London International

start here. go ***anywhere***.

# 2014 Annual Report

SMALL
GOOD
GREAT
COZY
SPACIOUS
EFFICIENT
CONVENIENT
WELL-MAINTAINED
FRIENDLY
COMFORTABLE
EASY
ACCESSIBLE
CLEAN
EXCELLENT
SIMPLE
QUIET
NICE
FAST
QUICK
ORGANIZED
RELAXING
NEIGHBOURLY

Greater London International Airport Authority

## Mission Statement

As Southwestern Ontario's "Airport of Choice", the Greater London International Airport Authority will be self sustaining while exceeding the highest level of service and convenience for its customers and stakeholders.

## Behaviours

The GLIAA Board, Senior Administration and Staff will work effectively to ensure that the Airport continues to successfully serve the flying public and the community.

## Principles and Values

Professionalism and integrity united in the delivery of high value services and products.  Promoting common interests through collective action.

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# REPORT FROM THE BOARD CHAIR AND PRESIDENT

London International Airport celebrated its 75th birthday in 2014 and the Airport's history is embedded in our community and our nation. On September 24th, 1939 construction began on the new airport and in 1940 it opened as RCAF Station Crumlin under the British Commonwealth Air Training Plan. Pilots and navigators from many Allied nations trained in London. Aircraft were maintained and overhauled during the war years using the skills of men and women from both military and civilian backgrounds. Mosquito bombers were manufactured in London in the same building that today is the home of Diamond Aircraft and their world-class aircraft manufacturing facility.

Civilian aviation has also played a large role in the history of LIA. From DC-3s to Convair 580s, Superconstellations to Airbus 320s, and Dash 8s to Boeing 737-800s, millions of travellers have journeyed on these aircraft and are part of our heritage. Many of the airlines that have operated in our market have also been icons in the evolution of the airline industry. TransCanada Airlines, Canadian Airlines, Air Ontario, Northwest Airlines, Royal Airlines, Jetsgo, U.S Airways, WestJet Airlines, Air Canada, Sunwing, Transat and United Airlines are a sampling of the airlines that have called LIA 'home'.

A rich and diverse history is an accurate term to describe LIA's first seventy-five years and 2014 is another chapter in this exciting book.

Today LIA is a medium sized airport in Canada with ambitious plans. We want to be bigger and better and believe we are on the right track. Our strategic priorities continue to focus on growth, financial sustainability, passenger experience, community involvement and employee engagement. In 2014 we continued to achieve positive results with all of these priorities.

In the following pages you will find our financial results for 2014 that are consistent with our objective of financial sustainability. A financial surplus of $674,643 was achieved from increased revenues (6% over 2013 revenues) combined with expense control. The Airport's cash position increased by over $442,000 and corporate debt declined over $1.2 million to finish the year at $12,268,999.

LIA's corporate brand of 'Easy and Comfortable' was also at the forefront of many initiatives and accomplishments in 2014. Eighty-eight percent of the passengers told us they were "satisfied" or "more than satisfied" with the services that they experienced in 2014. Satisfaction levels this high reflect our collective efforts over the last several years to increase the services that we offer at LIA and to improve the passenger experience. We had the highest number of passengers in the history of the airport in 2014 and we added additional services including United Airlines flights to Newark. Passenger experience is a core strength of LIA and it will continue to be a priority as we expand our services in the future.

The ‘team’ approach to LIA’s business was also evident in 2014 through the cohesive efforts of our employees, management, and our Board of Directors. We have a committed group of employees at LIA who care about the quality of service we provide. LIA operates ‘around the clock, 365 days each year’, in all different weather conditions and operating environments. From our operations staff that maintains the airport on a cold January night to our administration that deals with all of our tenants in a happy and helpful manner, LIA operates successfully because of their efforts. Thank you to all of our staff.

In 2014 we bid ‘farewell’ to three members of our Board of Directors who contributed immensely over the terms of their office. Thank you to Janet Stewart, Rick Coates and Bernie Bierbaum for making a significant impact on LIA and helping shape our future. Janet in the role of Board Chair, Rick as Chair of the Finance Committee and Bernie’s involvement on each Board Committee; all provided valuable experience and enthusiasm. Thank you.

As we enter 2015 we remain confident and optimistic for the future of LIA. We recognize the competitiveness of our industry and the multitude of travel options that exist for passengers. Our strategic priorities, financial model and the attitude and talent of our team are the strengths of our organization. We look forward to a prosperous 2015.

Jeff Brown
Chair, Board of Directors

Michael Seabrook
President & CEO

Jeff Brown
Chair, Board of Directors

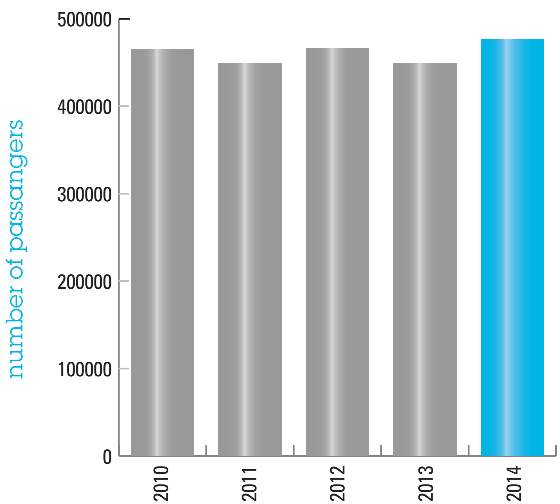
Michael Seabrook
President & CEO

EFFICIENT QUIET
ACCESSIBLE CLEAN
EASY
RELAXING
NEIGHBOURLY
CONVENIENT

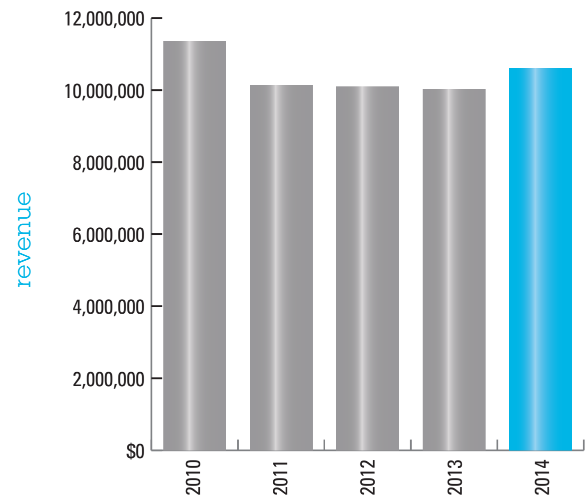
# 2014 IN REVIEW

## Business Matters - Just the Facts

In 2014 London International Airport (LIA) began the process of incorporating its brand into all facets of the operation. LIA's 'Easy and Comfortable' brand was developed through extensive market research that asked passengers, businesses and airport employees for their impression of the Airport. Convenient, friendly, easy, efficient, quick and comfortable were some of the more frequently used words indicated in the research. These words formed the basis of LIA's brand identity with the goal to enhance the brand through improvements in areas that include product (more flights to more destinations), marketing, passenger experience and culture. The early results from the 'easy and comfortable' brand have been positive, with airport users and employees beginning to feel the change.



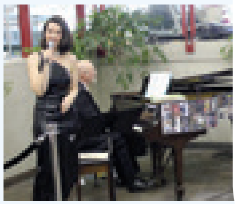

One of the more evident indicators of the brand focus is the number of passengers that used LIA in 2014. Passenger traffic surpassed every year in its history with 476,617 passengers flying in and out of LIA during 2014. This represents a 6% increase in passenger activity over 2013. In 2014 we embraced our 'easy and comfortable' brand and it appears our community did as well.




Increases in revenue in 2014 over 2013 is reflective of more users of the airport with passenger related revenue leading the way. With the improvements to the food and beverage offerings, we realized an excellent return on our investment. Alternative revenue avenues continue to be explored and include military vehicle testing on our paved surfaces, new automobile storage, agricultural crops on unused lands and improvements to the Crumlin Creek Golf Course.

## Air Services

United Airlines expanded their air service out of London with the introduction of twice daily direct flights to Newark, New Jersey. From London to Manhattan in less than two hours with all that the Big Apple has to offer was made possible.



The successful addition of Celebrity Cruises also took place in 2014 with the announcement they would launch weekly direct service to Miami. All inclusive Caribbean cruise vacations aboard the Celebrity Silhouette will depart each Sunday for three months starting February 2015. Celebrity Cruises are partnering with Canadian North to ensure smooth and comfortable flights.

The airport averages close to 40 departures and arrivals daily with non-stop service to Calgary, Winnipeg, Chicago, Toronto, Ottawa, Newark, Orlando, Cancun, Punta Cana, Santa Clara and Varadero.

Airlines servicing LIA in 2014 included Air Canada Express, WestJet, United (SkyWest & ExpressJet) Airlines, Canjet, Transat and Sunwing. Canadian North provided twice weekly chartered flights to the oil sands in Alberta.

## The 'EASY & COMFORTABLE' Airport

LIA's website was re-designed and launched in 2014. In keeping with the 'easy and comfortable' brand, users experienced changes allowing for quick location of the information they were seeking. Users can also now book their travel directly through the website. A travel calculator was introduced enabling consumers to compare costs with other area airports. The website domain was changed to www.flylondon.ca as part of the revamping – simple and easy to remember. In addition one can 'walk' through the airport through a virtual tour to ease any anxiety and answer questions before arriving at our front door.

In 2014 we continued our commitment to the traveling public with more improvements to the terminal. The change-over to self-drop baggage continued providing a simple means for passenger check-in while minimizing the physical stress of baggage handling on airline Customer Service Agents. The "On the Fly" Café continues to improve with a new look, better selection of refreshments including draft beer from local breweries, more seating and live music.


In September, LIA hosted a trade show inviting travel agents across the region and airline partners. Over 135 attended enjoying a luncheon reception and wandered through exhibits outlining the various services that fly in and out of London. It is important for the local and regional travel agents to be familiar with our services, layout, parking and amenities so they can provide accurate information to their clients.


## Airport **Activity**

In August 2013, Fanshawe College purchased the facilities formerly owned by Jazz Aviation to create a permanent home for its aviation programs with facilities that match the real world industry environment. In 2014 major construction took place and the transformation is amazing. Just over 120 students have new classrooms and operational shops to work from.


Cargo activity continues to increase at LIA. While most of the cargo flowing in and out of LIA would be considered typical of most airports, 2014 saw some interesting action at the cargo facility. Numerous flights took place with cattle being shipped by a local farmer to Kazakhstan. Each shipment saw over 200 head of cattle transported utilizing an Atlas Airlines 747-400. The nighttime flights tested the full capabilities of the cargo handling operations at LIA and the Airport passed with flying colours. Live animal transport has significant potential for LIA given its geographic location in the heartland of farming within Canada.

## Capital

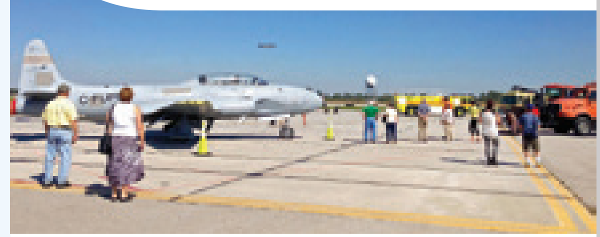
The capital program at LIA continued in 2014 with over $1 million in capital purchases during the year. LIA continues to ensure equipment, services and property are in excellent shape and are safe for employees and the public. An example of a capital purchase is the addition of a new $350,000 runway sweeper that ensures LIA has fast and technically advanced equipment to keep pace with the demands of our airlines and travelling public.


Electrical upgrades were also part of our 2014 capital program with the addition of a new 'main transfer switch' that guarantees uninterrupted power in the event of a power disruption. Since the airport privatization in 1998, more than $60 million has been spent to maintain and improve on the integrity of the services that LIA provides.

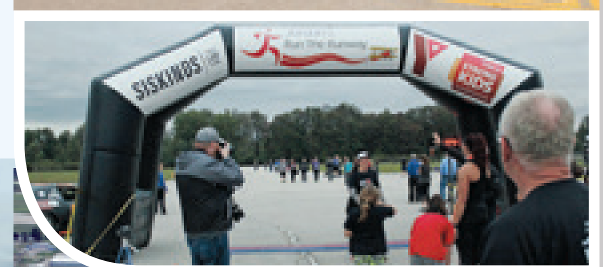
## Community

LIA was the site for several community based events over the course of 2014. From a 'stroll' down the 8,800' runway to singing Christmas carols with world-class musicians, it was an eventful year.

**Doors Open** is a province wide event that opens up spaces for local residents and visitors to discover, celebrate and learn about the City and its culture. Over 2000 people visited our airport and LIA provided tours of the airport terminal and welcomed visitors allowing them to get up close and personal with aircraft and airport specific equipment.



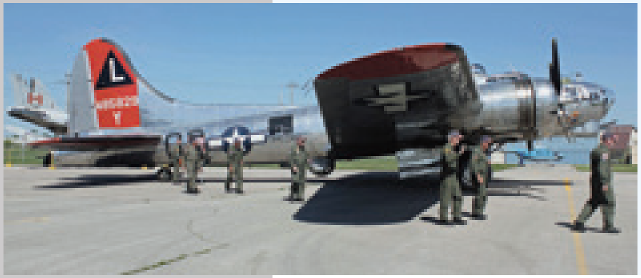
**Jordan's Run the Runway,** in support of YMCA Strong Kids, invaded the airport airside. The inaugural event started to the south at Diamond Aircraft and participants ran down the 8,800' long runway. In excess of $67,000 was raised for Camp Queen Elizabeth and LIA was proud to be part of this worthwhile event.





London lost a city gem in 2014 with the financial collapse of **Orchestra London.** Just prior to the Christmas season coming to a close, members of the Orchestra delivered entertainment to weary travelers in the form of a 'flash concert'. They invited spectators to join them by conducting and singing along to Christmas favourites.

Flying displays also returned to LIA in 2014 with **'Legends over London'.** The Jet Aircraft Museum is based in London and they held a two day flying and static display event that attracted thousands of area jet and flying enthusiasts. The well attended event raised money for local charities and provided an opportunity to reflect back on the contributions of some of the early jet aircraft technology.



LIA provided financial support to airport staff in their **charitable endeavours and sporting team sponsorships.** BBQ luncheons were also held over the summer on a monthly basis with the airport staff hosting the BBQs with proceeds going to support a charity that was chosen by an employee of the airport or one of its tenants. They got so popular we had 'drive by' service and delivery to the cell phone lot.

Charitable organizations that benefited from the generosity of LIA and its employees in 2014 included:

- YMCA Sweat for Strong Kids
- Goodlife Kids Foundation
- Big Brothers Big Sisters London
- Make-a-Wish Foundation
- Ronald McDonald House
- St. Joseph's Health Care Foundation
- Multiple Sclerosis Society of London
- Royal Canadian Legion – Military Service Recognition
- Stratford Perth Community Foundation
- Rotary Club of London Foundation
- Leukemia & Lymphoma Foundation
- Alzheimer's Society of London & Middlesex
- Canadian FOP Network
- Salvation Army
- London & Area Food Bank – Business Cares
- Celebrate London – New Year's Eve Celebration
- London Regional Cancer Centre

## Growth begins at Home

In 2013 the employees decertified their union and formed an Employee Association. The Association allows for direct communication between the employees and management without a middleman or third party being involved. Shortly after the formation of the Association a 2 year Collective Agreement was finalized ending December 31, 2014. This year, before the agreement came to an end, both parties sat down and negotiated a 5 year agreement that would ensure financial stability for all parties as well as changes to the organizational structure that allows for better utilization of manpower and skills.

# DISCLOSURE REQUIREMENTS OF THE GROUND LEASE

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. Subsection 9.01.07 of the Ground Lease requires the Authority to publish an annual report that includes the matters below.

## Report on the Business Plan and Objectives for 2014

| | Plan | Actual | Variance |
|---|---|---|---|
| **Revenue** | $9,987,647 | 10,612,324 | 624,677 |
| **Expenses** | $9,879,874 | 10,415,734 | (535,860) |
| **Capital Expenditures** | $1,005,000 | 986,724 | (18,276) |

- The Auditors' Report and the audited financial statements are found on page 15 to 31
- The notes accompanying the Audited Financial Statements provide a summary of the 2014 financial results

## Report on the Business Forecast for 2015 - 2019

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Revenue** | $10,786,976 | 11,002,715 | 11,222,769 | 11,447,225 | 11,676,169 |
| **Expenses** | $10,302,431 | 10,469,106 | 10,594,605 | 10,700,551 | 10,861,059 |
| **Capital Expenditures** | $2,000,000 | 1,000,000 | 1,000,000 | 1,500,000 | 1,000,000 |

- Revenue includes Airport Improvement Fees (AIF)
- Expenses includes interest and amortization (a non cash item)
- Capital forecast includes both eligible and non-eligible AIF items

## Remuneration

***Directors' Compensation***
The annual compensation for the Board of Directors, consisting of honorariums and per diems for the year ending December 31, 2014 was $185,233

***Senior Management Compensation***
The annual compensation for the management team for the year ending December 31, 2014 was $634,146

## Ethical Business Conduct

The Greater London International Airport has established and maintains a comprehensive Code of Conduct. All Directors and Officers have completed Disclosure Statements and there were no instances of real or potential Conflicts of Interest brought forward to the Board of Directors during 2014.

## Competitive Tenders

The Greater London International Airport is committed to doing business locally and in competitive fashion. All projects with a value in excess of $75,000 (base year 1998 = 100 CPI annually adjusted) require a public tender or request for proposal. To that end, the Authority sought competitive bids on all contracts as required.

# GOVERNANCE

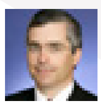
The Greater London International Airport Authority (GLIAA) operates London International Airport. The not-for-profit Airport Authority has full operational and financial control of the Airport under the Federal Government's National Airports Policy.

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

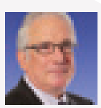
### Board Of Directors



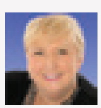
**Jeff Brown** (Chair)
18 Asset Management Inc

**Robert Flack** (Vice-Chair)
Masterfeeds Inc.

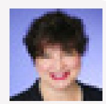
**Gary Blazak**
BLAST inc



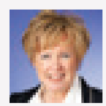
**Don Bryant**
McKenzie Lake Lawyers



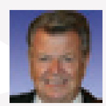
**Ann Campbell**
Ingersoll District Chamber of Commerce



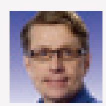
**Michelle Faysal**
Management Effectiveness



**Sandi Firman**
Pathways Skill Development



**Bill Graham**
South Winds Development



**Ken Kalopsis**
StarTech.com Ltd.

**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


## Senior Management Team

| | |
|---|---|
| Brad Rice | Manager, Business Development |
| Gerry Vanderhoek | Manager, Commercial Services & Passenger Experience |
| Michael Seabrook | President & Chief Executive Officer |
| Steve Faulkner | Manager, Operations |
| Janet Carr | Director, Finance & Human Resources |

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## Corporate Offices

**Greater London International Airport Authority**

1750 Crumlin Road,
London, Ontario N5V 3B6
Phone: 519-452-4015
Fax: 519-453-6219
www.flylondon.ca

## Legal Counsel

**Miller Thomson LLP**

One London Place, Suite 2010
255 Queens Avenue
London, Ontario N6A 5R8

## Auditors

**Ernst & Young LLP**

One London Place, Suite 1800
255 Queens Avenue
London, Ontario N6A 5S7

# INDEPENDENT **AUDITORS' REPORT**

To the members of the **Greater London International Airport Authority**

We have audited the accompanying financial statements of **Greater London International Airport Authority,** which comprise the statement of financial position as at December 31, 2014, and the statements of operations, changes in net assets 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 accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## 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 auditors' 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 auditors consider 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 **Greater London International Airport Authority** as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

London, Canada
March 27, 2015

Ernst & Young LLP

Chartered Professional 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

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | *[restated – note 2[b]]* |
| **Current** | | |
| Cash and marketable securities *[note 3]* | **2,424,560** | 1,904.365 |
| Accounts receivable | **1,017,223** | 663,453 |
| Prepaid expenses and deposits | **91,280** | 134,557 |
| **Total current assets** | **3,533,063** | 2,702,375 |
| Accrued pension asset *[note 8]* | **1,315,000** | 1,258,000 |
| Capital assets, net *[note 4]* | **44,529,289** | 45,786,709 |
| Marketable securities restricted for capital purposes *[note 3]* | **2,000,000** | 2,000,000 |
| | **51,377,352** | 51,747,084 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **1,620,833** | 746,720 |
| Deferred revenue | **20,025** | 20,075 |
| Current portion of promissory note payable *[note 5]* | **80,797** | 80,797 |
| Demand installment loan *[note 5]* | **12,107,405** | 13,235,189 |
| **Total current liabilities** | **13,829,060** | 14,082,781 |
| Long-term portion of promissory note payable *[note 5]* | **80,797** | 161,594 |
| Deferred capital contributions *[note 6]* | **11,742,721** | 12,130,578 |
| **Total liabilities** | **25,652,578** | 26,374,953 |
| **Net assets** | **25,724,774** | 25,372,131 |
| | **51,377,352** | 51,747,084 |

On behalf of the Board:

Director Director

*See accompanying notes*

## STATEMENT OF **CHANGES IN NET ASSETS**

Year ended December 31

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| | | *[restated – note 2[b]]* |
| **Balance, beginning of year** | **25,372,131** | 23,806,233 |
| Remeasurements pension plan valuation allowance *[note 8 [a]]* | **(592,000)** | (434,000) |
| Remeasurements pension plan actuarial gains *[note 8)* | **270,000** | 744,000 |
| Surplus for the year | **674,643** | 1,255,898 |
| **Balance, end of year** | **25,724,774** | 25,372,131 |

*See accompanying notes*

# STATEMENT OF **OPERATIONS**

Year ended December 31

| | 2014<br>$ | 2013<br>$<br>*[restated – note 2[b]]* |
|---|---|---|
| **REVENUES** | | |
| Airport improvement fees *[note 4]* | **3,365,759** | 3,184,661 |
| Concessions | **3,018,817** | 2,780,318 |
| Landing and terminal fees | **2,871,991** | 2,668,040 |
| Rentals | **773,503** | 766,026 |
| Security | **407,640** | 482,597 |
| Other | **174,614** | 140,007 |
| | **10,612,324** | 10,021,649 |
| **EXPENSES** | | |
| Amortization of capital assets | **2,234,200** | 2,145,378 |
| Salaries and wages | **2,191,568** | 2,069,552 |
| Advertising and business development | **1,186,123** | 85,517 |
| Municipal taxes | **711,262** | 674,123 |
| Interest expense *[note 5]* | **684,447** | 746,213 |
| Utilities | **576,464** | 555,290 |
| Contracted services | **471,694** | 566,198 |
| Benefits | **420,072** | 421,354 |
| Repairs, maintenance and equipment rentals | **368,767** | 330,365 |
| Contracted maintenance | **357,744** | 332,716 |
| Office and administration | **328,560** | 301,033 |
| Directors' fees and expenses | **193,473** | 191,753 |
| Materials and supplies | **191,592** | 198,318 |
| Professional fees | **160,607** | 246,353 |
| Vehicle maintenance | **153,669** | 156,780 |
| Insurance | **124,282** | 131,087 |
| Transport Canada rent | **61,210** | 52,311 |
| | **10,415,734** | 9,204,341 |
| **Surplus of revenues over expenses before the following** | **196,590** | 817,308 |
| Amortization of deferred capital contributions *[note 6]* | **387,857** | 387,480 |
| Investment income | **99,940** | 81,012 |
| Loss on disposal of capital assets | **(9,744)** | (29,902) |
| Surplus for the year | **674,643** | 1,255,898 |

*See accompanying notes*

## STATEMENT OF **CASH FLOWS**

| Year ended December 31 | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | *[restated – note 2[b]]* |
| Surplus for the year | **674,643** | 1,255,898 |
| Add (deduct) items not involving cash | | |
| Amortization of capital assets | **2,234,200** | 2,145,378 |
| Loss on disposal of capital assets | **9,744** | 29,902 |
| Amortization of deferred capital contributions | **(387,857)** | (387,480) |
| Pension expense (recovery) | **(16,000)** | 10,000 |
| | **2,514,730** | 3,053,698 |
| Net change in non-cash working capital balances related to operations *[note 7]* | **563,570** | 400,148 |
| Contributions to pension plan | **(363,000)** | (381,000) |
| **Cash provided by operating activities** | **2,715,300** | 3,072,846 |
| **INVESTING ACTIVITIES** | | |
| Purchase of capital assets | **(986,724)** | (1,593,016) |
| Proceeds on disposal of capital assets | **200** | 6,971 |
| Increase in marketable securities *[note 3]* | **(78,051)** | (62,401) |
| **Cash used in investing activities** | **(1,064,575)** | (1,648,446) |
| **FINANCING ACTIVITIES** | | |
| Repayment of promissory note payable | **(80,797)** | (80,797) |
| Repayment of demand installment loan | **(1,127,784)** | (1,088,894) |
| Deferred capital contributions received *[note 6]* | **—** | 475 |
| **Cash used in financing activities** | **(1,208,581)** | (1,169,216) |
| **Net (decrease) increase in cash during the year** | **442,144** | 255,184 |
| Cash, beginning of year | **1,670,118** | 1,414,934 |
| **Cash, end of year** *[note 3]* | **2,112,262** | 1,670,118 |

*See accompanying notes*

# NOTES TO FINANCIAL STATEMENTS

December 31, 2014

## 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. On July 2, 2014 the Authority received the Certificate of Continuance issued under the Canada Not-for-profit 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 Authority is exempt from federal and provincial income taxes as it is a not for profit organization.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGE IN ACCOUNTING POLICY

### [a] Significant accounting policies

These financial statements have been prepared by management in accordance with Part III of the *Chartered Professional Accountants of Canada* ["CPA Canada"], which constitutes generally accepted accounting principles for not-for-profit organizations in Canada.

The significant accounting policies are as follows:

### Use of estimates

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

**Income and revenue recognition**

The Authority follows the deferral method of accounting for contributions. Externally restricted contributions such as government 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, which consists of interest and realized and unrealized gains and losses, landing and terminal fees, concessions and rental revenues are recognized when earned.

**Financial Instruments**

Marketable securities reported at fair value consist of investments in fixed income securities that the Authority designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations in the period during which they are incurred.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value adjusted for transaction costs, and are subsequently measured at cost, net of any provisions for impairment.

**Derivative financial instruments and hedge accounting**

The Authority uses an interest rate swap to mitigate the effect of changes in interest rates on variable-rate debt. When both at the inception of a hedging relationship and throughout its term the Authority has reasonable assurance that the critical terms of the hedging item and the hedged item are the same, the Authority may choose to designate that hedge accounting be applied.

The Authority then formally documents the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific risk exposure or exposures being hedged and the intended term of the hedging relationship.

Interest rate swaps in qualifying hedging relationships are not recognized until their maturity. Interest on the debt is recorded at the stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs. Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to the interest expense on the hedged item in the period during which they accrue.

Hedge accounting may not be electively discontinued. If an interest rate swap is discontinued, any gain or loss is recognized as an adjustment to the debt and amortized to operations as interest payments are accrued. If the debt is derecognized, the interest rate swap is measured at fair value and any gain or loss is recognized in operations.

**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.

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 |
| Gateway Project | 40 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.

**Pension obligations**

The Authority sponsors a registered pension plan with defined benefit and defined contribution portions, as well as a non-registered defined benefit supplemental employee retirement plan ["SERP"]. These plans cover all full-time employees.

The Authority accounts for its defined benefit plan in accordance with CPA Canada Handbook Section 3463, *Reporting employee future benefits by not-for-profit organizations.* The Authority measures the defined benefit obligations using an actuarial valuation for funding purposes. The cost of defined benefit pensions is comprised of remeasurements and other items, current service cost and finance cost. Remeasurements and other items, which include the difference between actual return on plan assets and the return calculated using the discount rate used in determining the defined benefit obligation, actuarial gains and losses, the effect of any valuation allowance in the case of a defined benefit asset, past service costs, and gains or losses arising from plan curtailments and settlements, are recognized directly in net assets in the statement of financial position rather than in the statement of operations. Current service cost and finance cost for the period are recognized as an expense in the statement of operations.

The cost of defined contribution benefits is expensed when paid. The Authority makes contributions in accordance with plan agreements.

**[b] Change in accounting policy**

On January 1, 2014, the Authority adopted the amended CPA Canada Handbook Section 3463, *Reporting employee future benefits by not-for-profit organizations,* which changes the recognition and measurement of the defined benefit plan's expense and the obligation related to this plan. The most significant changes include the elimination of the deferral and amortization approach, the choice to measure the obligation using either a funding valuation or an accounting valuation, and the measurement date must be the balance sheet date. The Authority has adopted the change to Section 3463 retrospectively and in the process has chosen to change from using an accounting valuation to a funding valuation to measure its defined benefit obligation. The retrospective application of these changes results in adjustments to balances that were presented in the prior year's financial statements in accordance with previous Handbook Section 3461. The following provides a reconciliation of the impact on opening net assets and surplus for the year ended December 31, 2013 arising from this change in accounting policy:

| | Net assets as at January 1, 2013 $ | Surplus for the year ended December 31, 2013 $ |
|---|---|---|
| Net assets and surplus – Section 3461 | 24,873,233 | 1,186,898 |
| Adjustments | | |
| Recognition of unamortized actuarial losses [i] | (2,500,000) | — |
| Difference between accounting and funding valuations [ii] | 1,433,000 | — |
| Impact to pension expense [iii] | — | 69,000 |
| Net assets and surplus – Section 3463 | 23,806,233 | 1,255,898 |

[i] As at January 1, 2013, the Authority recognized all unamortized net actuarial losses which resulted in a reduction to the net accrued pension asset on the statement of financial position.

[ii] As at January 1, 2013, the Authority recognized the impact of moving from the accounting basis to the funding basis, which resulted in a decrease to the defined benefit obligation and thus an increase to the net accrued pension asset on the statement of financial position.

[iii] For the year ended December 31, 2013, the Authority recognized a reduction to pension expense resulting from excluding remeasurement items which include amortization of actuarial losses, interest cost, and the expected return on plan assets.

## 3. CASH AND MARKETABLE SECURITIES

Cash and marketable securities consist of the following:

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Cash | **2,112,262** | 1,670,118 |
| Marketable securities | **2,312,298** | 2,234,247 |
| | **4,424,560** | 3,904,365 |
| Less restricted for capital purposes | **2,000,000** | 2,000,000 |
| | **2,424,560** | 1,904,365 |

Marketable securities consist of fixed income, government and corporate bonds bearing interest at rates ranging from 2.3% to 4.38% and having maturity dates ranging from June 3, 2016 to December 6, 2024.

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.

## 4. CAPITAL ASSETS

Capital assets consist of the following:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Cost** | **Accumulated amortization** |
| | **$** | **$** | **$** | **$** |
| Office furniture and equipment | **98,640** | **65,326** | 96,361 | 59,752 |
| Terminal furniture and fixtures | **581,241** | **293,143** | 512,193 | 213,111 |
| Shop equipment | **367,416** | **293,813** | 366,431 | 234,737 |
| Mobile equipment | **5,559,882** | **2,609,877** | 5,214,733 | 2,396,105 |
| Computer software | **59,205** | **46,043** | 53,719 | 41,614 |
| Computer hardware | **109,781** | **76,786** | 100,477 | 57,827 |
| Pavement leasehold improvements | **2,401,974** | **1,495,844** | 2,290,782 | 1,356,383 |
| Structural leasehold improvements | **34,527,837** | **9,213,104** | 34,180,886 | 8,066,025 |
| Security equipment | **709,357** | **409,593** | 686,785 | 377,520 |
| Baggage system | **3,405,355** | **1,460,683** | 3,405,355 | 1,306,931 |
| Gateway Project | **11,135,764** | **556,390** | 11,135,764 | 277,996 |
| Land leasehold improvements and land transfer tax | **2,751,800** | **658,361** | 2,715,067 | 583,843 |
| | **61,708,252** | **17,178,963** | 60,758,553 | 14,971,844 |
| Less accumulated amortization | **17,178,963** | | 14,971,844 | |
| **Net book value** | **44,529,289** | | 45,786,709 | |

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $41,661,482 [2013 – $38,862,525]. During the same period, cumulative AIF revenue was $39,129,872 [2013 – $35,764,113].

## 5. DEMAND INSTALLMENT LOAN AND PROMISSORY NOTE PAYABLE

[a] The promissory note payable to the Minister of Finance for Ontario relating to land transfer tax bears no interest and is repayable in five equal annual installments of $80,797 [2012 – 2016].

[b] The demand installment loan is comprised of three non-revolving credit facilities that assisted in financing of the Air Terminal Building expansion. The first facility, having an outstanding balance of $7,907,450 [2013 – $8,685,230], bears interest at the bank's prime rate minus 15 basis points and is repayable in monthly principal payments based on the following installment 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 the bank's prime rate minus 15 basis points for a fixed rate of 6.09%. As at December 31, 2014, the swap had a fair value of $1,449,970 [2013 – $1,503,283] in favour of the lender. 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 at year end.

The second non-revolving facility, having a balance outstanding of $1,749,955 [2013 – $1,949,959], bears interest at the bank's prime rate minus 15 basis points and is payable in monthly payments of principal of $16,667 plus interest.

The third non-revolving facility, having a balance outstanding of $2,450,000 [2013 – $2,600,000], bears interest at the bank's prime rate minus 15 basis points and is payable in monthly payments of principal of $12,500 plus interest.

The facilities are subject to a financial covenant in the form of a modified fixed charge coverage ratio. The Authority was in compliance at year end.

Although the Authority has negotiated a specific repayment schedule, as described above, to repay the debt over a 20-year period, the terms of the facilities include a unilateral demand feature and, therefore, the entire balance has been classified as current. 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. As at December 31, 2014, there is no balance outstanding [2013 – nil].

## 6. DEFERRED CAPITAL CONTRIBUTIONS

The balance of deferred capital contributions consists of the following:

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| [i] Security grant | **239,223** | 244,721 |
| [ii] Canadian Air Transport Security Authority ["CATSA"] | **1,518,231** | 1,636,620 |
| [iii] Gateway | **9,974,489** | 10,237,433 |
| [iv] Nav Canada | **10,778** | 11,804 |
| | **11,742,721** | 12,130,578 |

[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.

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **Security grant, beginning of year** | **244,721** | 249,744 |
| Contributions during the year | — | 475 |
| Amortization during the year | **(5,498)** | (5,498) |
| **Security grant, end of year** | **239,223** | 244,721 |

[ii] CATSA funding

In 2004 and 2005, the Authority received contributions 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.

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **CATSA funding, beginning of year** | **1,636,620** | 1,755,009 |
| Amortization during the year | **(118,389)** | (118,389) |
| **CATSA funding, end of year** | **1,518,231** | 1,636,620 |

[iii] Gateway funding

In 2010, the Authority received funding from the Federal Economic Development Agency for Southern Ontario and the City of London to partially fund the capital costs associated with the construction of an International Air Freight Transshipment Centre. The Gateway project had an effective accounting completion date at the earlier of 75% occupancy of the facility and related lots or two years from substantial completion. Amortization commenced January 1, 2013.

| | **2014** | **2013** |
|---|---|---|
| | $ | $ |
| **Gateway funding, beginning of year** | **10,237,433** | 10,500,000 |
| Amortization during the year | **(262,944)** | (262,567) |
| **Gateway funding, end of year** | **9,974,489** | 10,237,433 |

[iv] Nav Canada funding

In 2012, the Authority received a contribution from Nav Canada for 50% of the costs related to the upgrade of the HVAC system in the Control Tower. This contribution was deferred and is amortized to income on the same basis as the amortization of the related asset.

| | **2014** | **2013** |
|---|---|---|
| | $ | $ |
| **Nav Canada funding, beginning of year** | **11,804** | 12,830 |
| Amortization during the year | **(1,026)** | (1,026) |
| **Nav Canada funding, end of year** | **10,778** | 11,804 |

## 7. STATEMENT OF CASH FLOWS

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

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **Decrease (increase) in current assets** | | |
| Accounts receivable | **(353,770)** | 236,555 |
| Prepaid expenses and deposits | **43,277** | 1,932 |
| | **(310,493)** | 238,487 |
| **Increase (decrease) in current liabilities** | | |
| Accounts payable and accrued liabilities | **874,113** | 160,576 |
| Deferred revenue | **(50)** | 1,085 |
| | **874,063** | 161,661 |
| | **563,570** | 400,148 |

## 8. EMPLOYEE BENEFIT PLANS

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| | | *[restated – note 2[b]]* |
| [a] Defined benefit pension plan asset | **1,536,000** | 1,493,000 |
| [b] Supplemental pension plan obligation | **(221,000)** | (235,000) |
| **Accrued pension asset, net** | **1,315,000** | 1,258,000 |

**[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, 2014 and was extrapolated to December 31, 2014.

[i] Pension expense for the defined contribution plan is $70,383 [2013 – $64,325].

[ii] Information about the Authority's defined benefit plan is as follows:

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| | | *[restated – note 2[b]]* |
| Fair value of plan assets | **9,900,000** | 8,947,000 |
| Benefit obligation | **7,338,000** | 7,020,000 |
| **Funded status – plan surplus** | **2,562,000** | 1,927,000 |
| Valuation allowance | **(1,026,000)** | (434,000) |
| **Defined benefit asset** | **1,536,000** | 1,493,000 |

The valuation allowance represents the amount by which the defined benefit plan surplus exceeds the expected future benefit that the Authority expects to realize from that surplus.

The asset allocation of the Plan is as follows:

| | 2014 | 2013 |
|---|---|---|
| | % | % |
| Equity securities | **61.8** | 62.4 |
| Debt securities | **30.6** | 29.9 |
| Other | **7.6** | 7.7 |

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

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| | | *[restated – note 2[b]]* |
| **Defined benefit asset, beginning of year** | 1,493,000 | 807,000 |
| Pension recovery for the year | 31,000 | 4,000 |
| Authority contributions | 354,000 | 405,000 |
| Valuation allowance | (592,000) | (434,000) |
| Actuarial gain | 250,000 | 711,000 |
| **Defined benefit asset, end of year** | **1,536,000** | 1,493,000 |

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

| | 2014 | 2013 |
|---|---|---|
| | % | % |
| | | *[restated – note 2[b]]* |
| Discount rate | **5.50** | 5.50 |
| Rate of compensation increase | **4.00** | 4.00 |
| Inflation rate | **2.50** | 2.50 |

**[b] Supplemental pension plan**

Information about the unfunded supplemental pension plan is as follows:

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| | | *[restated – note 2[b]]* |
| **Defined benefit obligation, beginning of year** | **235,000** | 230,000 |
| Pension expense for the year | **15,000** | 14,000 |
| Authority contributions | **(9,000)** | (9,000) |
| Actuarial gain | **(20,000)** | — |
| **Defined benefit obligation, end of year** | **221,000** | 235,000 |

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

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets create a risk that counterparties will fail to discharge an obligation, causing a financial loss. As at December 31, 2014, 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 83% [2013 – six customers represent 79%] of the trade accounts receivable balance as at December 31, 2014. 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 that enable net settlement.

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