2010 ANNUAL REPORT

GREATER LONDON INTERNATIONAL AIRPORT AUTHORITY

Building For The Future!

LONDON INTERNATIONAL AIRPORT

VISION

London International Airport will be recognized as the preferred Air Transportation Gateway for Southwestern Ontario.

VALUES

To provide quality, viable airport services and facilities while promoting sustainable economic development with the community.

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Janet Stewart
Chair of the Board

Message from the Chair

In accordance with our governance practices Gabe Valente retired as a member of the Board of Directors July 31, 2010. Gabe served on the Airport Authority Board since 1998 as a Board member, Committee Chair, Vice Chair and most recently Chair of the Board.

Gabe's vision and that of the founding members of the Airport Authority in acquiring the airport and transforming it into a modern, efficient gateway to the world is now a reality. Our thanks to Gabe for his personal dedication and making a huge difference for our City and our Region.

We welcomed Michelle Faysal to the Board of Directors in August 2010.

I was privileged to be elected Chair of the Board effective August 1, 2010. I am delighted with the opportunities ahead with a modern facility, leadership role in area economic development and the new cargo gateway.

The year under review continued to be an extremely difficult one for our region with economic output stalled and the Canadian, U.S. and European economies struggling to emerge from the recession. The U.S. as our nearest trading partner and key provider of economic stimulus continued to reduce trade and air travel.

Despite this pressure London International Airport continued with significant growth and development. A strong visionary strategic plan has been developed and is embraced by the Federal and Municipal governments as part of an Economic Recovery Action Plan.

A combined $11 million was invested by the Federal Government, City of London and Airport Authority in a new Foreign Trade Cargo Complex. This positions London as the gateway for air transportation for SWO with the ability to provide faster and more cost effective air freight transportation for area manufacturers and distributors.

We are now promoting a Federal Transhipment Centre and continue to work with the Federal Government on a plan to evolve from a transportation centre to a trade centre with the regulatory capability to add commodity value in a free trade zone environment.This strategic investment is based on a well defined and diversified plan and has the support of area politicians. Our sincere thanks to the leadership of M.P. Ed Holder, M.P. Joe Preston and Mayor Anne Marie DeCicco-Best.

We also commenced another expansion of the air terminal building which will add 600 seats in a new passenger boarding area with 4 new jet way loading bridges, free wireless internet services and post security food and beverage options.

The investment of $6.5 million by the Airport Authority will position London to provide fast, friendly, hassle free services to our customers for years ahead. These investments were all made with a commitment to our airlines of a zero percent fee increase in 2010. The expanded facilities will support our strategy of low cost services to our airlines with particular recognition of the difficult economic challenges they face.

Our success is measured in the strength of governance within the organization, a strong strategic plan, a legacy of investments including the new cargo centre, 40 new serviced development lots, an expanded air terminal building and a financially successful year.

Our airport is strongly positioned for the future with a growing asset base, low operating costs, focused leadership and a plan that will continue to capitalize on emerging opportunities.

Janet E. Stewart, Q.C.
Chair of the Board

Message from the President

Steve Baker

President and Chief Executive Officer

In August 2010 we experienced the transition of a new Chair of the Board of Directors. Gabe Valente completed his tenure on the Board in compliance with our leading governance practices on term limits.

Gabe Valente was a tremendous member and a valued contributor to the Airport Authority since 1998. In a variety of roles as a Board Member, Committee Chair, Vice Chair and Chair of the Board he has provided countless hours and an unrelenting commitment to growth. Thanks Gabe.

Janet Stewart accepted the enhanced role of Chair continuing leadership positions as Director, Committee Chair and most recently Vice Chair of the Board. This continuity of board members is essential as the airport focuses simultaneously on quality, viable operations and a twenty year strategic plan.

Several key elements of our strategic plan were realized in 2010. This was remarkable as we operated in one of the worst economic climates that South Western Ontario has experienced in history. Record unemployment, continued restructuring of manufacturing and a stalled auto manufacturing sector contributed to a flat economy for the region.

To support and stimulate the economic recovery the Federal Government introduced an Economic Action Plan and projects at and adjacent to the London International Airport were selected as key investments that could be readily developed and provide legacy employment.

An investment agreement was developed with contributions by the Federal Government, City of London and the Airport Authority. This provided $11 million to develop lands, roads, taxiways and buildings in support of a Foreign Trade Cargo Complex. A significant driving force that enabled this significant investment was Member of Parliament Ed Holder. M.P. Holder was instrumental in the Federal Government recognizing the lasting value that will be provided to residents of South Western Ontario.

Our Airport Authority was prepared with a project that was shovel ready, agile and opportunistic of future events with broad local support which was key in meeting the mandates required.

In addition to on site development the Federal and Municipal Governments also invested in lands adjacent to the airport completing the extension of Robin Hill Road to Huron Street, new Dakota Place, redeveloping the intersection of Huron and Robin Hill and finalizing all servicing within Skyway Industrial Park. In total $15 million was invested on or adjacent to the Airport that will provide significant employment in manufacturing and distribution.

We will continue to leverage this tremendous partnership working on the next step with the Federal and City Governments in enhancing our current Federal Transhipment designation to a full Free Trade Zone. This Federal regulatory change would support our expansion from a transportation centre to a trade centre.

The second major investment by the Board of Directors is a major expansion to the Air Terminal Building. The last expansion was completed in 2004. Since that time passenger volumes have increased by more than 50%, new security equipment and services have expanded to double the space initially provided and we have an all jet service fleet except for Air Canada Jazz. These compounding changes generated reducing levels of service and times when seating areas reached capacity.

A new expanded terminal is under construction from July 15, 2010 to April 30, 2011 and will provide the fast, friendly, hassle free services that our customers expect. This project is fully funded by the Airport Authority while a complete cost freeze to the airlines in 2010 for all services was implemented.

I want to thank our staff and customers for their contained strong support during difficult economic times and the inconvenience that construction in all areas over 2010 has provided.

The $50 million invested in the airport since the 1998 transfer has shaped the London International Airport into the hub of aviation for South Western Ontario and we are prepared for greater development of services in our new passenger and cargo facilities.

Thanks for your support.

Steve Baker
President and Chief Executive Officer

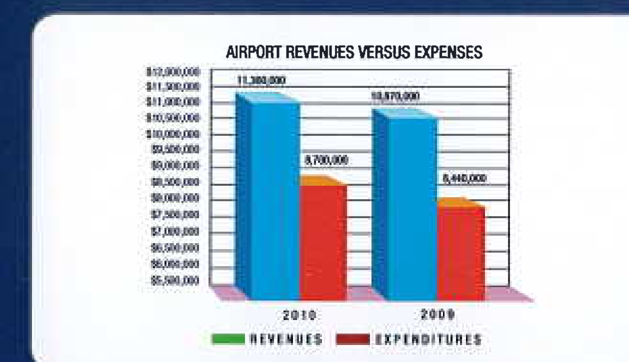
Activity and Results

During 2010 London and area, as well as the world, continued to dig out from the after effects of the global recession. The Airport thrived but was conscious of the economic conditions others were experiencing. Building on a solid foundation, the Airport Authority moved forward with new incentives and a view to the future.

2010 saw a slight reduction in passenger traffic with 465,682 passengers traveling through the London International Airport compared to 476,192 the prior year. The passenger numbers are provided by the individual airlines on a monthly basis. Statistics Canada has a more accurate calculation and has reported 500,000 passengers traveling through London International Airport. Since the terminal expansion in 2004, the passenger activity has increased by 55% and a need for more space was identified. The construction of an expanded passenger hold room commenced in 2010.

With the closure of one international flight school and the harsh winter conditions in December 2010, the airport's aircraft movements were 141,023 compared to 159,013 in 2009. Both international and local students took to the skies as they obtained their hours and certification for pilot licences. General aviation continues to be strong at London and commercial activities remain constant.

Throughout the year the GLIAA effectively utilized its assets, (capital and operating) and maintained a financially viable operation. 2010 saw an overall surplus of $2.84 million, which is reinvested into the infrastructure and improvement of customer services. Revenue was $11.36 million compared to $10.87 million in 2009. Operating expenditures were $8.70 million compared to $8.44 million in 2009.



2010 In Review

In order for a business to be successful, it needs to look at the past, assess the present and build for the future. We exist to serve our community and as a responsible corporation we are required to ensure our staff are "on the same page" to move in the same forward direction.

The London International Airport has done just that in 2010. Since the transfer in 1998 from Transport Canada the focus has been for the Airport Authority to manage the facilities and land to better serve the region and to increase the economic impact for London and surrounding area.

Awareness of the airport's services and the attitude of the community to the airport are at an all time high. Considerable effort has been expended over the last several years in understanding the marketplace, determining the traveling needs of the community, putting services in place that address those needs and promoting the services and value of flying from home.

London International Airport offers choices for the public with different options, costs, routes and airlines. New services were introduced in late 2009 that flourished in 2010. Passenger loads with United Airlines traveling between London and Chicago grew and exceeded expectations. The move to a Saturday departure / arrival for West Jet's Orlando winter charter proved to be a successful decision as well. Air Canada's direct daily service to Calgary remains steady with passengers enjoying the Embraer 190's comfort and speed.

Skyservice had a busy charter season in the first quarter of 2010 however declared bankruptcy and ceased operations in the summer. Sunwing and Canjet Airlines returned in December with sold out flights to Montego Bay, Jamaica, Cuba and Mexico. With the merger of North West Airlines and Delta, the new regional jets replaced the Saab 340s and passengers continued to utilize the London/Detroit service. As with any merger of two companies, change is inevitable and Delta announced in December 2010 they were suspending their daily service effective January 2011. The service will be missed by the 50,000 plus passengers that utilized it annually, but LIA commercial services continues to work to bring new and better air services to London.

With the continuing growth and utilization of the airport it was determined an expansion to the hold room was in store. The growth of the Pre Board Screening area in 2009 started the process and in July 2010, the expansion to the passenger hold room commenced. With minimal disruption and great support from the staff, construction started with the plan to increase the area three fold, add 4 jet bridges for passenger comfort and install common use systems for airline efficiency. Completion of this $6.5 million project is expected April 2011.

2010 *In Review*

In looking to build for the future, management set out to expand cargo activity and develop additional economic resources. The establishment of a cargo facility was made possible with the financial support of the Federal Government and the City of London. A tri party agreement was entered into and the construction of the International Air Freight Transhipment Centre took place in 2010. The Federal Economic Development Agency for Southern Ontario committed $8 million while the City of London assisted with $2.5 million and the Airport Authority invested $.5 million.

The grand opening celebration took place on September 2nd with Prime Minister Stephen Harper in attendance. Joining him on the stage were Minister Gary Goodyear, MP Ed Holder, Mayor Anne Marie DeCicco-Best and GLIAA President & CEO Steve Baker. Even with the heavens opening up just as the Prime Minister took to the podium the spirits of the 250 plus in attendance were not dampened.

A gourmet luncheon was served and local and area business leaders along with governmental officials were provided an inside view of the newest development at the Airport.

The first tenants moved in September 2010 with equipment and staff ready to look after cargo operations. Leases were being drafted for signature in 2011 for space rental in the five plex cargo facility as well as to commence construction on several of the 40 serviced lots that were added with taxiway and apron access.

2010
In Review

Building for the future was not reserved for structural features. The airport maintains a fleet of heavy equipment to assist with the daily operation of the airport. Past years have seen the addition of a new fire truck, runway sweepers, snow plows and various trucks and mowers. In 2010 the last major piece of equipment to be updated was an $850,000 Oshkosh snow blower. All these high efficient and faster pieces of snow removal equipment were put to the test in December 2010 when London experienced record breaking snow falls two weeks in row. All staff played a part in ensuring runways were clear and the airport remained open.

COMMUNITY
Community Matters

Another measure of success is our commitment to the community. We want to ensure we are part of the local and regional communities and provide support and enter into partnerships with different groups and organizations.

With the 2010 Vancouver Winter Olympics starting the year the airport participated in sending one Sunshine Foundation Wish recipient to share in the excitement the world was experiencing. This individual was unable to participate in the 2009 Sunshine DreamLift to Disney World and a special request was made for an exceptional young man. His enthusiasm on the day of departure was contagious and once again reinforced our commitment to make things happen.

London International Airport had its own brush with Olympic fame when gold medal winners Tessa Virtue and Scott Moir arrived home to a crowd of fans and media. Airport staff helped organize the welcome home tribute. Family and friends along with city and federal representatives were on hand to greet these two local athletes. A chance to wear a gold medal was provided to several of those in attendance.

Community Matters

The Airport and Police Services worked together to make the 2009 Sunshine DreamLift a success. Their combined effort was recognized in 2010 by the Pillar Non Profit Network as a finalist for the Community Collaboration Award. On November 4th a gala awards ceremony was held at the London Convention Centre honouring those nominated in four different categories. While all the nominees were winners, the Police Services and the Airport took home the top honours in their category and received a one of a kind, custom designed leaded glass award. A cash award was provided and both parties agreed to donate back to the Sunshine Foundation for future wishes.

The Airport also participated in Investing in Children's London Gets Mugged #3 and their entry won the Audience Choice Award while helping to raise money for their literacy programs. Senior management continued with community involvement with several speaking engagement to local clubs, service organizations and business groups. In December the Airport Authority received notification they had been nominated for a London Chamber of Commerce Business of the Year Award. At year end, the application forms were being completed and staff was getting ready for the judges tour.

Governance

The Greater London International Airport Authority (GLIAA) operates London International Airport. The not-for-profit Airport Authority has full operational and financial control of the Airport under the Federal Government's National Airports Policy.

The Board of Directors of GLIAA provides governance to the Airport.
Members are nominated by various entities representing the community at large including:

- *Federal Government*
- *Provincial Government*
- *Municipal Government*
- *London Chamber of Commerce*
- *GLIAA Board*

Greater London International Airport Authority

BOARD OF DIRECTORS

Janet Stewart, *Q.C.*
(Chair)
Lerners LLP

Jeff Brown
(Vice-Chair)
18 Asset Management Inc.

Bernie Bierbaum
Bluestone Properties

Gary Blazak
University of Western Ontario

Ann Campbell
Ingersoll District Chamber of Commerce

Rick Coates
Pacific & Western Bank of Canada

Michelle Faysal
Management Effectiveness

Robert Flack
Masterfeeds Inc.

Ken Kalopsis
StarTech.com Ltd.

Sandi Firman
Consultant

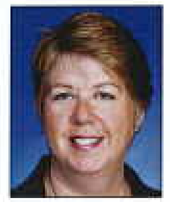
Rick Witherspoon
Retired

In addition to the regular meetings, Board members serve on Standing and Adhoc Committees:
Executive Committee, Finance/Audit Committee, Nominating Committee, Advisory Committee on Community and Area Issues

Executive Team

Steve Baker
President and Chief Executive Officer

Michael Seabrook
Vice President



Janet Carr
Director, Finance & Human Resources

Director and Executive Team Compensation

Compensation is benchmarked against similar positions within the aviation industry and local businesses. Remuneration is designed to attract and retain the calibre of employees required to develop the Airport to its full potential and recognize operational and financial performance.

Directors' Compensation (Annual Retainer)   Chairman: $20,000   Director: $10,000

Fees:
Board Meeting and Committee Meetings (over 2 hours) $800 and $500 per meeting respectively.

Executive Team's Compensation
The annual compensation for the three senior managers for the year ending December 31, 2010 was $482,079.

Corporate Offices
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www.londonairport.on.ca

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London, ON N6A 5R8

Auditors

Ernst & Young
One London Place, Suite 1800
255 Queens Avenue
London, ON N6A 5S7

LONDON INTERNATIONAL AIRPORT

Greater London International Airport Authority

December 31, 2010

Independent Auditors' Report

To the Members of the **Greater London International Airport Authority:**

Report on the financial statements

We have audited the accompanying financial statements of the **Greater London International Airport Authority** which comprise the statement of financial position as at December 31, 2010, the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted account principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Greater London International Airport Authority** as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

London, Canada,
March 24, 2011.

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Greater London International Airport Authority
Incorporated without share capital under the laws of Canada

Statement Of Financial Position

As at December 31

	2010 $	2009 $
ASSETS		
Current		
Cash *[note 3]*	**1,150,173**	1,719,213
Accounts receivable	**1,244,804**	1,131,085
Prepaid expenses and deposits	**147,743**	142,789
Total current assets	**2,542,720**	2,993,087
Accrued pension asset *[note 8]*	**1,332,000**	1,199,000
Capital assets, net *[note 4]*	**45,731,861**	30,718,625
Cash and marketable securities restricted for capital purposes *[note 3]*	**1,500,000**	2,000,000
	51,106,581	36,910,712
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**2,483,876**	518,048
Construction holdback payable	**520,750**	—
Current portion of long-term debt *[note 5]*	**825,241**	744,444
Deferred revenue	**44,855**	16,480
Total current liabilities	**3,874,722**	1,278,972
Long-term debt *[note 5]*	**12,641,715**	13,466,956
Deferred contributions *[note 6]*	**11,936,494**	2,350,665
Interest rate swap *[note 5]*	**2,028,445**	1,899,206
Total liabilities	**30,481,376**	18,995,799
Net assets	**20,625,205**	17,914,913
	51,106,581	36,910,712

See accompanying notes

On behalf of the Board:

Director Director

Statement Of Changes In Net Assets

Year ended December 31

	2010 $	2009 $
Balance, beginning of year	**17,914,913**	13,933,702
Surplus for the year	**2,839,531**	2,637,317
Net gain (loss) on derivative instrument designated as a cash flow hedge *[note 5]*	**(129,239)**	1,343,894
Balance, end of year	**20,625,205**	17,914,913

See accompanying notes

Statement Of Operations

Year ended December 31

	2010 $	2009 $
REVENUES		
Landing and terminal fees	**3,142,127**	2,893,139
Concessions	**3,016,474**	2,885,359
Rentals	**678,601**	688,678
Airport improvement fees	**3,657,088**	3,569,419
Security	**772,912**	723,937
Other	**94,031**	106,068
	11,361,233	10,866,600
EXPENDITURES		
Salaries and wages	**2,095,382**	1,890,979
Interest expense *[note 5]*	**801,291**	804,413
Municipal taxes	**581,075**	553,405
Amortization of capital assets	**1,493,688**	1,415,144
Benefits	**618,598**	448,260
Contracted services	**848,233**	820,717
Utilities	**405,679**	520,675
Directors' fees and expenses	**192,590**	181,306
Office and administration	**381,628**	242,465
Materials and supplies	**143,238**	146,482
Contracted maintenance	**300,642**	287,704
Professional fees	**95,158**	118,387
Vehicle	**191,518**	167,373
Insurance	**148,835**	152,975
Advertising and business development	**206,019**	464,229
Repairs, maintenance and equipment rentals	**200,476**	226,417
	8,704,050	8,440,931
Surplus of revenues over expenditures before the following	**2,657,183**	2,425,669
Investment income	**50,073**	81,322
Amortization of grants *[note 6]*	**132,275**	132,275
Loss on disposal of capital assets	**—**	(1,949)
Surplus for the year	**2,839,531**	2,637,317

See accompanying notes

Statement Of Cash Flows

Year ended December 31

	2010 $	2009 $
OPERATING ACTIVITIES		
Surplus for the year	**2,839,531**	2,637,317
Add (deduct) items not involving cash		
Amortization of capital assets	**1,493,688**	1,415,144
Loss on disposal of capital assets	**—**	1,949
Amortization of grants	**(132,275)**	(132,275)
Increase in accrued pension obligation	**(133,000)**	(405,000)
	4,067,944	3,517,135
Net change in non-cash working capital balances related to operations *[note 7]*	**680,498**	(303,084)
Cash provided by operating activities	**4,748,442**	3,214,051
INVESTING ACTIVITIES		
Purchase of capital assets	**(16,506,924)**	(950,840)
Proceeds on disposal of capital assets	**—**	2,100
Cash used in investing activities	**(16,506,924)**	(948,740)
FINANCING ACTIVITIES		
Airport terminal expansion payable	**1,195,032**	—
Increase in construction holdback payable	**520,750**	—
Repayment of long-term debt	**(744,444)**	(744,444)
Decrease (increase) in cash and marketable securities restricted for capital purposes	**500,000**	(1,000,000)
Increase in deferred contributions *[note 6(iii)]*	**9,718,104**	—
Cash provided by financing activities	**11,189,442**	(1,744,444)
Net increase (decrease) in cash and marketable securities during the year	**(569,040)**	520,867
Cash and marketable securities, beginning of year	**1,719,213**	1,198,346
Cash and marketable securities, end of year	**1,150,173**	1,719,213

See accompanying notes

1. DESCRIPTION OF BUSINESS

The Greater London International Airport Authority [the "Authority"] was incorporated on December 4, 1995 as a corporation without share capital under Part II of the Canada Corporations Act.

The objectives of the Authority are:

[a] to manage, operate and develop the Greater London International Airport [the "Airport"], the premises of which are leased to the Authority by Transport Canada, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;

[b] to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities; and

[c] to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

On August 1, 1998, the Authority signed a 60 year ground lease, together with a renewal term of 20 years, with Transport Canada and assumed responsibility for the management, operation and development of the Airport. The lease provides for a rent-free period to December 31, 2010.

The Authority is exempt from federal and provincial income taxes, federal Large Corporations Tax and Ontario capital tax.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

[a] Basis of presentation

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, commitments and contingencies at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of such estimations and assumptions include the useful lives of capital assets, valuation adjustments, and provisions for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

[b] Income and revenue recognition

The Authority follows the deferral method of accounting for contributions. Externally restricted contributions such as governmental grants are deferred and recognized in operations in the year in which the related expenses are incurred. Funds restricted for capital purposes represent amounts internally restricted by the Board of Directors for specific purposes.

Unrestricted contributions that are available for the operations of the Authority are recognized as revenues when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Airport Improvement Fees ["AIF"] may only be used to fund Airport infrastructure projects and associated financing costs that relate primarily to the passenger-handling functions of the Airport. Revenue from AIF is recognized when departing passengers board their aircraft.

Investment income, landing and terminal fees, concessions and rental revenues are recognized when earned.

[c] Financial instruments

Financial assets and liabilities

All financial instruments are classified into one of the following five categories: [i] held-to-maturity investments, [ii] loans and receivables, [iii] held-for-trading, [iv] other liabilities or [v] available-for-sale. All financial instruments, including derivatives, are carried at fair value on the statement of financial position except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in investment income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in net assets until the instrument is derecognized or impaired. The Authority has classified its financial instruments as follows:

Marketable securities	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

All financial instrument transactions are recorded at the trade date.

Income on investments is recognized on the accrual basis. Gains and losses on disposition are determined on an individual basis.

Derivatives and hedge accounting

All derivative instruments are carried at fair value on the statement of financial position unless exempted from derivative treatment as a normal purchase and sale. All changes in fair value are recorded in investment income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in net assets to the extent that the hedge is effective.

The Authority does not engage in derivative trading or speculative activities.

The Authority periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Authority documents the relationship between the hedging instrument and the hedged item. This would include linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecasted transactions. The Authority would also assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used are effective in offsetting changes in fair values or cash flows of hedged items.

[d] Capital assets

Capital assets are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred.

Amortization is provided on a straight-line basis from the month following the date the asset was first put into use. It is expected that the total cost of capital assets, net of their estimated salvage values, will be charged to operations over the assets' estimated useful lives by following these procedures. The costs associated with construction-in-progress including interest, if any, are capitalized during the construction phase. Upon completion of the project, the assets will be allocated to their respective classes and amortized at the rates provided in the schedule below.

In 2010 the construction of an International Air Freight Transshipment Centre ["Gateway"] took place. Contributions from the federal government and City of London were provided to assist in the development of the project. The Gateway project will have an effective accounting completion date at the earlier of 75% occupancy of the facility and related lots or 2 years from substantial completion. Prior to that time, the cost of the project will be adjusted by the net operating income or loss.

Capital assets are amortized on a straight-line basis as follows:

Office furniture and equipment	4 – 10 years
Terminal furniture and fixtures	5 – 20 years
Shop equipment	5 – 10 years
Mobile equipment	6 – 20 years
Computer software	3 – 5 years
Computer hardware	3 – 5 years
Pavement leasehold improvements	15 years
Structural leasehold improvements	5 – 40 years
Security equipment	6 – 40 years
Baggage system	20 years
Land leasehold improvements and land transfer tax	20 – 60 years

Gain or loss on disposal of individual assets is recognized in income in the year of disposal

[e] Pension obligations

The Authority sponsors both defined benefit and defined contribution pension plans covering substantially all employees.

The cost of defined benefit pensions is determined using the projected benefit method prorated on employment services and is expensed as the employees provide services. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lifetime of the employee group. Gains or losses arising from plan curtailments and settlements are recognized in the year in which they occur. For purposes of calculating the expected return on plan assets, pension assets are revalued at fair value.

The cost of defined contribution benefits is expensed as earned by employees. The Authority makes contributions in accordance with plan agreements.

[f] GAAP for private enterprises ["PE GAAP"]

In December 2009, the Accounting Standards Board approved the incorporation of the standards set out in Part II of the CICA Handbook – Accounting as the accounting standards for private enterprises. The effective date for the adoption of PE GAAP within financial statements is applicable for year ends beginning on or after January 1, 2011. Earlier application is permitted. The Authority has not yet assessed the impact of adopting these accounting standards.

3. CASH AND MARKETABLE SECURITIES

Cash and marketable securities consist of the following:

	2010 $	2009 $
Cash	**1,796,909**	2,550,890
Marketable securities	**853,264**	1,168,323
	2,650,173	3,719,213
Less restricted for capital purposes	**(1,500,000)**	(2,000,000)
	1,150,173	1,719,213

Marketable securities consist of fixed income, government and corporate bonds bearing interest at rates ranging from 3.75% to 4.90% and having maturity dates ranging from December 3, 2013 to December 10, 2022.

The Board of Directors has undertaken measures to provide for the funding of approved capital projects designed to maintain and improve the facilities, equipment and structures of the Airport. The amounts restricted for this purpose are subject to change at the discretion of the Board of Directors. In 2010, the Board of Directors approved the use of restricted cash in the amount of $500,000 for capital purposes.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2010		2009	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Office furniture and equipment	**82,086**	**46,784**	76,178	39,376
Terminal furniture and fixtures	**204,567**	**73,718**	126,790	55,104
Shop equipment	**338,603**	**176,915**	282,736	148,140
Mobile equipment	**5,237,780**	**1,845,817**	4,244,572	1,594,208
Computer software	**45,943**	**35,510**	44,401	32,409
Computer hardware	**148,133**	**110,965**	144,452	90,716
Pavement leasehold improvements	**2,108,546**	**926,036**	2,104,314	788,445
Structural leasehold improvements	**26,072,988**	**4,903,740**	25,937,931	4,143,337
Security equipment	**714,768**	**281,569**	675,926	231,482
Baggage system	**3,367,646**	**846,621**	3,367,646	694,755
Gateway Project	**10,769,205**	**—**	—	—
Land leasehold improvements and land transfer tax	**1,806,730**	**391,271**	1,806,730	327,286
	50,896,995	**9,638,946**	38,811,676	8,145,258
Less accumulated amortization	**9,638,946**		8,145,258	
Construction-in-progress	**4,473,812**		52,207	
Net book value	**45,731,861**		30,718,625	

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $30,918,363.

During the same period, cumulative AIF revenue was $25,961,058.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	2010 $	2009 $
Promissory note [a]	**403,985**	403,985
Demand instalment loan [b]	**13,062,971**	13,807,415
	13,466,956	14,211,400
Less current portion	**825,241**	744,444
	12,641,715	13,466,956

[a] The promissory note payable to the Minister of Finance for Ontario relating to the land transfer tax bears no interest and is repayable in five equal annual instalments of $80,797 commencing 2011.

[b] The demand instalment loan is comprised of two non-revolving credit facilities to assist in financing the Air Terminal Building expansion. The first facility, having an outstanding balance of $10,513,000 [2009 - $11,057,440], bears interest at prime minus 15 basis points and is repayable in monthly principal payments based on the following instalment schedule:

	$
March 2009 - February 2013	45,370
March 2013 - February 2018	64,815
March 2018 - February 2023	90,741

The Authority has entered into and designated as a hedging item, an interest rate swap agreement linked to the amortizing balance of this facility, with the lender as counterparty, to swap its floating rate obligation of prime minus 15 basis points for a fixed rate of 6.09%. As at December 31, 2010, the fair value of this swap agreement represented a liability of $2,028,445 [2009 - $1,899,206]. The fair value of interest rate swaps generally reflect the estimated amount that the Authority, if required to settle the outstanding contract, would be required to pay or would be entitled to receive at year end.

The second non-revolving facility having a balance outstanding of $2,549,971 [2009 - $2,749,975] bears interest at prime minus 15 basis points and is payable in monthly payments of principal of $16,667 plus interest.

The facilities are subject to a financial covenant in the form of a cash coverage ratio. The Authority is not in compliance at year end. The Authority has received a waiver of the covenant from the lender for the period ending December 31, 2010.

Although the terms of the facilities include a demand feature, the Authority has negotiated a specific repayment schedule, as described above, to repay the debt over a 20 year period. Based on this schedule, and the waiver from the lender, the loan has been classified as long-term. As at December 31, 2010, the fair value of these facilities approximates their carrying value. The lender has taken as collateral a first charge mortgage for $18,000,000 over property at 1750 Crumlin Road.

The Authority also has a revolving operating line of credit in the amount of $500,000, with interest payable at the bank's prime rate minus 15 basis points. An additional credit facility has been approved to provide financing for the terminal building expansion that commenced in 2010. A $3,000,000 non-revolving facility has been approved with interest payable at the bank's prime rate minus 15 basis points. No amounts were drawn on this facility at year end.

6. DEFERRED REVENUES

Contributions

The balance of deferred contributions consists of the following:

	2010 $	2009 $
[i] Security grant	**265,040**	280,378
[ii] Canadian Air Transport Security Authority ('CATSA')	**1,953,350**	2,070,287
[iii] Gateway	**9,718,104**	
Total	**11,936,494**	2,350,665

[i] Security grant

In 2002, the Authority received a security grant to fund capital projects associated with the Security and Policing Program. This contribution was deferred and is amortized to income on the same basis as the amortization of the related security improvements.

	2010 $	2009 $
Security grant, beginning of year	**280,378**	295,716
Amortization during the year	**(15,338)**	(15,338)
Security grant, end of year	**265,040**	280,378

[ii] CATSA funding

In 2004 and 2005, the Authority received funding from CATSA to partially fund the capital costs associated with the construction of the new hold baggage system. These contributions were deferred and are being amortized to income on the same basis as the amortization of the related hold baggage system.

	2010 $	2009 $
CATSA funding, beginning of year	**2,070,287**	2,187,224
Amortization during the year	**(116,937)**	(116,937)
CATSA funding, end of year	**1,953,350**	2,070,287

[iii] Gateway funding

In 2010, the Authority received funding from the Federal Economic Development Agency for Southern Ontario ["FedDev"] and the City of London to partially fund the capital costs associated with the construction of an International Air Freight Transshipment Centre.

	2010 $	2009 $
Gateway funding, beginning of year	**—**	—
FedDev contribution	**7,218,104**	—
City Of London contribution	**2,500,000**	—
Gateway funding, end of year	**9,718,104**	—

7. STATEMENT OF CASH FLOWS

The following represents the net change in non-cash working capital balances related to operations:

	2010 $	2009 $
Decrease (increase) in current assets		
Accounts receivable	**(113,719)**	(210,242)
Prepaid expenses and deposits	**(4,954)**	6,697
	(118,673)	(203,545)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**770,796**	(99,191)
Deferred revenue	**28,375**	(348)
	799,171	(99,539)
	680,498	(303,084)

8. EMPLOYEE BENEFIT PLANS

	2010 $	2009 $
[a] Defined benefit pension plan asset	**1,481,000**	1,347,000
[b] Supplemental pension plan obligation	**(149,000)**	(148,000)
Accrued pension asset, net	**1,332,000**	1,199,000

[a] Defined benefit pension plan

The Authority sponsors a pension plan on behalf of its employees, which has defined benefit and defined contribution components. This plan is administered as part of the Canadian Airport Authorities and Canadian Port Authorities Pension Plan [the "Plan"]. The most recent valuation was determined using membership data as at January 1, 2010 and extrapolated to December 31, 2010.

[i] Pension expense for the defined contribution plan is $53,989 [2009 - $40,994].

[ii] The following tables provide a reconciliation of the changes in the Plan's benefit obligation and fair value of plan assets:

	2010 $	2009 $
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	**6,384,000**	5,125,000
Authority service cost	**58,000**	48,000
Employee service cost	**14,000**	19,000
Interest cost	**392,000**	376,000
Benefit payments	**(343,000)**	(330,000)
Actuarial losses	**490,000**	1,146,000
Benefit obligation, end of year	**6,995,000**	6,384,000
CHANGE IN PLAN ASSETS		
Fair value of plan assets, beginning of year	**5,822,000**	4,968,000
Actual return on plan assets	**565,000**	647,000
Authority contributions	**451,000**	518,000
Employee contributions	**14,000**	19,000
Benefit payments	**(343,000)**	(330,000)
Fair value of plan assets, end of year	**6,509,000**	5,822,000

The asset allocation under the Superannuation Plan in respect of the Authority is as follows:

	2010 %	2009 %
Equity securities	**63.7**	63.6
Debt securities	**36.3**	36.4

The following table provides the components of net pension expense:

	2010 $	2009 $
Authority service cost	**58,000**	48,000
Interest cost	**392,000**	376,000
Expected return on plan assets	**(382,000)**	(330,000)
Amortization of unamortized net actuarial loss	**249,000**	87,000
Net pension expense	**317,000**	181,000

The following table provides a reconciliation of the accrued benefit asset:

	2010 $	2009 $
Accrued benefit asset, beginning of year	**1,347,000**	1,010,000
Pension expense for the year	**(317,000)**	(181,000)
Authority contributions	**451,000**	518,000
Accrued benefit asset, end of year	**1,481,000**	1,347,000

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations under the defined benefit plan as at December 31, 2010 are as follows:

	2010 %	2009 %
Discount rate	**5.50**	6.25
Expected long-term rate of return on plan assets	**6.50**	6.50

[b] Supplemental pension plan

The following table provides a reconciliation of the changes in the Plan's benefit obligation. The Plan is unfunded.

	2010 $	2009 $
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	**150,000**	133,000
Interest cost	**9,000**	10,000
Benefit payments	**(8,000)**	(8,000)
Actuarial loss during the year	**14,000**	15,000
Benefit obligation, end of year	**165,000**	150,000

The following table provides the components of net pension expense:

	2010 $	2009 $
Interest cost	**9,000**	10,000
Net pension expense	**9,000**	10,000

The following table provides a reconciliation of accrued benefit obligation:

	2010 $	2009 $
Accrued benefit obligation, beginning of year	**148,000**	216,000
Pension expense for the year	**9,000**	10,000
Contributions by the Authority	**(8,000)**	(8,000)
Amortization for the year	**—**	(70,000)
Accrued benefit obligation, end of year	**149,000**	148,000

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations for the supplemental plan are the same as for the defined benefit plan.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. As at December 31, 2010, other than accounts receivable, there were no significant concentrations of credit risk with respect to any class of financial assets. While the Authority deals with several customers in North America, five customers represent 74% of the trade accounts receivable balance at December 31, 2010. The maximum credit risk represents the full amount of the accounts receivable. The Authority anticipates receiving payments in full from these customers.

The Authority will continue to use derivative instruments to manage interest rate risk. Derivative financial instruments result in exposure to credit risk, since there is a risk of counterparty default. The Authority monitors and minimizes credit risk through various techniques including dealing with highly rated counterparties, limiting total exposure levels with individual counterparties and entering into master agreements which enable net settlement.

10. COMMITMENTS

The Authority has entered into construction contracts related to the terminal expansion which is expected to be completed by May 2011. Expected costs to be incurred in 2011 are approximately $2,026,000.