London International

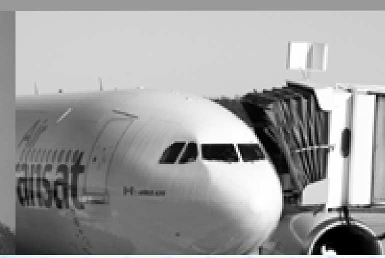
start here. go ***anywhere***.

2015 Annual Report

1940 - 75 years ago

1965 - 50 years ago

1990 - 25 years ago



2015

Greater London International Airport Authority

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

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.

On the cover:
1940: July 27,
Weldon Library
1965: May 20,
London Free Press
1990: June,
Den Pascoe
2015:December
London International

Principles and Values

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

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.

Contents

Report from the Chair and President & CEO

As we enter 2016 there is growing optimism and anticipation "in the air" at London International. Beginning with a renewed Strategic Plan in 2012, the airport has been planning and executing key initiatives designed to fortify the operations and financial performance. These initiatives have been beneficial and today the airport is well positioned for the future.

Our Annual Report provides you with an overview of our business success in 2015 and the financial results that support our growing operations.

The financial results for 2015 were very positive with solid outcomes in all categories. Revenue growth resulting in healthy financial surpluses each year are required to ensure the long-term viability of the airport. Increases in revenue for 2015 was close to 2% and was achieved with no increase in airport fees and charges. The surplus in 2015 was $1,290,851 which represents a significant spread over the 2015 budget and the actual results for 2014.

The airport continues to pay-down its long term debt and in 2015 close to $2 million was reinvested in the airport through self-funding. London International, since privatization in 1998, has invested close to $75 million in the airport assets and our infrastructure is a strength of our organization.

The establishment of our "Easy and Comfortable" brand was a dominate theme in many parts of our operations in 2015. Marketing research has told us that passengers prefer using London International. They consider the airport an easy, convenient and stress free alternative for air travel. They advise we should continue to improve our range of air services and the passenger experience in our facilities.

The 'EASY & COMFORTABLE' Airport

A long list of changes and improvements have been made in customer service in 2015. They include the implementation of our Blue Aces (Airport Comfort Enhancers). These new staff members provide operational support in our terminal while offering unsurpassed customer service to our passengers.

We also undertook major renovations to our terminal building, improved our wayfinding in and around the terminal and upgraded our automated parking equipment in our public parking lot. We are on a journey to make our airport better. The feedback from passengers and our own staff confirm that we are on the right path.

We acknowledge the significant contribution from our management and staff in 2015. We have a wonderful group of employees who genuinely care about our passengers as well as each other. These staff members have been instrumental in the "cultural change" that is sweeping through the airport and they are willingly embracing our "Easy and Comfortable" brand.

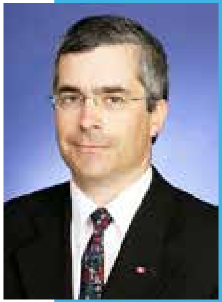
Our airport partners have also been instrumental in our success. The partners include our London based airlines, Canadian Border Services Agency, Canadian Air Transportation Security Authority and numerous other support businesses. Thank you for your dedication.

As we approach 2016 we are confident that the airport will continue to grow and prosper. We remain committed to "plan our work and work our plan" and we are seeing tangible results that are improving our Airport.

Our strategic priorities, financial model and the attitude and competence of our staff are the strength of our organization. We look forward to 2016.

Jeff Brown
Chair,
Board of Directors

Michael Seabrook
President & CEO

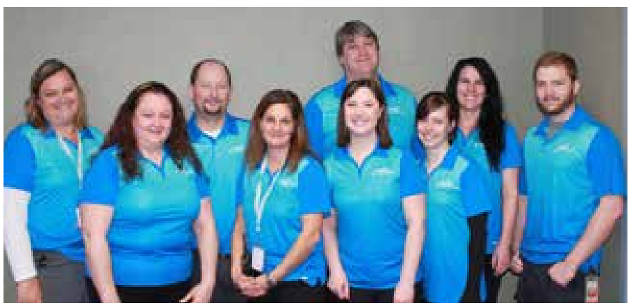


Jeff Brown
Chair,
Board of Directors

Michael Seabrook
President & CEO

Easy and Comfortable – that's what we are all about!

In 2014 London International Airport began the process of incorporating its brand into all facets of the operation. London International'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 London International'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.



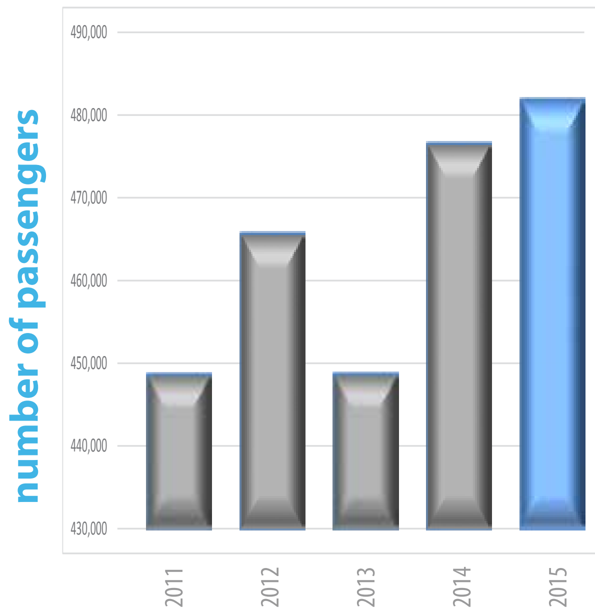
In 2015 the 'Easy and Comfortable' approach continued with the introduction of Airport Comfort Enhancers (ACEs). Our team of ACEs provide exceptional customer service while ensuring safety and security requirements are met in and around the terminal. They are easily identified with their blue sweaters and shirts. Friendly and helpful, they are there to assist in any way they can. They are fully trained in customer service as well as to responding to emergency situations.

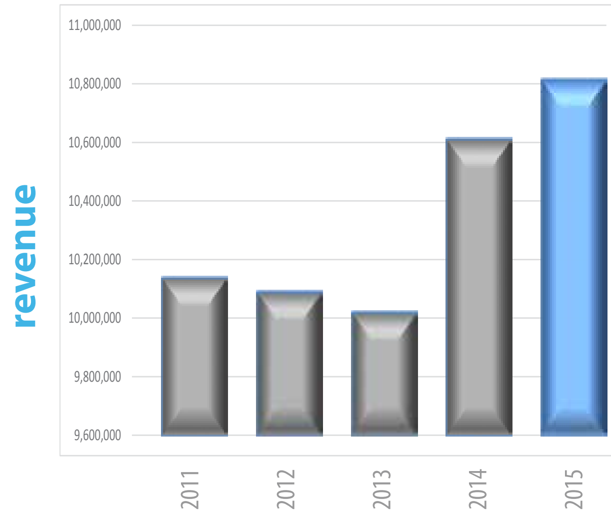
After a Request for Proposals (RFP) process, London International engaged the services of a wayfinding specialty company. From the moment you enter the airport property leading to the parking facility and terminal building it was evident a change was needed to provide clear, concise information to aid visitors in finding their way. Whether it was to park their vehicle, return a rental car, drop off a passenger, pick up a passenger, locate a specific tenant within the terminal building to leaving the property and finding the way out change was necessary.

In 2015 the exterior was upgraded with a new entrance sign and uniform signage as one drives into and around the airport terminal circle. The wayfinding is consistent with London International's new logo and colours. Old signs have been taken down and there is less clutter to confuse visitors. Universal symbols have been incorporated and the result is a fresh and unencumbered look to the airport.

The interior signage changes started in December 2015 and by March of 2016 the updated signage will be complete.

Passenger traffic surpassed every year in its history with 481,943 passengers flying in and out of LIA during 2015. While not a significant growth over 2014, LIA continues to attract more passengers year over year.





Revenue continued to increase in 2015 and many areas of growth relate to the rise in passenger traffic.

Travel Agents' Open House

Air Services

United Airlines expanded their air service out of London with the introduction of twice daily direct flights to Newark, New Jersey in October 2014. Unfortunately with the shift in foreign exchange with the Canadian Dollar, United Airlines decided the route was not going to be viable for them to continue and ceased Newark service in April of 2015. United continued with their Chicago service and remains a popular route.

All-inclusive Caribbean cruise vacations aboard the Celebrity Silhouette departed each Sunday for three months starting February 2015. Celebrity Cruises partnered with Canadian North to ensure smooth and comfortable flights. The introduction of this service was so successful it was brought back for the 2015/2016 winter season with service commencing earlier in the season and lasting 3 months.

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 London International in 2015 included Air Canada Express, West Jet, United (SkyWest & ExpressJet) Airlines, Canjet, Transat and Sunwing.

Celebrity Cruises Launch

Attention to the Customer

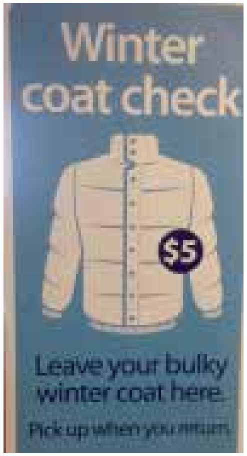
- the 'Easy and Comfortable' Airport

In addition to the Blue ACEs, airport terminal staff were introduced to the changes the LIA has been moving towards with branding and embracing 'Easy and Comfortable'. Information sessions as well as training were provided to LIA's partners with the end result of a unified front to ensure the LIA visitor has an exceptional experience while at London International.

When the terminal was expanded in 2003 a stairwell leading to offices on the second floor remained. This stairwell was located in the center of the concourse adjacent to the charter check-in counters. In 2015 the stairwell was removed and a central entrance door was installed allowing for better flow in and out of the terminal. The ability to control inside temperatures better was another benefit of installing a door with air curtains. The revolving doors were removed as they didn't allow easy exit when flights arrived with large number of passengers and their luggage.

Once through passenger screening, charter passengers were offered the opportunity to leave their winter coats behind as they boarded their flight to sunny destinations. The introduction of the Coat Check has been well received and we continue to look for other ways to make travel easier and stress free for our passengers.

Further enhancements to On the Fly provide passengers more food and beverage choices including hot treats and a greater selection in local products.



Capital

The capital program at LIA saw just under $2 million being spent on 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. Improvements to the terminal building included the removal of the stairwell and the installation of the central entrance.

The parking lot equipment was replaced allowing for better efficiencies and less down time. Debit card readers were included in the upgrade and users now have many options to pay for their parking. Airfield lighting was upgraded to provide for more effective usage.

Several pavement projects were completed in 2015, with the largest and most noticeable to the public was the repaving of Crumlin Road north of the airport entrance. With the influx of business in the Skyway Industrial Park and Dancor Business Park, traffic has increased significantly and the roadway was in need of repair.

Community

LIA continued to provide financial support to airport staff in their charitable endeavours and sporting team sponsorships. Monthly charity BBQ luncheons were held over the summer with the airport staff hosting and proceeds going to support a charity that was chosen by an airport employee. The weather cooperated each month and several times we ran out of food before we were scheduled to turn off the BBQ showing how much our airport partners embraced the initiative. Often passengers would stop by for a quick lunch before boarding their flight.

Jordan's Run the Runway 2015

Charitable organizations that benefited from the generosity of LIA and its employees in 2015 included:

- YMCA Sweat for Strong Kids – Jordan's Run the Runway
- Big Brothers Big Sisters London
- Make-a-Wish Foundation
- Jesse's Journey – Walk to Defeat Duchenne
- St. Joseph's Health Care Foundation
- Royal Canadian Legion – Military Service Recognition
- Leukemia & Lymphoma Foundation and Society of Canada
- Canadian FOP Network
- Tara "Boom" Houston Children's Foundation
- Coldest Night of the Year
- Swimming Canada
- Winter Ball – Children's Health Foundation
- Huron County Playhouse Guild
- Cystic Fibrosis Canada
- Threads of Life
- London Police Charity Golf Classic
- Fanshawe College – School of Transportation Technology
- Mission Services
- Salvation Army
- London & Area Food Bank – Business Cares
- Celebrate London – New Year's Eve Celebration
- London Regional Cancer Centre

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 2015

	Plan	Actual	Variance
Revenue	10,786,976	10,815,123	28,147
Expenses	10,302,431	9,974,617	(327,814)
Capital expenditures	2,000,000	1,986,389	(13,611)

- 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 2015 financial results

Report on the Business Forecast for 2016 - 2020

	2016	2017	2018	2019	2020
Revenue	11,749,470	12,041,357	12,340,541	12,587,352	12,839,910
Expenses	10,283,467	10,527,414	10,865,781	10,737,962	10,952,721
Capital expenditures	1,308,500	2,294,000	4,434,750	2,692,000	2,077,000

- 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

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 2015.

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.

Remuneration

Directors' Compensation

The annual compensation for the Board of Directors, consisting of honorariums and per diems for the year ending December 31, 2015 was $175,900.

Senior Management Compensation

The annual compensation for the management team for the year ending December 31, 2015 was $627,736.

Governance

In addition to the regular meetings, Board members serve on Standing and Ad hoc Committees:

Executive Committee

Finance/Audit Committee

Nominating Committee

Advisory Committee on Community and Area Issues

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.

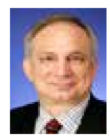
The Board of Directors of GLIAA provides governance to the Airport. Members are nominated by various entities representing the community at large including:

Federal Government
Provincial Government
Municipal Government
London Chamber of Commerce
London and District Labour Council
GLIAA Board

Greater London International Airport Authority Board of Directors

Jeff Brown (Chair)
18 Asset Management Inc

Robert Flack (Vice-Chair)
Masterfeeds Inc.

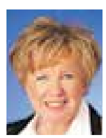


Gary Blazak
BLAST inc

Don Bryant
McKenzie Lake Lawyers

Ann Campbell
Ingersoll District Chamber of Commerce

Michelle Faysal
Management Effectiveness



Sandi Firman
Pathways Skill Development

Angela Francolini
McCormick's Canada

Bill Graham
South Winds Development

Ken Kalopsis
StarTech.com Ltd.

Rick Witherspoon
Retired

Senior Management Team

Front, L to R:
Gerry Vanderhoek *Manager, Commercial Services & Passenger Experience*
Janet Carr *Director, Finance & Human Resources*
Back, L to R:
Michael Seabrook *President & Chief Executive Officer*
Steve Faulkner *Manager, Operations*

Corporate Offices

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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, 2015, 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, 2015, 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.

Ernst + Young LLP

London, Canada
March 24, 2016

Chartered Professional Accountants
Licensed Public Accountants

Statement of Financial Position

Year ended December 31

	2015 $	2014 $
ASSETS		
Current		
Cash and marketable securities *[note 3]*	**2,446,106**	2,424,560
Accounts receivable	**668,100**	1,017,223
Prepaid expenses and deposits	**90,857**	91,280
Total current assets	**3,205,063**	3,533,063
Accrued pension asset *[note 8]*	**1,526,000**	1,315,000
Capital assets, net *[note 4]*	**44,196,755**	44,529,289
Marketable securities restricted for capital purposes *[note 3]*	**2,000,000**	2,000,000
	50,927,818	51,377,352
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 9]*	**1,544,101**	1,620,833
Deferred revenue	**22,800**	20,025
Current portion of promissory note payable *[note 5 [a]]*	**80,797**	80,797
Demand installment loan *[note 5[b]]*	**10,979,621**	12,107,405
Total current liabilities	**12,627,319**	13,829,060
Long-term portion of promissory note payable *[note 5[a]]*	**—**	80,797
Deferred capital contributions *[note 6]*	**11,354,874**	11,742,721
Total liabilities	**23,982,193**	25,652,578
Net assets	**26,945,625**	25,724,774
	50,927,818	51,377,352

See accompanying notes

On behalf of the Board:

Director

Director

Statement of Changes in Net Assets

Year ended December 31

	2015 $	2014 $
Balance, beginning of year	**25,724,774**	25,372,131
Remeasurement loss pension valuation allowance *[note 8[a]]*	**(14,000)**	(592,000)
Actuarial gain (loss) on accrued pension asset	**(56,000)**	270,000
Surplus for the year	**1,290,851**	674,643
Balance, end of year	**26,945,625**	25,724,774

See accompanying notes

Statement of OPERATIONS

Year ended December 31

	2015 $	2014 $
REVENUES		
Airport improvement fees *[note 4]*	**3,411,289**	3,365,759
Concessions	**3,150,641**	3,018,817
Landing and terminal fees	**2,868,159**	2,871,991
Rentals	**770,837**	773,503
Security	**370,960**	407,640
Other	**243,237**	174,614
	10,815,123	10,612,324
EXPENSES		
Salaries and wages	**2,456,871**	2,191,568
Amortization of capital assets	**2,296,079**	2,234,200
Municipal taxes	**734,502**	711,262
Advertising and business development	**668,977**	1,186,123
Utilities	**613,622**	576,464
Interest expense *[note 5]*	**613,165**	684,447
Office and administration	**449,472**	423,355
Benefits *[note 8]*	**438,578**	420,072
Contracted maintenance	**372,446**	357,744
Repairs, maintenance and equipment rentals	**271,201**	368,767
Contracted services	**235,074**	471,694
Materials and supplies	**203,666**	191,592
Directors' fees and expenses	**180,203**	193,473
Transport Canada rent	**153,400**	61,210
Insurance	**115,289**	124,282
Vehicle maintenance	**109,986**	153,669
Professional fees	**62,086**	65,812
	9,974,617	10,415,734
Surplus of revenues over expenses before the following	**840,506**	196,590
Amortization of deferred capital contributions *[note 6]*	**387,847**	387,857
Investment income	**71,367**	99,940
Loss on disposal of capital assets	**(8,869)**	(9,744)
Surplus for the year	**1,290,851**	674,643

See accompanying notes

Statement of Cash Flows

Year ended December 31

	2015	2014
	$	$
OPERATING ACTIVITIES		
Surplus for the year	**1,290,851**	674,643
Add (deduct) items not involving cash		
Amortization of capital assets	**2,296,079**	2,234,200
Loss on disposal of capital assets	**8,869**	9,744
Amortization of deferred capital contributions	**(387,847)**	(387,857)
Pension expense (recovery)	**(12,000)**	(16,000)
Contributions to pension plan	**(269,000)**	(363,000)
	2,926,952	2,151,730
Net change in non-cash working capital balances related to operations *[note 7]*	**275,589**	563,570
Cash provided by operating activities	**3,202,541**	2,715,300
INVESTING ACTIVITIES		
Purchase of capital assets	**(1,986,389)**	(986,724)
Proceeds on disposal of capital assets	**13,975**	200
Increase in marketable securities *[note 3]*	**(56,626)**	(78,051)
Cash used in investing activities	**(2,029,040)**	(1,064,575)
FINANCING ACTIVITIES		
Repayment of promissory note payable	**(80,797)**	(80,797)
Repayment of demand installment loan	**(1,127,784)**	(1,127,784)
Cash used in financing activities	**(1,208,581)**	(1,208,581)
Net increase (decrease) in cash during the year	**(35,080)**	442,144
Cash, beginning of year	**2,112,262**	1,670,118
Cash, end of year *[note 3]*	**2,077,182**	2,112,262

See accompanying notes

December 31, 2015

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. On March 5, 2015 Transport Canada approved the 20-year extension to the ground lease with an expiry date of July 31, 2078.

The Authority is exempt from federal and provincial income taxes as it is a not-for-profit organization under section 149(1) of the Canadian Income Tax Act.

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"] Handbook, 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.

Revenue recognition

The Authority follows the deferral method of accounting for contributions. Externally restricted contributions including government grants are initially deferred when recorded in the accounts and recognized in operations in the year in which the related expenses are incurred.

Unrestricted contributions that are available for the operations of the Authority are recorded as revenue 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 are recognized when earned. Landing and terminal fees, concessions and rental revenues are recognized when the related services are provided.

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, accounts payable and accrued liabilities, 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 de-recognized, 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	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 a valuation for funding purposes. The cost of defined benefit pensions is comprised of re-measurements and other items, current service cost and finance cost. Re-measurements 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.

3/Cash & Marketable Securities

Cash and marketable securities consist of the following:

	2015 $	2014 $
Cash	**2,077,182**	2,112,262
Marketable securities	**2,368,924**	2,312,298
	4,446,106	4,424,560
Less restricted for capital purposes	**2,000,000**	2,000,000
	2,446,106	2,424,560

Marketable securities consist of fixed income, government and corporate bonds bearing interest at rates ranging from 2.3% to 4.38% [2014 – 2.3% to 4.38%] and having maturity dates ranging from June 3, 2016 to December 6, 2024. [2014 – 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.

December 31, 2015

4/Capital Assets

Capital assets consist of the following:

	2015		2014	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	**$**	$	$
Office furniture and equipment	**106,438**	**70,712**	98,640	65,326
Terminal furniture and fixtures	**611,899**	**384,405**	581,241	293,143
Shop equipment	**368,416**	**310,038**	367,416	293,813
Mobile equipment	**5,695,795**	**2,827,400**	5,559,882	2,609,877
Computer software	**75,540**	**51,579**	59,205	46,043
Computer hardware	**149,105**	**101,926**	109,781	76,786
Pavement leasehold improvements	**2,663,401**	**1,620,246**	2,401,974	1,495,844
Structural leasehold improvements	**35,842,672**	**10,407,379**	34,527,837	9,213,104
Security equipment	**726,132**	**442,877**	709,357	409,593
Baggage system	**3,405,355**	**1,614,424**	3,405,355	1,460,683
Gateway project	**11,135,764**	**834,784**	11,135,764	556,390
Land leasehold improvements	**2,818,386**	**736,378**	2,751,800	658,361
	63,598,903	**19,402,148**	61,708,252	17,178,963
Less accumulated amortization	**19,402,148**		17,178,963	
Net book value	**44,196,755**		44,529,289	

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $45,388,820 [2014 – $41,661,482]. During the same period, cumulative AIF revenue amounted to $42,541,161 [2014 – $39,129,872].

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. The final installment will be made in 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 $7,129,670 [2014 – $7,907,450], bears interest at the bank's prime rate 2.70% [2014 – 3.00%] 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 2.70% [2014 - 3.00%] minus 15 basis points for a fixed rate of 6.09%. As at December 31, 2015, the swap had a fair value of $1,344,626 [2014 – $1,449,970] 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 $1,549,951 [2014 – $1,749,955], bears interest at the bank's prime rate 2.70% [2014 - 3.00%] 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 $2,300,000 [2014 – $2,450,000], bears interest at the bank's prime rate 2.70% [2014 - 3.00%] 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 2.70% [2014 - 3.00%] minus 15 basis points. As at December 31, 2015, there is no balance outstanding [2014 – nil].

December 31, 2015

6/Deferred Capital Contributions

The balance of deferred capital contributions consists of the following:

	2015 $	2014 $
[i] Security grant	**233,727**	239,223
[ii] Canadian Air Transport Security Authority ["CATSA"]	**1,399,850**	1,518,231
[iii] Gateway	**9,711,546**	9,974,489
[iv] Nav Canada	**9,751**	10,778
	11,354,874	11,742,721

[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.

	2015 $	2014 $
Security grant, beginning of year	**239,223**	244,721
Amortization during the year	**(5,496)**	(5,498)
Security grant, end of year	**233,727**	239,223

[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.

	2015 $	2014 $
CATSA funding, beginning of year	**1,518,231**	1,636,620
Amortization during the year	**(118,381)**	(118,389)
CATSA funding, end of year	**1,399,850**	1,518,231

[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.

	2015 $	2014 $
Gateway funding, beginning of year	**9,974,489**	10,237,433
Amortization during the year	**(262,943)**	(262,944)
Gateway funding, end of year	**9,711,546**	9,974,489

December 31, 2015

[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.

	2015 $	2014 $
Nav Canada funding, beginning of year	**10,778**	11,804
Amortization during the year	**(1,027)**	(1,026)
Nav Canada funding, end of year	**9,751**	10,778

7/Statement of Cash Flows

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

	2015 $	2014 $
Decrease (increase) in current assets		
Accounts receivable	**349,123**	(353,770)
Prepaid expenses and deposits	**423**	43,277
	349,546	(310,493)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(76,732)**	874,113
Deferred revenue	**2,775**	(50)
	(73,957)	874,063
	275,589	563,570

8/Employee Benefit Plans

	2015 $	2014 $
[a] Defined benefit pension plan asset	**1,833,000**	1,536,000
[b] Supplemental pension plan obligation	**(307,000)**	(221,000)
Accrued pension asset, net	**1,526,000**	1,315,000

[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, 2015 and was extrapolated to December 31, 2015.

[i] Pension expense for the defined contribution plan is $83,476 [2014 – $70,383].

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

	2015 $	2014 $
Fair value of plan assets	**10,301,000**	9,900,000
Benefit obligation	**7,428,000**	7,338,000
Funded status – plan surplus	**2,873,000**	2,562,000
Valuation allowance	**(1,040,000)**	(1,026,000)
Defined benefit asset	**1,833,000**	1,536,000

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:

	2015 %	2014 %
Equity securities	**61.8**	61.8
Debt securities	**30.6**	30.6
Other	**7.6**	7.6

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

	2015 $	2014 $
Defined benefit asset, beginning of year	**1,536,000**	1,493,000
Pension (expense) recovery for the year	**27,000**	31,000
Authority contributions	**260,000**	354,000
Increase in valuation allowance	**(14,000)**	(592,000)
Actuarial gain	**24,000**	250,000
Defined benefit asset, end of year	**1,833,000**	1,536,000

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

	2015 %	2014 %
Discount rate	**5.25**	5.50
Rate of compensation increase	**3.00**	4.00
Inflation rate	**2.50**	2.50

[b] Supplemental pension plan

Information about the unfunded supplemental pension plan is as follows:

	2015 $	2014 $
Defined benefit obligation, beginning of year	**221,000**	235,000
Pension expense for the year	**15,000**	15,000
Authority contributions	**(9,000)**	(9,000)
Actuarial loss (gain)	**80,000**	(20,000)
Defined benefit obligation, end of year	**307,000**	221,000

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/Government Remittances

Included in accounts payable and accrued liabilities are government remittances payable of $35,921 (2014 - $92,584) relating to Harmonized Sales Tax.

10/Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2015 financial statements.

11/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, 2015, 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, four customers represent 77% [2014 – five customers represent 83%] of the trade accounts receivable balance as at December 31, 2015. 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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