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

2016

ANNUAL REPORT

Greater London International Airport Authority

London International Airport recorded, for the first time in its history, more than half a million passengers.

THE CONTENTS

ABOUT US

London International Airport (LIA) is located on the east boundary of the city of London, Ontario, Canada at 1750 Crumlin Road.

Air Canada Express, WestJet and WestJet Encore serve LIA, with Sunwing, Air Transat and Celebrity Cruises providing direct flights to southern destinations during the winter months. LIA also provides services for cargo airlines and general aviation.

PROFILE

MISSION

A world class airport that connects our community to the world and enhances the economic and social prosperity of our region.

PRINCIPLES AND VALUES

The foundation of our Mission is built upon our guiding Principles and Values. These include:

- **Employer of Choice:**
  - Treat all employees with fairness, dignity and respect.
- **Inclusive and Team Oriented:**
  - Strengthen a corporate culture that values the contributions of all employees.
- **Safety, Security and the Environment:**
  - Safety, security and the environment are paramount in everything that we do.
- **Customer Service:**
  - We will deliver exceptional levels of service and value.
- **Corporate Citizenship:**
  - Work openly with our stakeholders and community.

BEHAVIOURS

The GLIAA board, management and staff will work effectively to ensure the success of LIA and the attainment of the airport's mission with the Principles and Values at its core.

OUR MESSAGE

London International's 'Easy and Comfortable' brand was developed by asking 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.

L: Jeff Brown, Former Chair, R: Mike Seabrook

FROM THE CHAIR AND THE PRESIDENT

2016 will mark another successful year for London International Airport. We achieved record passenger numbers, attracted new airlines, made significant investments in our infrastructure, and operated the airport with a healthy financial surplus. We also strengthened the relationship with our airport employees and further developed our approach to customer service and passenger experience. We have a clear vision for the future at LIA and these accomplishments combined with other successes are helping to solidify our business model.

The 514,685 passengers who travelled though our airport in 2016 made for a record year and the first time in our history we have surpassed the half million mark. Passenger growth was seven percent over 2015 and reflects the increasing services being provided at LIA. WestJet Encore started service in March, Air Canada added close to 20% in capacity in London in 2016, and our seasonal service with Sunwing, Air Transat and Celebrity Cruises continues to strengthen. The loss of United Airlines service in 2016 was a disappointment but served as a reminder of the economic sensitivity of the airline business.

LIA's financial performance was very strong in 2016. Revenue increased by $277,000 over 2015 and resulted in a healthy surplus of $1.44 million. What is encouraging about these financial results is that they were achieved without a fee increase at LIA. This is the third year in succession we have implemented a zero percentage increase in fees and is consistent with our competitive positioning strategy.

We also invested significantly in our infrastructure in 2016 with no additional borrowing or debt required. Our capital expenditures totaled $3 million and they were financed by our surplus and cash reserves. Projects in 2016 included an expansion to our main public parking lot, the addition of two vehicle bays to our maintenance garage, terminal enhancements, apron and taxiway improvements, and vehicle and equipment upgrades. A Toronto Pearson Airport study in 2015 rated LIA as having the best infrastructure of regional airports in southern Ontario.

Passenger experience continues to be a strategic priority at LIA and passenger feedback provides ample proof that improvements are taking place. Our customers appreciate the simplicity and convenience of LIA and are strong supporters of our effort to increase service.

LIA travelers enjoy a friendly and convenient experience because of the dedicated people who work at our airport. Staff from our airlines, car rental agencies, Tim Horton's, passenger screening and our own airport staff are ambassadors for our approach to customer service and want to be part of our success. Our airport team works together to support our customers at every step along their way.

We would like to extend our sincere thank you to outgoing Board Chair Jeff Brown for his leadership and guidance. Jeff's term as Board Chair expired July 31, 2016 and his commitment to LIA combined with his engaging personality, will be missed. We would also like to thank Gary Blazak, Ken Kalopsis and Rick Witherspoon for their time on our Board of Directors. Their contributions have been significant and will help shape the future of LIA and our vision to be a world class airport.

Rob Flack
Chair, Board of Directors

Michael Seabrook
President & CEO

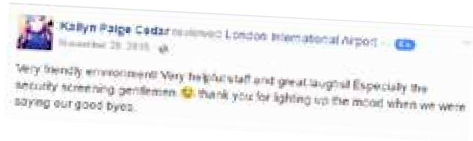
PASSENGERS

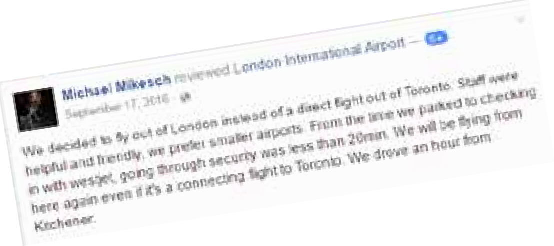
Our passengers - over half a million of them in 2016, choose London International for many reasons. The most common reason cited is how easy it is to travel from London. Also, our passengers love how we embrace their special times - from 'promposals' to special passengers taking a special trip with the Make-A-Wish foundation. What ever the reason, our passengers say flying from London International is their first choice, and we thank them for that.

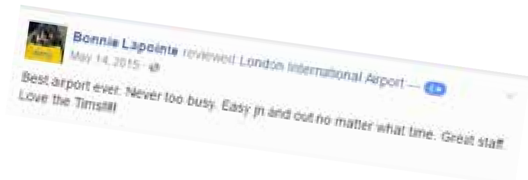
514,685

Passenger traffic reached an all-time high in 2016. In March, WestJet Encore commenced twice daily service to Pearson with connections to the world with WestJet and their Delta Airlines code share. Coupled with WestJet's direct service to Vancouver for the summer and increased seat capacity with Air Canada, LIA welcomed 514,685 passengers through its doors. Although United Airlines ceased their direct service to Chicago in June and with it went 50,000 passengers annually who used United, LIA had the busiest year in London International's history. **AND** we expect this number to increase in 2017.

The winter charters have been very well received by the traveling public. Sunwing, Air Transat, WestJet Vacations and Celebrity Cruises continue to provide sun destinations to those wanting an escape from the dreary winter. Cuba, Florida, Dominican Republic and Mexico remain popular destinations with Jamaica being added for the 2016-2017 season. Coat check and duty free are two of the new services offered to our guests to ensure an enjoyable holiday.







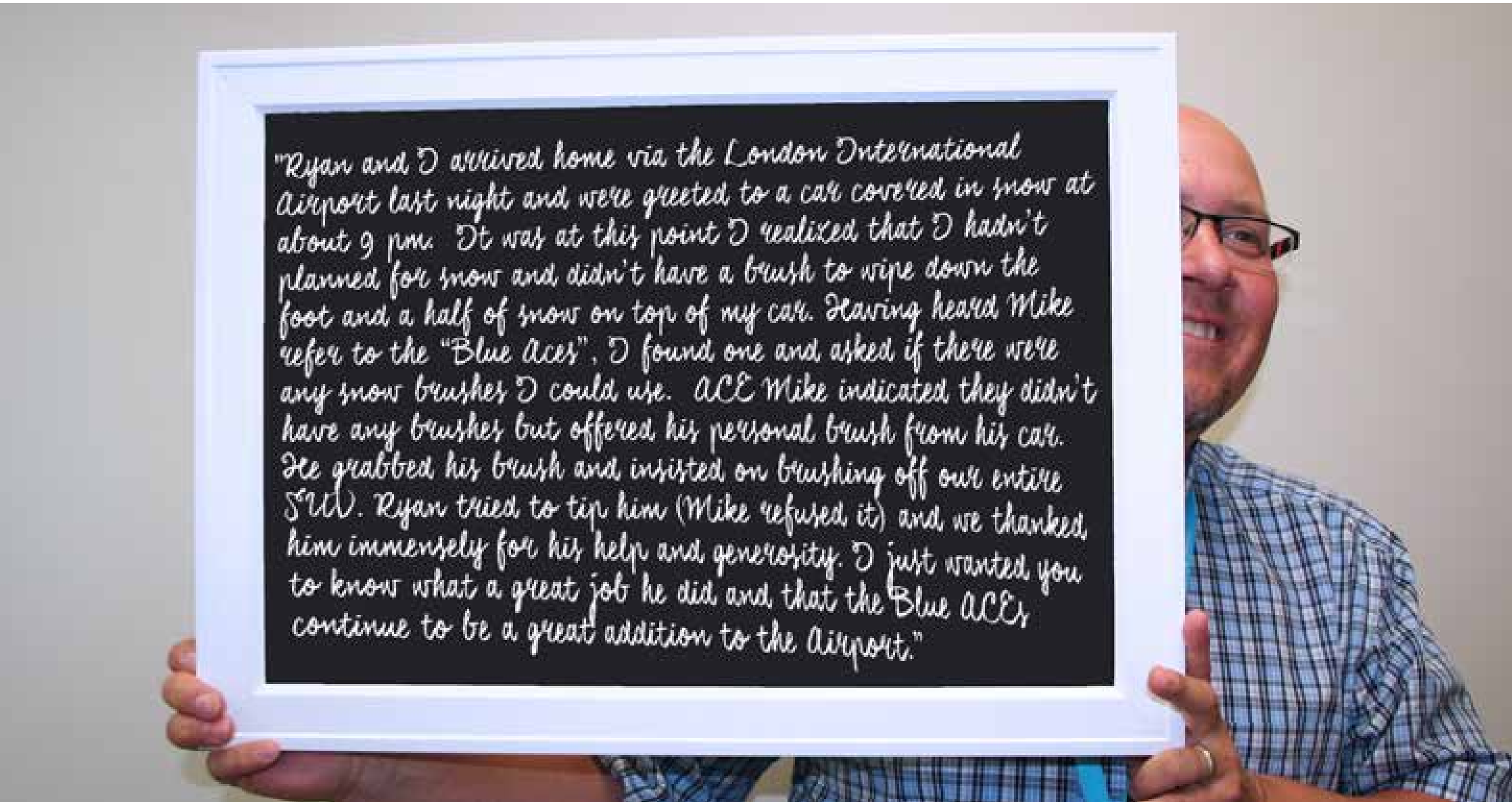
PEOPLE

Our staff are our work family. We strive to provide a work/life balance that allows our people to thrive and excel. In a recent survey, 94% of our staff said they were satisfied in their job and would recommend working at LIA to their friends and colleagues

OUR GREAT TEAM!

The Passenger Experience is a very important part of LIA's Strategic Plan. Continuous improvements are being made to guarantee each visitor has the most positive experience LIA is able to provide. With the introduction of the Airport Comfort Enhancers (ACE) employee group, LIA has been able to address customer service as well as respond to operational occurrences within the terminal. This friendly group, easily identified by the **blue** shirts they wear, are present in and around the terminal from the wee hours of the morning to after midnight. They ensure visitors to the Airport have the information and service they need to make their trip 'easy & comfortable'.

The ACEs have been known to 'jump start' cars, cover up forgotten open windows in the parking lot, help with luggage, assist with a marriage proposal, drive foreign exchange students to their Fanshawe residence, provide car seat baggage service, curb side wheelchair assistance, snow removal on cars and coat check for winter charters. When airport tours are needed for schools or service groups, the ACE team makes the perfect tour guide. In addition, the ACEs are the first responders to any terminal related security issues.



LIA continues to expand their employee base and as of December 2016 the Security Operations Centre was no longer staffed by contract employees. With the addition of the Security Operations Coordinators, the LIA employee count reached over 50 full time employees. In addition to security and customer service, LIA employs a wide range of skill sets including heavy equipment operators, electricians, heavy equipment mechanics and a health and safety specialist. One third of LIA employees are trained in firefighting and emergency response. In January 2016 a marketing position was added with emphasis on social media, communications and getting our 'easy and comfortable' message to the public.

A Welcome Wall was established in the terminal and is visible along the corridor as arriving passengers leave the secure area. LIA and tenant staff welcome passengers to London with a smile and a personal message inscribed on a chalk board.

PARTICIPATION

LIA continued to provide financial support to airport staff in their charitable endeavours and sporting team sponsorships. Over the summer BBQ luncheons were held each month with the airport staff hosting and proceeds going to support a charity chosen by an airport employee. Not only were the charities receiving funds from the BBQs; they were also gaining exposure to those who came out to purchase a burger or hot dog.

COMMUNITY INVOLVEMENT

LIA joined other airports across the country to provide financial support to those in Fort MacMurray after their devastating fire. Our contemporaries at the Ft. Mac Airport never wavered and without missing much of a beat, picked up where they left off when they were forced to vacate their homes and place of work. They relocated to the Edmonton Airport and continued operations until they were able to return to Fort MacMurray.

AIR SHOW LONDON

2016 saw the return of the London Air Show. Over 30,000 aviation enthusiasts were treated to a static show like no other, with aircraft from Canada, the US and beyond including the world famous Royal Air Force from Britain. Aerial performers included the RCAF Snowbirds and the first appearance of the USAF F22 Raptor. Our city was very well represented with London's very own Pete McLeod who competes in the Red Bull Races. The Jet Aircraft Museum and the International Test Pilot School, both who make their homes at London International , also took to the air. The RCAF's stunning Demo CF-18 Hornet (in the markings celebrating the British Commonwealth Training Program during World War II) was flown by London's Captain Ryan Kean.

Over the course of the year, LIA and their employees support numerous charitable organizations. In 2016 new relationships were established with:

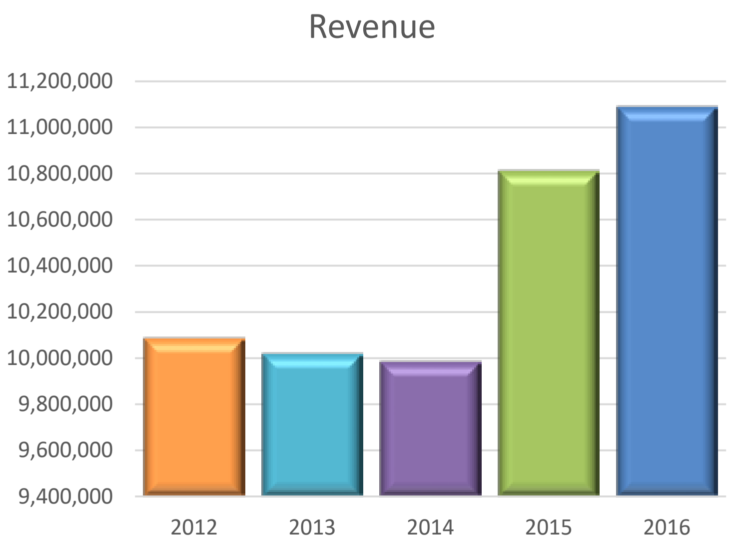
- Hope Air
- Jack Richardson London Music Awards
- Montessori Academy of London
- Salthaven Wildlife Rehabilitation & Education Centre Inc.
- Huron County Playhouse
- Banting House
- Western Mustangs

PERFORMANCE

PERFORMANCE

With the introduction of new air services, LIA enjoyed another successful year with an increase in revenue greater than the prior year. The 2016 surplus of $1.4M will be reinvested into the airport infrastructure and continues to allow LIA to offer a world class, while easy and comfortable, airport to its customers.

Capital additions for 2016 made it a busy year for LIA. The Wayfinding project that was started in 2015 was completed with all signage consistent and easy to follow for those using the airport and terminal. An upgraded wireless internet system was introduced at the end of the year, allowing faster and more reliable service to airport visitors. To round out the first impression LIA makes on their guests are new airline check-in counters matching the clean and sleek look in the terminal.



With an increase in winter charter service and the overall increase in passenger levels it was apparent more parking was needed. Over the course of the summer the roadway was extended to the north of the terminal and 800 more parking stalls were added to the existing 1200. LIA offers affordable parking within a stone's throw of the terminal.

As Canadians ... we know our winters can be harsh! With snow removal comes the need for very large and expensive machinery to keep the runways open and operable. In the past, these pieces of mobile equipment have been serviced outdoors. In 2016, with a capital investment of $730K, an expansion to the Airport Operations Centre was completed. The new two bay structure now allows for these specialized pieces of equipment to be drive into a heated garage to be serviced. Gone are the days of working outdoors on frozen equipment.

REPORTING

In accordance with the ground lease with Transport Canada, the Authority is required to publish an annual report that includes the business plan and objectives as well as the business forecast.

DISCLOSURE

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. 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 2016

	Plan	Actual	Variance	Explanation
Revenue	$11,749,470	11,092,015	(657,455)	Loss of cross border scheduled air service
Expenses	10,283,468	10,130,084	(153,384)	Expense reduction from loss of revenue
Capital Expenditures	4,208,500	3,056,016	(1,152,484)	One project came in well below budget/estimate

- The Auditors' Report and the Financial Statements are found on pages 23 to 39.

REPORT ON THE BUSINESS FORECAST FOR 2017 - 2021

	2017	2018	2019	2020	2021
Revenue	$11,325,767	11,607,060	11,895,387	12,587,352	12,839,910
Expenses	10,681,534	11,032,457	11,147,216	11,737,962	11,952,721
Capital Expenditure	1,508,000	4,574,750	2,337,000	2,077,000	1,533,500

- Revenue includes Airport Improvement Fees (AIF)
- Expenses include 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, 2016 was $185,117.

SENIOR MANAGEMENT COMPENSATION

The annual compensation for the management team for the year ending December 31, 2016 was $505,188.

Competitive Tenders

The Greater London International Airport Authority 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.

Ethical Business Conduct

The Greater London International Airport Authority 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 2016.

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
London and District Labour Council
GLIAA Board

Management

MICHAEL SEABROOK
PRESIDENT & CEO

JANET CARR
DIRECTOR, FINANCE & HUMAN RESOURCES

STEVE FAULKNER
MANAGER, OPERATIONS

GERRY VANDERHOEK
MANAGER, COMMERCIAL SERVICES & PASSENGER EXPERIENCE

Corporate Offices

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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

GLIAA BOARD OF DIRECTORS

FINANCIAL STATEMENTS

Greater London International Airport Authority
December 31, 2016

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, 2016, 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, 2016, 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

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
March 23, 2017

Greater London International Airport Authority

Incorporated without share capital under the laws of Canada

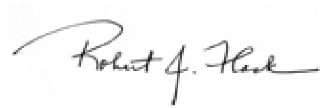
Statement of Financial Position

As at December 31

	2016 $	2015 $
ASSETS		
Current		
Cash and marketable securities [*note 3*]	**1,211,895**	2,446,106
Accounts receivable	**924,559**	668,100
Prepaid expenses and deposits	**90,589**	90,857
Total current assets	**2,227,043**	3,205,063
Accrued pension asset [*note 8*]	**1,820,000**	1,526,000
Capital assets, net [*note 4*]	**44,825,619**	44,196,755
Cash and marketable securities restricted for capital purposes [*note 3*]	**2,000,000**	2,000,000
	50,872,662	50,927,818
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [*note 9*]	**1,396,272**	1,544,101
Deferred revenue	**18,250**	22,800
Current portion of promissory not payable [*note 5*[*a*]]	**--**	80,797
Demand installment loan [*note 5*[*b*]]	**9,851,837**	10,979,621
Total current liabilities	**11,226,359**	12,627,319
Deferred capital contributions [*note 6*]	**11,099,195**	11,354,874
Total liabilities	**22,365,554**	23,982,193
Net assets	**28,507,108**	26,945,625
	50,872,662	50,927,818

See accompanying notes

On behalf of the Board:



Rob Flack
Director

Michelle T. Faysal
Director

Greater London International Airport Authority

Statement of Changes in Net Assets

Year ended December 31

	2016 $	2015 $
Balance, beginning of year	**26,945,625**	25,724,774
Remeasurement gain (loss) pension valuation allowance [*note* 8[*a*]]	**21,000**	(14,000)
Actuarial gain (loss) on accrued pension asset	**99,000**	(56,000
Surplus for the year	**1,441,483**	1,290,851
Balance, end of year	**28,507,108**	26,945,625

See accompanying notes

Greater London International Airport Authority

Statement of OPERATIONS

Year ended December 31

	2016 $	2015 $
REVENUES		
Airport improvement fee [*note 4*]	**3,649,613**	3,411,289
Concessions	**3,143,105**	3,150,641
Landing and terminal fees	**2,839,538**	2,868,159
Rentals	**792,098**	770,837
Security	**398,774**	370,960
Other	**268,887**	243,27
	11,092,015	10,815,123
EXPENSES		
Salaries and wages	**2,719,479**	2,456,871
Amortization of capital assets	**2,419,819**	2,296,079
Municipal taxes	**778,696**	734,502
Utilities	**699,677**	613,622
Interest [*note 5*]	**551,184**	613,165
Benefits [*note 8*]	**491,815**	438,578
Office and administration	**434,907**	449,472
Contracted maintenance	**390,860**	372,446
Repairs, maintenance and equipment rentals	**354,349**	271,201
Materials and supplies	**319,115**	203,666
Advertising and business development	**227,226**	668,977
Directors' fees and expenses	**189,708**	180,203
Contracted services	**151,069**	235,074
Insurance	**116,844**	115,289
Vehicle maintenance	**103,188**	109,986
Transport Canada rent	**98,232**	153,400
Professional fees	**83,916**	62,086
	10,130,084	9,974,617
Surplus of revenues over expenses before the following	**961,931**	840,506
Amortization of deferred capital contributions [*note 6*]	**405,679**	387,847
Investment income	**68,206**	71,367
Gain (loss) on disposal of capital assets	**5,667**	(8,869)
Surplus for the year	**1,441,483**	1,290,851

See accompanying notes

Greater London International Airport Authority

Statement of Cash Flows

Year ended December 31

	2016 $	2015 $
OPERATING ACTIVITIES		
Surplus for the year	**1,441,483**	1,290,851
Add (deduct) items not involving cash		
Amortization of capital assets	**2,419,819**	2,296,079
Loss (gain) on disposal of capital assets	**(5,667)**	8,869
Amortization of deferred capital contributions	**(405,679)**	(387,847)
Pension recovery	**(4,000)**	(12,000)
Contributions to pension plan	**(170,000)**	(269,000)
	3,275,956	2,926,952
Net change in non-cash working capital balances related of operations [*note 7*]	**(408,570)**	275,589
Cash provided by operating activities	**2,867,386**	3,202,541
INVESTING ACTIVITIES		
Purchase of capital assets	**(3,056,016)**	(1,986,389)
Proceeds on disposal of capital assets	**13,000**	13,975
Deferred contributions received	**150,000**	–
Decrease (increase) in marketable securities [*note 3*]	**639,031**	(56,626)
Cash used in investing activities	**(2,253,985)**	(2,029,040)
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 decrease in cash during the year	**(595,180)**	(35,080)
Cash, beginning of year	**2,077,182**	2,112,262
Cash, end of year [*note 3*]	**1,482,002**	2,077,182

See accompanying notes

December 31, 2016

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 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 *CPA Canada Handbook - Accounting,* "Accounting Standards for Not-for-Profit Corporations", which constitutes generally accepted accounting principles for-not-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"] are to 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 is recognized when earned. Landing and terminal fees, concessions, rental and security 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 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	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 – Accounting*, 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 comprises 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.

December 31, 2016

3/Cash & Marketable Securities

Cash and marketable securities consist of the following:

	2016 **$**	**2015** **$**
Cash	**1,482,002**	2,077,182
Marketable securities	**1,729,893**	2,368,924
	3,211,895	4,446,106
Less internally restricted for capital purposes	**2,000,000**	2,000,000
	1,211,895	2,446,106

Marketable securities consist of fixed income, government and corporate bonds bearing interest at rates ranging from 2.5% to 4.38% [2015 – 2.3% to 4.38%] and having maturity dates ranging from July 17, 2017 to December 6, 2024 [2015 – 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 shown as long term and subject to change at the discretion of the Board of Directors.

December 31, 2016

4/Capital Assets

Capital assets consist of the following:

	2016		2015	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Office furniture and equipment	**122,944**	**77,435**	106,438	70,712
Terminal furniture and fixtures	**644,789**	**455,869**	611,899	384,405
Shop equipment	**382,569**	**325,529**	368,416	310,038
Mobile equipment	**5,733,661**	**3,117,612**	5,695,795	2,827,400
Computer software	**75,540**	**61,330**	75,540	51,579
Computer hardware	**171,783**	**127,522**	149,105	101,926
Pavement leasehold improvements	**4,284,141**	**1,765,052**	2,663,401	1,620,246
Structural leasehold improvements	**36,912,815**	**11,698,630**	35,842,672	10,407,379
Security equipment	**946,084**	**490,432**	726,132	442,877
Baggage system	**3,405,355**	**1,768,121**	3,405,355	1,614,424
Gateway project	**11,135,764**	**1,113,179**	11,135,764	834,784
Land leasehold improvements	**2,826,974**	**816,089**	2,818,386	736,378
	66,642,419	**21,816,800**	63,598,903	19,402,148
Less accumulated amortization	**21,816,800**		19,402,148	
Net book value	**44,825,619**		44,196,755	

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $49,934,617 [2015 -$45,388,820]. During the same period, cumulative AIF revenue amounted to $46,190,774 [2015 – $42,541,161].

December 31, 2016

5/Demand installment Loan and Promissory Note Payable

[a] The final installment payment for the promissory note payable to the Minister of Finance for Ontario relating to land transfer tax was made in July 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 $6,351,890 [2015 – $7,129,670], bears interest at the bank's prime rate 2.70% [2015 – 2.70%] minus 15 basis points and is repayable in monthly principal payments based on the following installment schedule:

	$
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% [2015 - 2.70%] minus 15 basis points for a fixed rate of 6.09%. As at December 31, 2016, the swap had a fair value of $974,490 [2015 – $1,344,626] 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 $1,349,947 [2015 – $1,549,951], bears interest at the bank's prime rate 2.70% [2015 - 2.70%] 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 $2,150,000 [2015 – $2,300,000], bears interest at the bank's prime rate 2.70% [2015 - 2.70%] 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, which is included in structural leasehold improvements [*note 4*].

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% [2015 - 2.70%] minus 15 basis points. As at December 31, 2016, there is no balance outstanding [2015 – nil].

December 31, 2016

6/Deferred Capital Contributions

The balance of deferred capital contributions consists of the following:

	2016			2015
	Contribution $	**Accumulated amortization $**	**Unamortized contribution $**	**Unamortized contribution $**
Security grant	**451,487**	**223,257**	**228,230**	233,727
Canadian Air Transport Security Authority ["CATSA"]	**2,642,957**	**1,361,453**	**1,281,504**	1,399,850
Gateway	**10,500,000**	**1,051,396**	**9,448,604**	9,711,546
Nav Canada	**12,830**	**4,106**	**8,724**	9,751
Non Passenger Screening Vehicle - CATSA	**150,000**	**17,867**	**132,133**	–
	13,757,274	**2,658,079**	**11,099,195**	11,354,874

In 2016, the Authority received a contribution of $150,000 from CATSA for 70% of the costs related to the construction of a facility to accommodate mandated screening for vehicles entering the restricted airside area. This contribution was deferred and is amortized to income on the same basis as the amortization of the related asset. No contributions were unspent as at December 31, 2017.

December 31, 2016

7/Statement of Cash Flows

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

	2016 $	2015 $
Decrease (increase) in current assets	**(256,459)**	349,123
Accounts receivable	**268**	423
Prepaid expenses and deposits	**(256,191)**	349,546
Increase (decrease) in current liabilities	**(147,829)**	(76,732)
Accounts payable and accrued liabilities	**(4,550)**	2,775
Deferred revenue	**(152,379)**	(73,957)
	(408,570)	275,589

December 31, 2016

8/Employee Benefit Plans

	2016 $	2015 $
[a] Defined benefit pension plan asset	**2,155,000**	1,833,000
[b] Supplemental pension plan obligation	**(335,000)**	(307,000)
Accrued pension asset, net	**1,820,000**	1,526,000

[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, 2016 and was extrapolated to December 31, 2016.

[i] Pension expense for the defined contribution plan is $79,965 [2015 – $83,476].

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

	2016 $	2015 $
Fair value of plan assets	**10,583,000**	10,301,000
Benefit obligation	**7,409,000**	7,428,000
Funded status – plan surplus	**3,174,000**	2,873,000
Valuation allowance	**(1,019,000)**	(1,040,000)
Defined benefit asset	**2,155,000**	1,833,000

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.

December 31, 2016

The asset allocation of the Plan is as follows:

	2016 %	**2015** %
Equity securities	**56.0**	61.8
Debt securities	**34.9**	30.6
Other	**9.1**	7.6

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

	2016 $	**2015** $
Defined benefit asset, beginning of year	**1,833,000**	1,536,000
Pension recovery for the year	**26,100**	27,000
Authority contributions	**161,000**	260,000
Decrease (increase) in valuation allowance	**21,000**	(14,000)
Actuarial gain	**114,000**	24,000
Defined benefit asset, end of year	**2,155,000**	1,833,000

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:

	2016 %	**2015** %
Discount rate	**4.75**	5.25
Rate of compensation increase	**2.50**	3.00
Inflation rate	**2.00**	2.50

[b] Supplemental pension plan

Information about the unfunded supplemental pension plan is as follows:

	2016 $	2015 $
Defined benefit obligation, beginning of year	**307,000**	221,000
Pension expense for the year	**22,000**	15,000
Authority contributions	**(9,000)**	(9,000)
Actuarial loss	**15,000**	80,000
Defined benefit obligation, end of year	**335,000**	307,000

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.

December 31, 2016

9/Government Remittances

Included in accounts payable and accrued liabilities are government remittances payable of $72,330 [2015 - $35,921] relating to Harmonized Sales Tax.

10/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, 2016, 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 87% [2015 – four customers represent 77%] of the trade accounts receivable balance as at December 31, 2016. The maximum credit risk represents the full amount of the accounts receivable. The Authority anticipates receiving payments in full from these customers.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority is exposed to interest rate risk on its fixed and floating interest rate financial instruments. 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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