitation and Airfield Lighting Improvements funded by AIF effective 1 January, 2002.
 - Terminal Building Expansion Project scope excludes Air Terminal Departures Phase & East expansion required to accommodate enhanced security measures. Planning underway to address anticipated security requirements and complete the project by 2004.



Safety & Security

VAA's highest priority is maintaining a safe and secure airport. Security has been enhanced at Victoria International in response to changing national aviation security regulations. Access to secure areas of the Airport has been improved with the implementation of a new Pass Control System that included the issuance of new security passes for all airport personnel. Pre-Board Screening procedures have been improved to secure a greater degree of passenger safety. The Authority and the R.C.M.P. have worked together to create an enhanced on-call police response. As well, on-site security has been strengthened through the doubling of our Commissionaire force.



New equipment designed to find weapons and explosives

In October, the Federal Government announced that they would create a new Canadian Air Transport Security Authority responsible for key aviation security services. These services will include; Pre-Board Screening, policing at selected airports, undercover sky-marshals, and the acquisition and operation of Explosive Detection Systems. Together with Transport Canada, VAA is working to introduce new technologies and procedures to further enhance airport security at Victoria International.

Airport Operations

During 2001, Airport Operations were maintained and improved through the hard work and dedication of VAA's Operational Staff. A number of essential programs and projects were undertaken to improve operational efficiency and safety. To that end, a major Flightway clearing project was completed for the approach paths to all of our runways. A water system upgrade was completed to improve fire protection to the Air Terminal Building and East Camp Areas. Planning was completed for airfield pavement rehabilitation to be carried out in 2002. Airside safety was improved through the revision of the Airport Vehicle Operator Permit System.



Electrical Supervisor Scott Cunningham, a Leading member of the VAA Operational Team.



VAA Firefighters practicing emergency response techniques



During 2001, the Authority invested in an external AED defibrillator to help individuals during medical emergencies. As well, working with Nav Canada, VAA reached an agreement for the use of a discreet radio frequency that allows the captain of a plane to speak directly with the airport during an emergency.

Throughout 2001, VAA conducted monthly “Tabletop Exercises” to simulate emergency situations at the airport. These exercises included preparation for an aircraft emergency, a major earthquake, environmental disasters and bomb threats. Tabletop Exercises involve several different agencies including the R.C.M.P., Ambulance Services, and the Fire Departments of North Saanich and the Town of Sidney. These exercises provide excellent training to VAA’s staff and support agencies.

VAA’s emergency response capabilities were also improved during 2001 through the completion of “Command and Control” emergency response training by all VAA firefighting personnel.

During 2001, the Victoria International Airport Fire Service responded to 397 calls

Airport Fire Service Response Summary 2001

Incident	No. of Occurences
▶ Wildlife Control	223
▶ Airside Safety	98
▶ Emergency Standby	29
▶ Medical Responses	47

Customer Services

The Victoria Airport Authority strives to provide a positive travel experience for all our customers. This has been a challenge over the past year because of the changes associated with the Terminal expansion and our new security measures. Our Terminal Building Operations Staff have worked diligently, managing the day-to-day changes that were implemented throughout the year. Our thanks go out to everyone involved in assisting us to meet the needs of the traveling public during this transition. Without the co-operation of all the Terminal Building tenants, from air carriers through to taxi operators, we would not have been able to meet our service commitment.

Some of our key customer initiatives this year have included:

- ▶ The installation of a Flight Information Display System (FIDS) in the Arrivals and Departures Areas that gives up to the minute information on the status of flights.
- ▶ The improvement of the VAA website that now includes real-time information on the status of flights.
- ▶ The addition of a new food and beverage concession in the Departures Waiting Lounge.
- ▶ A signage upgrade to ensure all signs meet the requirements of the Official Languages Act.
- ▶ And, because of overwhelming customer feedback, we have now withdrawn the coin-operated baggage system in exchange for free baggage carts.



Flight	Arriving From	Sched. Time	Status	Arrives At
1511	Vancouver	6:00PM	Arrived	6:00PM
1521	Vancouver	6:45PM	ON TIME	6:45PM
1523	Vancouver	7:40PM	ON TIME	7:40PM
1537	Vancouver	8:00PM	ON TIME	8:00PM
8433	Calgary	8:13PM	ON TIME	8:13PM
1525	Vancouver	8:45PM	ON TIME	8:45PM
3553	Toronto	9:41PM	ON TIME	9:41PM
1531	Vancouver	10:20PM	ON TIME	10:20PM
8583	Vancouver	10:56PM	ON TIME	10:56PM
1535	Vancouver	11:54PM	ON TIME	11:54PM
1527	Vancouver	7:30AM	ON TIME	7:30AM

Thu, Mar 29, 2001 8:16PM

New Flight Information Display System



Red Coat Volunteers for 2001

This year, as always, we are pleased to recognize the dedication and service excellence of our 20 Red Coat Volunteers. The Red Coats service was appreciated even more this year due to the challenges presented to travelers by the Terminal Building renovations and on-going security enhancements. Recently recognized in Colours Magazine in their International Year of the Volunteer publication, the Red Coat Program has been an unqualified success in delivering its service mandate to provide friendly assistance to travelers and well-wishers.



Terminal Expansion Progress Report

The \$21 million Air Terminal Building Expansion Project is progressing well. The new ground level Passenger Lounge, and the west Baggage Claim Area were both opened in 2001. The renovation of the Canada Customs Area, a new Pre-Board Screening Area, car rental counters, new washrooms, an upper level Passenger-Waiting Lounge and a spectacular central Rotunda will be completed in early 2002. By late 2002, a further expansion of the upper level Passenger Lounge, new retail concessions, and a third level Public Observation Lounge will be completed.



New arrivals rotunda under construction.

The final stage of the Terminal Expansion Project including a new Departures Area, Airline Check-in Counters, and the outbound Baggage System is being re-designed to accommodate enhanced security systems.

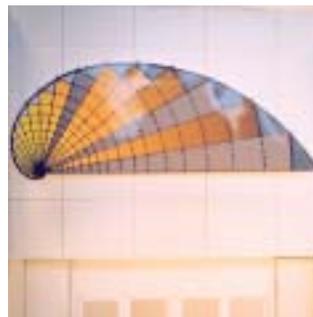
By late 2002 new retail concessions and a third level Public Observation Lounge will be complete



Rotunda interior under construction

Art for the New Terminal Building

In 2001, a special Committee of the Board was formed to select two pieces of public art for our new Terminal Building. The Committee, which includes well-known members of the local art community, reviewed over 150 submissions in its efforts to select the two successful artists. The inclusion of public art in the expanded Terminal Building space will reflect the cultural maturity of our community and provide an opportunity to support and showcase local artists and their work.



A model of one of the new art pieces to be located in the Terminal Building



Capital Initiatives

For the year 2001, the Victoria Airport Authority implemented 6 major capital projects and 16 minor capital projects with a cost totaling approximately \$1,000,600. These projects are in addition to the Air Terminal Building Expansion Project. Listed below is a Project summary for 2001:

Project	Expenditure
▶ Construction of Fire Flow Connection to East Camp	\$89,500
▶ Rehabilitate Airfield Pavements (Design)	\$50,600
▶ Rehabilitate McDonald Park Road	\$184,900
▶ Replace Runway Approach Lighting (Design)	\$9,900
▶ Replace Outdated Computer Hardware/Software	\$35,700
▶ Purchase of a New Light Vehicle	\$32,800
▶ Purchase of a New Tractor Backhoe	\$70,600
▶ Purchase of a New Wheeled Loader	\$190,300
▶ Extend Beacon Avenue	\$200,500
▶ Flightway Clearing of Runways 02, 09, 13, 27 and 31	\$65,000
▶ Fire Truck Safety Upgrades	\$25,500
▶ Airfield Taxiway Signage Improvements	\$24,500
▶ Other Minor Capital Projects	\$20,800



Ten Ten Creek - On the way to restoration

Environmental Update

The Authority's commitment to environmental excellence is an integral element in the operation and development of the Airport. Improvements in noise abatement, reductions in pollution, the clean up of contaminated sites, the surveillance and monitoring of VAA's projects and tenant developments, habitat protection and restoration initiatives are all at the forefront of the Authority's management priorities.

During 2001 the Federal Government funded the clean up of the decommissioned fuel depot and an engineering assessment of their two remaining abandoned dumpsites.

On the operational front, the Authority continued its program of pre-development environmental and archeological site assessment for all new developments. As well, the Authority actively screened all capital projects and tenant developments for environmental acceptance and conducted regular inspections throughout the construction period.

The Authority also completed inspections of five of our major industrial tenants. Results from these inspections demonstrate our tenants' dedication to environmental protection. The success of our efforts are clearly evidenced by the return of fourteen-pound Coho salmon to the upper reach of Reay Creek that runs through Airport grounds.

One of our proudest accomplishments of 2001 was the restorative work completed on Ten Ten Creek. This project involves a long-term partnership on the part of the Authority, Tseycum First Nation, the Department of Fisheries and Oceans and Pendray Farms, to clean up the creek and restore a Coho run. During 2001, a second engineered wetland, designed to filter storm drainage entering the creek, was completed. Considerable stream improvements, including the addition of riffles, pools, gravel beds and over-hanging vegetation to re-create the natural meander and habitat of the creek were successfully implemented. As well, the Ten Ten Creek Project was a subject of CBC's nationally broadcast "Ideas" program early in December that highlighted the Authority's pursuit of environmental excellence.



Riffles installation on upper reach of Ten Ten Creek



Relationships with Stakeholders

Airlines

Victoria Airport Authority values its relationship with its airline partners. Their input and support is actively solicited, informally and formally through the Airline Operating Committee, Airport Safety and Security Committee and the Airport Consultative Committee. Added to these structured committee meetings, the Authority meets regularly with individual carriers on Air Terminal Building development issues as well as regular meetings between senior airline executives and the VAA's Board of Directors.

Municipalities

The Authority places a major emphasis on maintaining positive working relationships with the two municipalities in which the airport resides. To that end, the Authority works closely with the staff and Councils of North Saanich and the Town of Sidney on operational, planning, development and environmental issues that concern the community.

In 2001, the Authority entered into partnership with Sidney, North Saanich and the Ministry of Transportation for the Conceptual Design of new interchanges on the Pat Bay Highway at Beacon Avenue and McTavish Road. The Authority was also pleased to partner with the Town of Sidney on the rehabilitation and extension of McDonald Park Road to connect Beacon Avenue. This project, which was jointly funded and managed by the Town and the Authority, greatly improves access to the west side of Sidney and also provides direct road frontage for 8.5 acres of industrial zoned airport land. The development of this land will assist the Authority in diversifying its revenues.



Road work joining McDonald Park and Beacon Avenue

First Nations

During 2001, the Authority worked closely with the Tseycum First Nation to promote mutual respect, and develop airport lands in a manner that addresses First Nations concerns. To that end, the Authority undertook three Archaeological Site Assessments on land that was targeted for development to ensure that potential artifacts and burial sites are protected. No historical archaeological resources were found during these reviews.



Transport Canada

Transport Canada is VAA's landlord and the regulator of all aviation activities in Canada. A positive relationship with Transport Canada is very important. VAA manages Victoria International Airport in strict compliance with the terms of our lease with the Federal Government. In addition, VAA complies with all of the various federal regulations pertaining to the safe operation of this airport.

In 2001, the Minister of Transport announced his intention to introduce the Canada Airports Act to address certain governance issues at Airport Authorities. VAA in cooperation with the Canadian Airports Council will respond when the draft legislation is presented.

VAA currently pays over \$1,000,000 in rent to the Federal Government. Victoria's rent is much higher than other comparable communities and is a burden to the airline industry and the passengers that use our Airport. The Minister of Transport has initiated a review of the overall methodology under which all airport rents are calculated. VAA is working with Transport Canada through the Canadian Airports' Council, to arrive at an equitable resolution to this matter.

The December 10th, 2001 Federal Budget included \$2.2 billion in Air Security Measures over the next five years. A new Passenger Security Tax of \$12 per boarding passenger is expected to generate \$2.2 billion covering the entire cost over the same period. VAA's position is that this tax will have a negative impact on air travel, especially on the price sensitive short haul routes that fly out of Victoria. VAA, along with the local aviation and tourist industries have petitioned the Minister of Finance to review the level of tax and calculate it proportionately, on the basis of distance traveled.



From left to right:
Mark Duncan (Transport Canada, Regional Director General); Alan Peterson (VAA Board Chair); Linda Petch (Chair, Planning and Development); David Collenette (Minister of Transport); Richard Paquette (VAA CEO)



VICTORIA AIRPORT AUTHORITY



VAA Board Governance Guidelines

Corporate Governance Guidelines	Committees
1. The Board should explicitly assume responsibility for stewardship of the corporation including:	The Board oversees the management of the Authority’s business to ensure its purposes are realized.
a. A strategic planning process;	The Board has developed a strategic plan.
b. Identification of principal risks;	The Authority has a number of systems in place to identify, manage and mitigate various risks.
c. Succession planning including appointing, training and monitoring senior management;	The Board appoints the President & CEO and maintains a succession plan. The Board monitors the CEO’s performance through a formal annual review.
d. Communications policy; and,	The Authority has a well-developed communications program.
e. Integrity of internal control and management information systems.	The Authority has a comprehensive management information and reporting system in place that includes regular reporting to the Board on key financial and operational results.
2. A majority of Directors should be independent of management and free from any conflict of interest.	The Board is composed exclusively of non-management Directors. VAA has established a Directors and Officers Code of Conduct that requires the disclosure of any potential conflict of interest. During 2001, VAA’s Directors and Officers were in complete compliance with the Conflict of Interest Code of Conduct.
3. The Board should appoint a Committee responsible for the appointment and assessment of Directors.	The Authority has a Nominating Committee that meets with nominating entities to ensure that necessary disciplines are represented. The Board conducts annual self-evaluations.
4. The Board should provide orientation and education programs for new Directors.	Each new Director receives a comprehensive orientation. The Board meets with industry leaders regularly.
5. The Board should examine its size and, where appropriate, undertake a program to reduce the number of Directors.	The Authority’s thirteen Directors have been appointed by eight nominating organizations. The Provincial Government has declined the opportunity to appoint a Director. The Board has the authority to appoint up to three Directors. The Board has concluded that a reduction in Board size will be pursued over the longer term providing that the necessary disciplines are represented and it continues to represent the best interests of the Authority and the community at large.



VAA Board Governance Guidelines (Cont.)

Corporate Governance Guidelines	Committees
6. The Board should review compensation of Directors in light of risks and responsibilities.	The Authority's Steering Committee periodically reviews the remuneration of Directors to ensure they are appropriate.
7. Committees should generally be composed of outside Directors, a majority of whom are unrelated.	Board Committees are composed entirely of outside Directors.
8. The Board should appoint a Committee responsible for corporate governance.	The Authority's Steering Committee is responsible for Corporate Governance issues. The Board as a whole regularly discusses this issue.
9. The Board should define the limits to management's responsibilities by developing position descriptions for: i) the Board ii) Board Chair iii) the CEO	Role statements have been prepared for the Board, the Board Chair, and CEO. The Board approves the CEO's corporate objectives on an annual basis.
10. The Board should establish structures and procedures to ensure the Board can function independently of management.	The Board has three Standing Committees that meet on a regular basis and are chaired by members of the Board. Each Committee Chair reports directly to the Board. The Board meets in-camera as required.
11. The Board should establish an Audit Committee composed only of outside Directors to communicate directly with external auditors and oversee management reporting and internal control.	<p>The Authority's Audit and Finance Committee responsibilities include:</p> <ul style="list-style-type: none"> ■ Corporate financial issues which affect the financial integrity of the Authority. ■ Review of financial management policies and issues including annual budgets, banking arrangements, accounting systems and procedures, fees and charges, significant changes to relevant legislation, insurance policies, statutory remittances, pension plan policies and performance and regular financial status reports. ■ Monitoring the external audit program and preparation of the annual financial statements. ■ Monitoring the Authority's environmental management programs. <p>All Finance and Audit Committee members are outside Directors.</p>



Victoria Airport Authority Year 2001 Board of Directors and Committee Participation

	Nominator	Nominee	Committees
1.	District of North Saanich	Graham Ross	Member, Planning & Development Committee Member, External Nominating Committee
2.	District of North Saanich	Carl Kuhnke	Member, Planning & Development Committee Member, VAA Airport Consultative Committee
3.	Town of Sidney	Des Esthom	Board Secretary Member, Audit & Finance Committee Member, Steering Committee Member, VAA Airport Consultative Committee Member, Internal Nominating Committee
4.	Town of Sidney	Mervyn Lougher-Goodey	Member, Audit & Finance Committee Member, Terminal Building Expansion Committee
5.	District of Central Saanich	Robert McLaren	Chair, Terminal Building Expansion Committee Member, Planning & Development Committee Member, Internal Nominating Committee
6.	District of Saanich	John A. Nicas	Member at Large, Steering Committee Member, Terminal Building Expansion Committee Member, VAA Airport Consultative Committee
7.	Capital Regional District	Vicki Kuhl	Member, Planning & Development Committee
8.	City of Victoria	Geoff Young	Member, Audit & Finance Committee Member, VAA Airport Consultative Committee
9.	Victoria Chamber of Commerce	Bob Skene	Chair, Audit & Finance Committee Member, Terminal Building Expansion Committee Member, Steering Committee Member, VAA Airport Consultative Committee Member, Internal Nominating Committee
10.	Government of Canada	Alan J. Peterson	Board Chair Chair, External Nominating Committee Member, Steering Committee Ex-officio member on all Board Committees
11.	Government of Canada	Gordon Denford	Member, Audit & Finance Committee Member, Terminal Building Expansion Committee Member, Public Art Advisory Committee Member, VAA Airport Consultative Committee
12.	Board Nominee	Andrew MacGillivray	Board Vice-Chair Chair, VAA Airport Consultative Committee Member, Planning & Development Committee Member, External Nominating Committee Member, Terminal Building Expansion Committee Member, Steering Committee
13.	Board Nominee	Linda S. Petch	Chair, Planning & Development Committee Chair, Public Art Advisory Committee Member, External Nominating Committee Member, VAA Airport Consultative Committee Member, Steering Committee



Directors and Management Compensation

The annual remuneration for the Board during 2001 was as follows:

Chair	\$ 16,500
Vice Chair	\$ 10,000
Secretary	\$ 10,000
Standing Committee Chairs	\$ 10,000
Remaining Directors	\$ 7,000

Compensation during 2001 for each Director was as follows

Susan Brice	\$ 2,653
Des Easthom	\$ 10,000
Mervin Lougher-Goodey	\$ 7,000
Geoff Young	\$ 7,000
Gordon Denford	\$ 5,250
Carl Kuhnke	\$ 7,000
Andrew MacGillivray	\$ 10,000
Robert McLaren	\$ 7,000
John Nicas	\$ 7,000
Linda Petch	\$ 10,000
Alan Peterson	\$ 16,500
Graham Ross	\$ 7,000
Bob Skene	\$ 10,000
Vicki Kuhl	\$ 3,161

The salary for the position of President/Chief Executive Officer in 2001 was \$99,500.



MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these are set out in Note 1 to the statements.

The Authority's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. These financial statements include some amounts based upon management's best estimates and judgments. Recognizing that the Authority is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared within reasonable limits of materiality.

The Board of Directors has appointed an Audit and Finance Committee consisting of seven Board Directors. The Committee meets periodically during the year to review with management and the auditors any significant accounting, internal control, and auditing matters. They also review and finalize the annual financial statements of the Authority together with the independent auditor's report before their submission to the Board of Directors for final approval.

The financial information throughout the text of the Annual Report is consistent with the information presented in the financial statements.

On behalf of the Authority:

A handwritten signature in black ink, appearing to read 'Richard Laguerre', written in a cursive style.

RICHARD LAGUERRE
President and Chief Executive Officer



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Chartered Accountants
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AUDITORS' REPORT TO THE MEMBERS OF THE VICTORIA AIRPORT AUTHORITY

We have audited the balance sheet of the Victoria Airport Authority as at December 31, 2001 and the statements of earnings and equity in assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. In accordance with the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Victoria, Canada
February 8, 2001



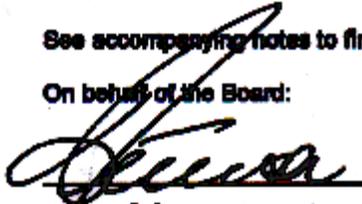
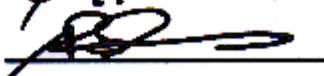
VICTORIA AIRPORT AUTHORITY Statement of Financial Position

December 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Current assets:		
Cash (note 3)	\$ 516,245	\$ -
Accounts receivable	1,153,273	1,319,007
Inventory	169,542	173,605
Prepaid expenses	185,362	173,423
	<u>2,024,422</u>	<u>1,666,035</u>
Capital assets (note 4)	19,635,597	9,272,469
	<u>\$ 21,660,019</u>	<u>\$ 10,938,504</u>
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 3)	\$ -	\$ 915,644
Accounts payable and accrued liabilities	2,059,679	1,921,202
Deferred revenue	118,297	125,342
Current portion of retirement allowance liability	48,488	-
	<u>2,226,464</u>	<u>2,962,188</u>
Tenants' security deposits held	16,200	16,200
Retirement allowance liability (note 5)	306,110	301,890
Long-term debt (note 6)	7,500,000	-
Long-term deferred revenue	63,882	88,894
	<u>10,112,656</u>	<u>3,369,172</u>
Net assets:		
Invested in capital assets	10,835,119	7,546,729
Other net assets	712,244	22,603
	<u>11,547,363</u>	<u>7,569,332</u>
Commitments (note 7)	<u>\$ 21,660,019</u>	<u>\$ 10,938,504</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director
 Director



VICTORIA AIRPORT AUTHORITY

Statement of Operations

Year ended December 31, 2001, with comparative figures for 2000

	2001	2000
Revenue:		
Landing fees	\$ 1,777,189	\$ 1,585,768
General terminal charges	1,733,567	1,641,482
Concessions	3,341,617	3,106,726
Rentals	1,195,114	1,114,254
Other	297,968	235,987
	8,345,455	7,684,217
Airport Improvement Fee (note 8)	2,570,314	2,389,722
	10,915,769	10,073,939
Expenses:		
Salaries and employee benefits	2,414,699	2,338,971
Services, supplies and administration	2,132,451	1,947,371
Transport Canada lease (note 7(a))	1,054,224	1,032,002
Property taxes	585,744	605,178
Amortization	491,081	443,956
Utilities	259,539	251,564
	6,937,738	6,619,042
Excess of revenue over expenses	3,978,031	3,454,897
Net assets, beginning of year	7,569,332	4,114,435
Net assets, end of year	\$ 11,547,363	\$ 7,569,332

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended December 31, 2001, with comparative figures for 2000

	Invested in capital assets	Other	2001	2000
Balance, beginning of year	\$ 7,546,729	\$ 22,603	\$ 7,569,332	\$ 4,114,435
Excess of revenue over expenses	(491,081)	4,469,112	3,978,031	3,454,897
Property, plant and equipment additions, net of related debt	3,779,471	(3,779,471)	-	-
Balance, end of year	\$ 10,835,119	\$ 712,244	\$ 11,547,363	\$ 7,569,332

See accompanying notes to financial statements.



VICTORIA AIRPORT AUTHORITY

Statement of Cash Flows

Year ended December 31, 2001, with comparative figures for 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 3,978,031	\$ 3,454,897
Amortization, which does not involve cash	491,081	443,956
Changes in non-cash operating working capital:		
Accounts receivable	165,734	(489,579)
Inventory	4,063	(8,283)
Prepaid expenses	(11,939)	(111,332)
Accounts payable and accrued liabilities	138,477	1,228,609
Deferred revenue	(32,057)	(29,819)
	4,733,390	4,488,449
Investing:		
Capital expenditures	(10,854,209)	(6,059,047)
Financing:		
Increase (decrease) in long-term debt	7,500,000	(375,775)
Increase in retirement allowance liability	52,708	35,000
	7,552,708	(340,775)
Increase (decrease) in cash position	1,431,889	(1,911,373)
Cash position, beginning of year	(915,644)	995,729
Cash position, end of year	\$ 516,245	\$ (915,644)
Cash position is defined as cash less bank indebtedness.		
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 388,384	\$ 22,508
Cash received during the year for interest	51,316	70,360

See accompanying notes to financial statements.



The sun streams into on our spacious new Passenger Waiting Lounge



VICTORIA AIRPORT AUTHORITY

Notes to Financial Statements

1. Nature of operations:

The Victoria Airport Authority (the "VAA") is incorporated under Part II of the Canada Corporations Act as a non-share capital, not-for-profit corporation and all earnings from operations are reinvested in airport development. The VAA has operated the Victoria International Airport since April 1, 1997 under a lease from the Government of Canada (the "Canada Lease"). The Canada Lease has an initial term of sixty years with an option to extend the term for a further twenty years.

2. Significant accounting policies:

- (a) **Basis of accounting:** The financial statements of the VAA are prepared in accordance with Canadian generally accepted accounting principles.
- (b) **Inventory:** The inventory of consumable supplies is recorded at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value.
- (c) **Canada Lease:** The Canada Lease (see note 1) is accounted for as an operating lease.
- (d) **Capital assets:** Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method at the following rates:

Asset	Rate
Leasehold improvements	1.66%-33%
Office furniture and equipment	20%
Computer hardware and software	33%
Vehicles	5%-50%
Other equipment	10%-20%

- (d) **Capital assets (continued):** Capital work-in-progress is not amortized until the project is substantially complete. Interest expense totaling \$387,916 (2000 - \$21,557) during the construction of a capital project is included in the cost of the assets.
- (e) **Revenue recognition:** VAA follows the deferral method of accounting for contributions whereby unrestricted revenue is recognized when received or receivable if the amount received can be reasonably estimated and collection is reasonably assured. Airport Improvement Fee revenue (note 9) is recognized when passengers depart the terminal building.
- (f) **Risk management financial instruments:** Risk management financial instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. VAA enters into financial contracts to manage its exposure to interest rate fluctuations as part of VAA's long-term debt management program. The contracts are designated as hedges and, accordingly, income and expense on the contracts are recognized over their lives as an adjustment to interest expense.
- (g) **Use of estimates:** The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.



VICTORIA AIRPORT AUTHORITY

Notes to Financial Statements

Year ended December 31, 2001

3. Cash and bank indebtedness:

The VAA has a \$2,000,000 operating line of credit bearing interest at the prime lending rate. The operating line of credit is secured by a demand collateral first mortgage of the VAA's leasehold interest and assignment of rents for an unlimited amount. At December 31 the operating line of credit was temporarily used to fund capital expenditures for the Airport Terminal Building ("ATB") expansion project.

	2001		2000
Cash in operating account	\$ 1,816,723	\$	810,096
Short term borrowing for ATB project	(1,300,478)		(1,725,740)
Net cash (bank indebtedness)	\$ 516,245	\$	(915,644)

4. Capital assets:

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Leasehold improvements	\$ 4,397,864	\$ 452,659	\$ 3,945,205	\$ 3,377,361
Office furniture and equipment	56,419	40,677	15,742	27,025
Computer hardware	252,997	206,755	46,242	55,235
Computer software	183,775	168,557	15,218	21,329
Vehicles	1,786,146	683,476	1,102,670	967,133
Other equipment	438,125	208,846	229,279	210,685
Capital work-in-progress	14,281,241	-	14,281,241	4,613,701
	\$ 21,396,567	\$ 1,760,970	\$ 19,635,597	\$ 9,272,469

5. Retirement allowance liability:

Under the terms of the transfer agreement with Transport Canada, the VAA assumed the Government of Canada's obligation to pay its former employees compensation upon retirement or termination in accordance with the collective agreements. The VAA received from the Government of Canada an amount equivalent to the actuarially adjusted liability. The VAA has recorded additional liabilities in accordance with the agreements.



VICTORIA AIRPORT AUTHORITY Notes to Financial Statements

Year ended December 31, 2001

6. Long-term debt:

	2001	2000
Bank loan	\$ 7,500,000	\$ -

The VAA has a \$20,000,000 credit facility by the Canadian Imperial Bank of Commerce ("CIBC") to finance the airport terminal building ("ATB") expansion secured by way of a mortgage of the VAA's leasehold interest and assignment of the Airport Improvement Fee. Under the terms of the credit facility, the VAA can borrow by way of banker's acceptance at market rate or at CIBC prime. During construction of the ATB, the VAA pays interest only. The principal repayments are to commence in 2003. Repayments will be made on a quarterly basis at an amount of \$400,000 per quarter 2003-2005; \$500,000 per quarter until 2009; and \$600,000 per quarter until 2012, or until the loan is repaid.

In order to reduce the financial risk associated with the floating rate bank loan, the VAA has entered into the following interest rate financial contracts that hedge a total of \$12,000,000 in borrowing: (i) an interest rate contract fixes the rate on \$5,000,000 of the loan at 6.28% for eight years commencing January 2, 2001, and (ii) an interest rate contract sets an interest rate between 5.98% and 6.80%, on \$7,000,000 of the loan for five years commencing January 2, 2002.

7. Commitments:

- (a) **Transport Canada lease:** The VAA pays lease payments to Transport Canada, which are calculated under a formula which includes annual airport revenue, passenger volumes and operating costs. The annual lease payment is subject to a Consumer Price Index adjustment.
- (b) **Airport terminal building expansion:** The airport terminal expansion project is underway with a budgeted cost of \$20,981,000. As of December 31, 2001, contracts issued totaled \$16,456,969. The final phase of this project, the airline check in and baggage handling has been deferred pending announcement of enhanced security requirements by Transport Canada. The enhanced security requirements are expected to increase the scope of the project.
- (c) **Financing of airport terminal building expansion:** The project will be funded by an Airport Improvement Fee and a loan of up to \$20,000,000 provided by the CIBC, secured by way of a mortgage of the VAA's leasehold interest and an assignment of the Airport Improvement Fee (note 6).
- (d) **Beacon Avenue extension:** The VAA entered into an agreement with the Town of Sidney (the "Town") to participate in the extension of Beacon Avenue in 2001. The benefit of the extension to the VAA is street access to land that will be developed at a later date. When the VAA develops the land, the VAA is committed to reimburse the Town one third of the Town's costs for the extension. This reimbursement is estimated to be approximately \$100,000.



VICTORIA AIRPORT AUTHORITY Notes to Financial Statements

Year ended December 31, 2001

8. Airport Improvement Fee ("AIF"):

On May 31, 1999 the VAA entered into an agreement (the "AIF Agreement") with the Air Transport Association of Canada and major air carriers serving the Victoria International Airport. The AIF Agreement provides for a consultation process with the air carriers on airport development as well as the collection of an AIF by air carriers. AIF revenues can only be used to pay for airport passenger service facilities' development and related financing costs. Effective October 1, 1999, the VAA introduced an AIF in the amount of \$5 per local boarded passenger.

Airport Improvement Fee ("AIF")

	2001		2000
AIF revenues	\$ 2,570,314	\$	2,389,722
Eligible capital expenses	9,828,369		4,905,814
Net expenditure	\$ (7,258,055)	\$	(2,516,092)



Air Canada Regional Dash 8 shortly after landing



VICTORIA AIRPORT AUTHORITY Notes to Financial Statements

Year ended December 31, 2001

9. Pension contributions:

The VAA and its employees contribute to the Municipal Pension Plan (the "plan"), a jointly trusted pension plan governed by the *BC Public Section Pension Plans Act*. The pension plan is a multi-employer contributory defined benefit pension plan with about 125,000 active contributors, including approximately 26,000 contributors from over 180 local governments. Joint trusteeship was established effective April 5, 2001. The board of trustees, representing plan members and employers, is fully responsible for the management of the pension plan, including investment of the assets and administration of the plan. The British Columbia Pension Corporation provides benefit administration services and the British Columbia Investment Management Corporation provides investment management services for the pension plan.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2000 indicates a surplus of \$436 million. The Joint Trust Agreement specifies how surplus assets can be used. The actuary does not attribute portions of the surplus to individual employers.

10. Income and B.C. Capital taxes:

The VAA income generated from airport-related operations is exempt from federal and provincial income taxes. However, the VAA is required to pay the B.C. Capital Tax.

11. Related party transactions:

During the year ended December 31, 2001, the fees paid to the Board of the VAA for their services as directors amounted to \$109,565 (2000 - \$120,833).

12. Subsequent event:

Transport Canada has requested that all Canadian airports submit claims of additional security-related expenditures resulting from the events of the September 11, 2001 crisis with the intent to make a partial reimbursement to the airports. Subsequent to December 31, 2001, the VAA claimed an amount of \$228,879.



Taxis and the Airporter Bus que up outside of the arrivals area.



The Victoria Airport Authority Team

Tom Bilodeau	Firehall Special Projects Officer	Bob Nalleweg	Electrician
John Birchall	Manager, Airside Operations	Richard Paquette	President & CEO
Mike Booton	Manager, Project Development and Technical Data Centre	Ralf Peper	Data Technician
Marc Bourassa	Fire fighter	Jeff Peters	Senior Mechanic
Dave Bremner	Fire fighter	Danita Radford	Manager, Finance and Human Resources
Paul Connolly	Administrative Assistant	Rick Robertson	Crew Captain
Scott Cunningham	Electrical Supervisor	Stan Sam	Equipment Operator
Trudy Dafoe	Finance Assistant	Dave Savage	Fire fighter
Larry Donaldson	Crew Captain	Mike Smith	Technical Support Operator
Steve Donaldson	Fire fighter	Scott Snow	Crew Captain
Bob Guido	Equipment Operator	Terry Stewart	Manager, Planning Environment and Community Relations
Cliff Howlett	Mechanic	Ian West	Manager, Terminal and Commercial Operations
Dan Jack	Fire fighter	Gary Wilson	Equipment Operator
Margi Johnson	Revenue Administrator	Lorraine Wilson	Human Resources Administrator
Sharon Johnston	Lease Management Officer	Jim Wood	Fire fighter
Anita Kardos	Airport Marketing and Development Officer		
Ken Keck	Field Supervisor		
Stacey Lee	Fire fighter		
Lana Martin	Maintenance Administrator		
Bruce McRae	Assistant Duty Officer		
Len Morris	Maintenance / Craftsperson		



Our Thanks.

The Victoria Airport Authority would like to extend its special thanks and appreciation to Tom Bilodeau for his years of service. Tom retired from his position as Airport Firechief in March of 2002.

Corporate Office

Victoria International Airport
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Auditors: KPMG Victoria

Legal Firm: Cox, Taylor Barristers

Photos by: Bill Cann, Greg Long

AGR Design:

