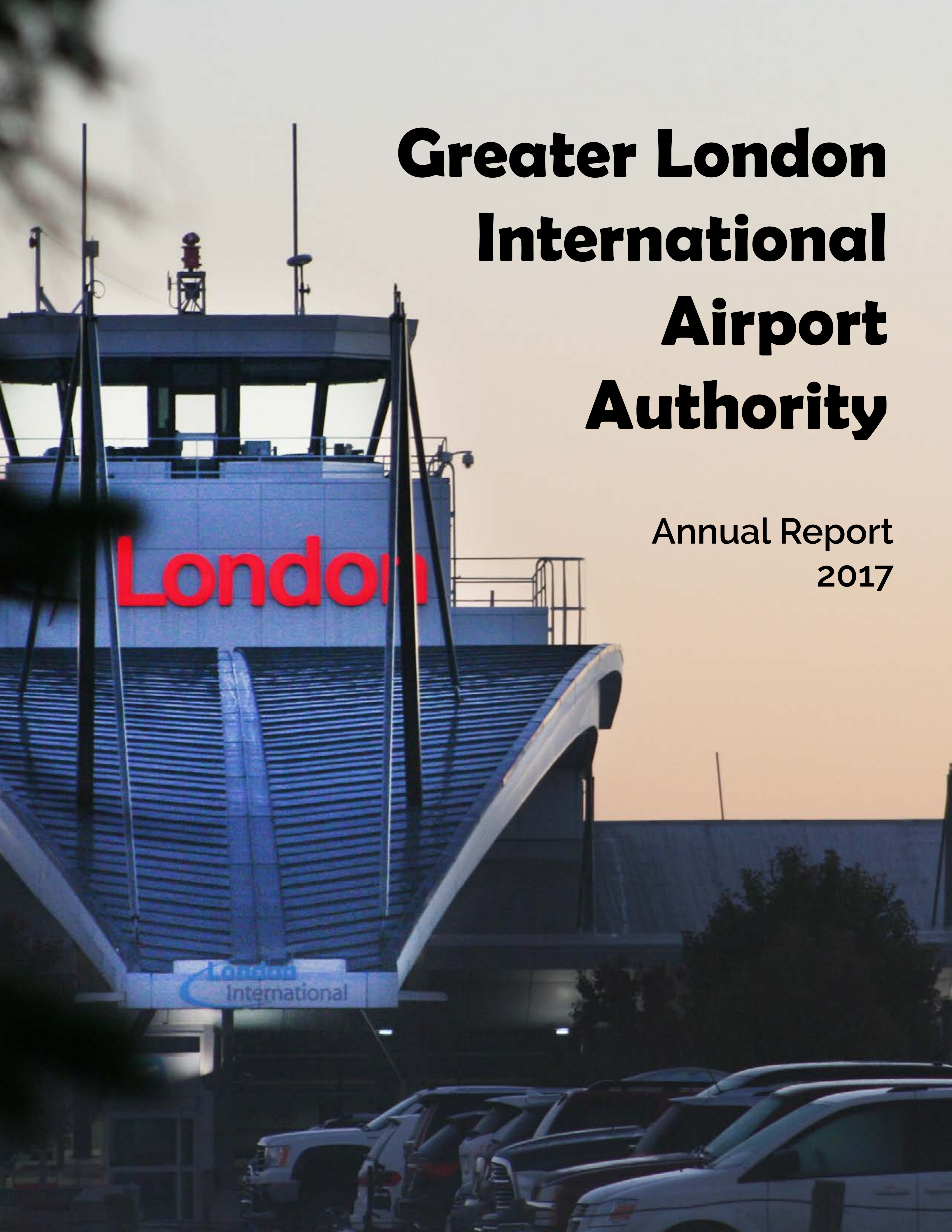
Greater London International Airport Authority

Annual Report
2017



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MESSAGE

As 2017 drew to a close we looked back with a sense of accomplishment on the year that had been, and a sense of optimism for what lies ahead. We had a very successful year at London International Airport (LIA) and our team continued to demonstrate their commitment and desire to see our airport continue to grow. We are positioned as the "easy and comfortable" airport in Southern Ontario and with this positioning in mind, we have improved and grown many aspects of our dynamic business.

One of our significant accomplishments in 2017 was the completion of our third Strategic Plan for LIA. Seeking input from LIA employees, management, board of directors, and our broader community, our Strategic Plan sets the direction for our business for 2018 to 2020. Annual goals and objectives are developed from the strategic plan that will focus our efforts on priorities that will have the greatest positive impact on LIA. Our strategic objectives are centered on five main themes:

Airport growth was evident throughout our operations in 2017. Our passenger numbers reached another record with 522,000 and we have witnessed a steady increase in our traffic over the last five years. Our cargo volume was also up significantly with the fourth quarter of 2017 being our busiest period in recent history. We also welcomed several new aviation businesses to our airport and witnessed the continued strengthening of our post-secondary aviation programs offered by both Western University and Fanshawe College.

Our financial results met or exceeded expectations in 2017. Some of the highlights include a growth in revenue of close to $200 thousand and a financial surplus of $1.7 million. We also invested $1.3 million in capital assets in 2017 that included upgrades to our equipment, runways and taxiways, and terminal building. These positive financial results were achieved without an increase in our fees and charges and are consistent with our commitment to operating a lean and efficient airport.

Rob Flack
Chair, Board of Directors

Passenger experience continues to be an area where we are striving for constant improvement. Customer feedback on our services is overwhelmingly positive and we are the preferred airport for passengers to begin their journey. In 2017 we implemented upgrades to our International Arrivals area, opened a new Duty Free kiosk, enhanced our parking lot operations and made improvements to the services offered by our "Blue Aces". The Blue Aces refer to our "Airport Comfort Enhancers" that staff the terminal building and provide exceptional customer service to all of our passengers and businesses.

We do have to confront the facts and deal with the real issues that are negatively affecting our business, and we do have to think differently with solutions to these problems. As Toronto Pearson Airport continues its path of rapid expansion, it is having a detrimental effect on intra-Ontario services that connect through Pearson. Flight cancellations from London, and other airports in Ontario that connect through Toronto, are becoming far to frequent and passengers are losing confidence in the reliability of these services. With over fifty percent of our flights and airline seat capacity going through Toronto Pearson, we need to work cooperatively with all of our aviation partners to ensure that service levels improve. This problem was the "spark" for the creation of the Southern Ontario Airport Network and finding solutions to this problem will be a focus in 2018.

We would like to extend our sincere thank you to three members of our LIA team who retired in 2017. Sandi Firman and Ann Campbell were two outstanding members of our Board of Directors whose term ended in 2017. Sandi and Ann made significant contributions to our governance and success over the years and we are indebted for their commitment. Janet Carr was our Director of Finance and Human Resources for over fifteen years and retired in 2017. Janet was well liked and respected in the aviation community in Canada and had an even greater impact at LIA. Her contributions were significant and she will be missed by everyone at the airport. Enjoy your retirement Janet!

We also welcomed two new members to our management staff at LIA in 2017. Christopher Ryan joined us as Chief Financial Officer and Lauren Stafford is our new Manager of Business Development and Marketing. Welcome to LIA Chris and Lauren and we look forward to each of you becoming integral members of our airport team.

Finally a special thank you to all the members of our Board of Directors and airport team. The dedication, enthusiasm and intelligence that each of you exhibit is fundamental to our success and is appreciated.

Michael Seabrook
President & CEO

HIGHLIGHTS - 2017

In 2017 London International Airport had great results and positive developments that will assist the Airport in maintaining sustainable success operationally and fiscally for the years to come. Record breaking passenger volumes, stable financial results, important infrastructure updates, and dedicated involvement in aviation and the surrounding community all contribute to London International Airport's highlights and accomplishments of 2017.

- Successful completion of 2017 Transport Canada Lease Monitoring Review
- Transport Canada completed a Program Verification for LIA's Safety Monitoring System and LIA was found to be in full compliance
- Successful completion of Transport Canada 2017 Security Inspection
- Dedication to Workplace Safety completed via numerous workplace inspections, workplace committee meetings, providing ongoing supplemental training modules
- Implementation of an Employee Assistance Program
- Record number of Sun Destination flight's, with a total of 9 destinations offered for Winter 2017/2018 season:
    - Cayo Santa Maria
    - Cayo Coco
    - Varadero
    - Punta Cana
    - Montego Bay
    - Cancun
    - Orlando
    - Western Caribbean
    - Eastern Caribbean
- Most passenger traffic ever recorded through London International Airport, at 522,000 serving
    - Toronto
    - Ottawa
    - Winnipeg
    - Calgary
    - Vancouver
- Exceptional fiscal management, with a reported surplus of over $1.7 million
- Successful completion of rehabilitation of landing surface for Runway 27 which was completed under budget
- Airport fees remain constant, continuing to support LIA's positioning as a "low cost airport"
- Upgrade to International Arrivals baggage system to create a smoother, more enjoyable baggage collection experience for our passengers
- Successful implementation of a new Strategic Plan, constructed with input from Airport staff, management, and Board of Directors
- Tenant Midland Aviation opened a new avionics repair business
- Duty Free Program began at LIA, allowing international passengers new shopping opportunities
- Installation of fibre optic infrastructure to improve internet service to current and prospective tenants at LIA
- Hosted two incredibly successful community events that highlighted LIA's excellent facilities (Airshow London and Jordan's Run the Runway)

GUIDING VALUES

MISSION

We are a best in class airport excelling in customer service, connecting our community to the world, and contributing to regional prosperity and well-being.

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.

PRINCIPLES AND VALUES

To have true meaning, the values and principles adopted by an organization must be reflected in its everyday acts and pronouncements. LIA, in the fulfillment of organizational mission and the conduct of its ongoing business activities, will exemplify the following principles and values:

Employer of Choice: We are committed to being an inclusive, team-oriented organization which treats all employees with fairness, dignity and respect and values their contributions.

Stewardship: We will fulfill our corporate stewardship responsibilities, work openly with our stakeholders and community and be good stewards of our environmental assets.

Customer Service: Placing the customer first expresses our commitment to the delivery of exceptional levels of customer service and value.

Safety and Security: The safety and security of airport users and the protection of airport assets are fundamental to our daily activities.

Creativity and Innovation: We will continuously look for ways to improve our processes and services and to provide new sources of value for our customers.

PASSENGER EXPERIENCE

Customer Service was stellar, led by our Blue ACEs (Airport Comfort Enhancers) the increase in passenger satisfaction was the main focus in LIA's strategy. Delivering "WOW!" moments is the goal of every LIA employee and in 2017 we certainly didn't disappoint. From covering vehicle windows left open to boosting dead batteries, our customers are always on the top of our minds.

The London International employees have been the cornerstone in helping to achieve the record passenger numbers in 2017. Without our group of dedicated employees, we could not have reached our goals. They truly offer a personal touch that brings our Easy and Comfortable branding to the forefront of our traveler's minds. From helping to clean off and shovel around passengers' vehicles to assisting people by carrying their bags when they need a helping hand, our staff put our customers first, ensuring LIA's passenger experience is the best in the region.

In early 2017, the System Operations Control (SOC) department was created, with a team of 6 employees formerly employed through a third party agency. Our SOCs have been great additions to our terminal staff.

People have a choice of airports, so providing superb customer service is key to ensure London is their only choice when flying from Southern Ontario.

Our customer satisfaction numbers have never been higher and our expectation is it is only going to grow as we continue to add personality not only to the terminal but to the airport in general. Our people like to work here and it shows. We have some lofty goals set for 2018 - we are aiming high and we will do it with our talented, caring staff.

AIRPORT OPERATIONS

2017 was another busy year for London Airport Operations as aircraft traffic continues to grow. The airport saw 59 thousand aircraft movements last year from all segments of the industry (commercial/airline, business, military, general aviation and recreation). All of that activity highlights the importance of maintaining a focus on airside safety and security, as well as illustrating the need for us to continue to invest in our airport infrastructure. To that end, in 2017 we initiated several capital projects designed to improve airside safety and extend the usable life of our airside infrastructure.

Most notably:

- We completed extensive repairs to the aging concrete blast pad at the threshold of Runway 27, by constructing a 4 inch asphalt overlay or "cap".
- We conducted an engineering assessment of all four runway ends to measure the compaction of the soil and determine if the soil could hold the weight of an aircraft. This project was completed as part of the upcoming requirement for airports to provide a "Runway End Safety Area" that is intended to support any aircraft that slides off the end of a runway in bad weather. London Airport currently meets this recommended standard on three of our four runway ends, and work is scheduled to ensure we are compliant with the proposed legislation on all four ends prior to its expected coming into force in 2021.
- We completed pre-engineering design work for the reconstruction of the main Taxiway, and submitted a request for funding for this project to the Federal Government through the National Trade Corridors Fund.

As we look forward to 2018 and beyond we are focusing on improving our facility in a practical and fiscally responsible manner while continuing to provide a safe, secure and enjoyable airport experience for all users of London International Airport.

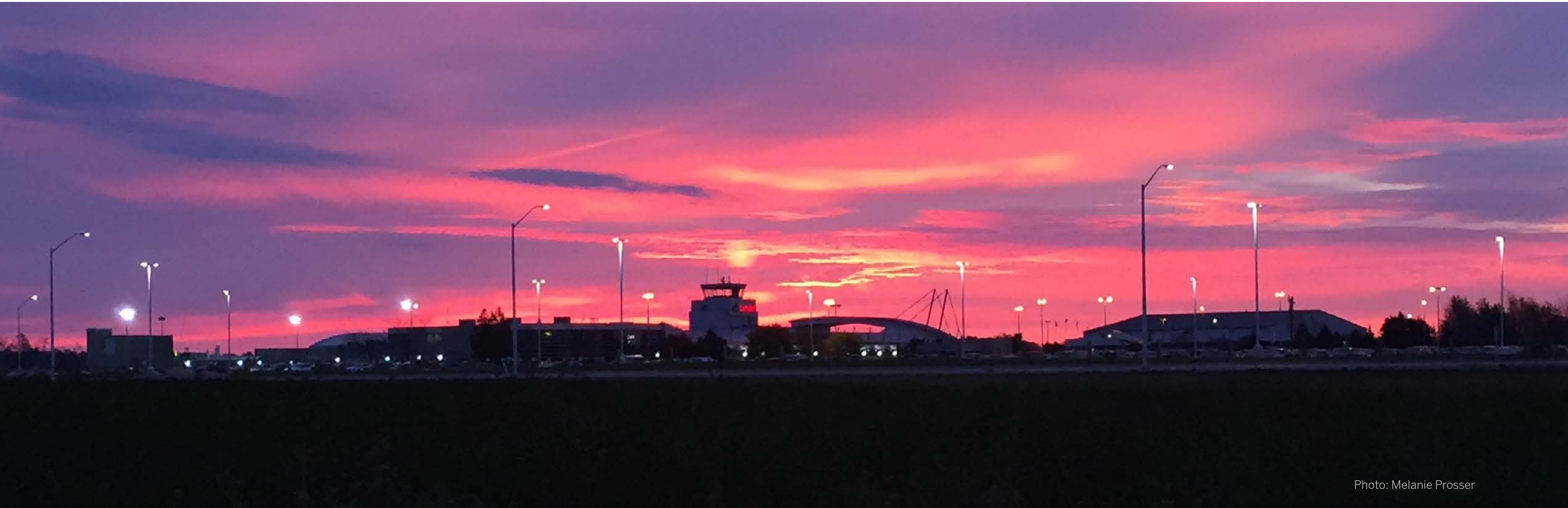

Photo: Melanie Prosser

COMMUNITY

LIA provides financial support to airport staff in their charitable endeavours and sporting team sponsorships. Barbeque's are held during the summer on a monthly basis to support employees' charities of choice.

Charitable organizations to benefit from the generosity of LIA and its employees in 2017 included:

- Airshow London
- Canadian Aviation Historical Society
- Canadian Cancer Society
- Fanshawe College Foundation
- Jesse's Journey
- Jordan's Run the Runway
- Leukemia & Lymphoma Society of Canada
- London & Area Food Bank/Business Cares
- London Firefighters Association
- London Health Sciences Foundation
- Mission Services of London
- Montessori Academy of London
- Ronald McDonald House Charities Southwestern Ontario
- The Church of Pentecost Canada
- The Royal Canadian Legion Ontario Command
- The Salvation Army
- & numerous sporting teams

Staff Initiatives

One thing LIA prides itself on is the dedication of its staff. Going above and beyond is the norm for the over 50 members of staff. From May to October, staff and tenants held monthly barbecues to raise several thousand dollars for local charities.

The feedback from the public on our social media highlighted the everyday actions of staff such as holding babies to assist passengers, who were amazed at the level of customer service provided.

Thanks to the initiative of the LIA staff:

- Airshow London was a success with our support
- ACI-NA Honorable Mention Award for Radio advertising on our first attempt
- Passengers had the opportunity for last minute Christmas shopping at the first annual Holiday Craft Fair.

Environmental

In 2017 LIA continued to monitor and mitigate environmental hazards at the Airport. During the winter season, when de-icing operations regularly occur, LIA conducted bi-weekly monitoring of Pottersburg Creek to ensure that no glycol contamination entered into this waterway. Monitoring analysis confirmed these results. Likewise, glycol spraying operations were controlled and tracked throughout the winter season by each ground handling contractor.

In the final quarter of 2017, LIA initiated an asbestos abatement project during which time all designated substances, including asbestos containing material, were removed from one of our Airport buildings.

Lastly, in 2017 LIA pro-actively recycled over 23 thousand pounds of metal industrial waste.

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 2017 (000's)

	Plan	Actual	Explanation
Revenue	$11,326	$11,289	Flight cancellations due to construction at Toronto Pearson
Expenses	10,269	9,656	Expense reduction actions
Capital Expenditures	1,508	1,283	Deferral of a capital project to a future year

Report on the business forecast for 2018 - 2022 (000's)

	2018	2019	2020	2021	2022
Revenue	$11,594	$11,884	$12,182	$12,547	$12,924
Expenses	10,316	10,659	10,742	11,064	11,396
Capital Expenditure	1,566	4,395	2,692	2,077	1,553

- 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

The annual compensation for the Board of Directors, consisting of honorariums and per diems for the year ending December 31, 2017 was $174 thousand.

The annual compensation for the management team for the year ending December 31, 2017 was $792 thousand.

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 2017.

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 thousand (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.

Photo: Nick Chute

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
- Municipal Government
- London & District Labour Council
- Provincial Government
- London Chamber of Commerce
- GLIAA Board

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London, Ontario N6A 5S7

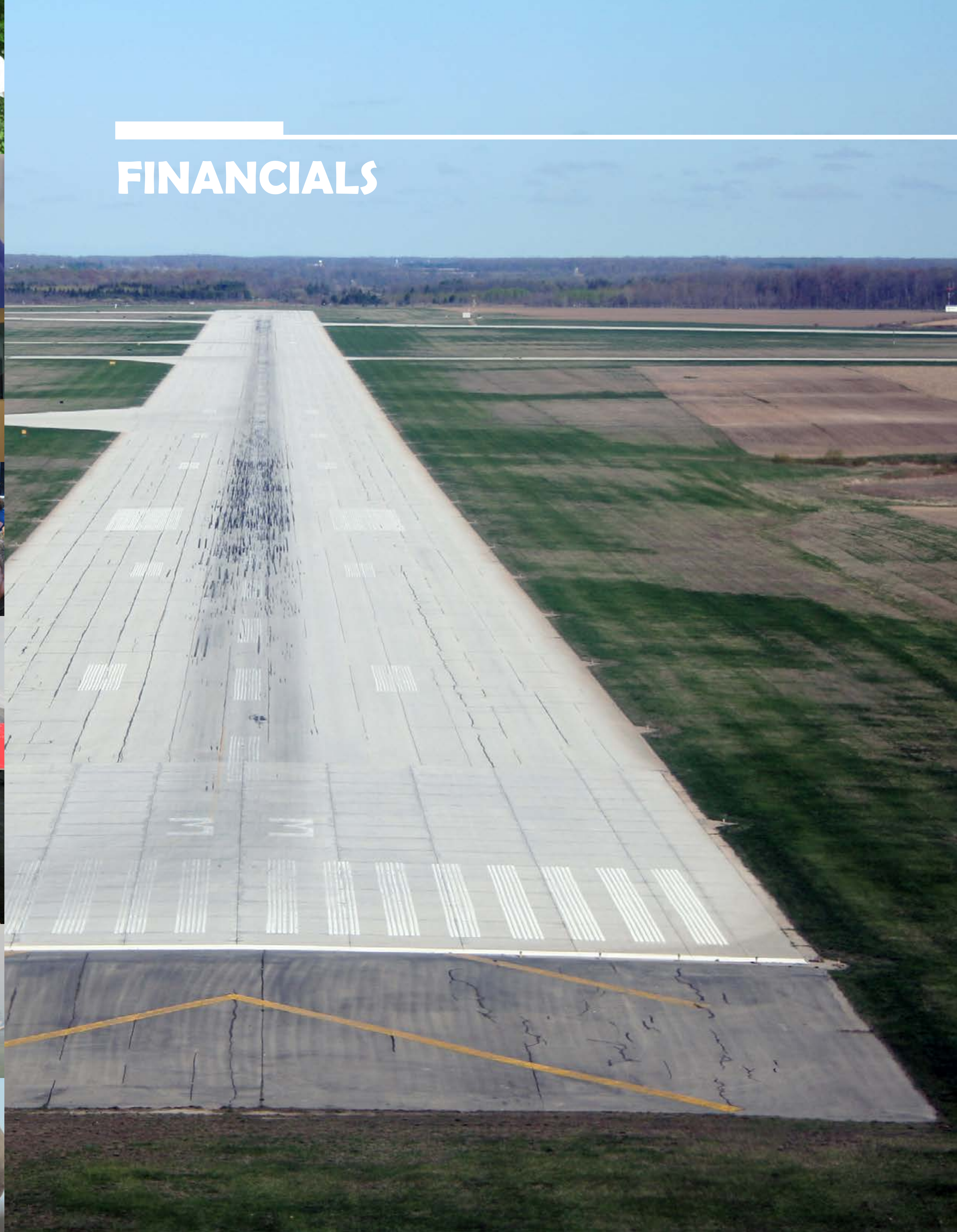
Board of Directors

GLIAA BOARD *L to r:*
Gus Kotsiomitis, *Municipal;* John Stein, *Chamber;* Mike Parkinson, *Labour;* Maureen O'Leary-Pickard, *Municipal;* Michelle T. Faysal, *Vice-Chair;* Angela Francolini, *Provincial;* Don Bryant, *Chamber;* Bill Graham, *Municipal;* Rob Flack, *Chair*

GLIAA MANAGEMENT *L to r:*
Mike Seabrook, *President & Chief Executive Officer;* Christopher Ryan, *Chief Financial Officer;* Steve Faulkner, *Manager, Operations;* Gerry Vanderhoek, *Manager, Commercial Services & Passenger Experiences;* Lauren Stafford, *Manager, Business Development & Marketing*


TGIF
RED
2017
ACI-NA Excellence in Airport Marketing, Communications, and Customer Service Awards
Honorable Mention
Radio Advertising
London International Airport
FOSTER
CAPT Matthew Kutryk
AIR CANADA
WITH LOVE
London International
ON THE FLY

FINANCIALS



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, 2017, and the statements of operations and 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, 2017, and the results of its financial performance 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 15, 2018

Statement of FINANCIAL POSITION

[in thousands of dollars]

As at December 31

	2017 **$**	2016 $
ASSETS		
Current		
Cash *[note 3]*	**937**	1,212
Accounts receivable	**975**	924
Prepaid expenses and deposits	**120**	91
Total current assets	**2,032**	2,227
Accrued pension asset *[note 8]*	**1,505**	1,820
Capital assets, net *[notes 4 and 11]*	**43,564**	44,826
Cash & marketable securities restricted for capital purposes *[note 3]*	**3,000**	2,000
	50,101	50,873
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 9]*	**912**	1,397
Deferred revenue	**25**	18
Demand installment loan *[note 5]*	**8,711**	9,852
Total current liabilities	**9,648**	11,267
Deferred capital contributions *[note 4]*	**10,686**	11,099
Total liabilities	**20,334**	22,366
Net assets	**29,767**	28,507
	50,101	50,873

See accompanying notes

On behalf of the Board:

Rob Flack

Michelle T. Faysal

Statement of OPERATIONS & CHANGES IN NET ASSETS

[in thousands of dollars]

Year ended December 31

	2017 $	2016 $
REVENUE		
Aeronautical *[note 6]*	**3,275**	3,238
Airport *[note 6]*	**4,347**	4,204
	7,622	7,442
Airport Improvement Fees *[note 4]*	**3,667**	3,650
	11,289	11,092
EXPENSES		
Salaries and employee benefits *[note 6]*	**3,642**	3,211
Other operating and administration *[note 6]*	**3,249**	3,851
Amortization *[note 4]*	**2,132**	2,014
Transport Canada rent *[note 11]*	**132**	98
Interest on bank financing	**501**	551
	9,656	9,725
Surplus of revenue over expenses before the following	**1,633**	1,367
Investment income	**76**	68
Gain on disposal of capital assets	**—**	6
Surplus for the year	**1,709**	1,441

	2017 $	2016 $
Net assets, beginning of year	**28,507**	26,946
Remeasurement gain (loss) on pension valuation allowance *[note 8[a]]*	**(559)**	21
Actuarial gain on accrued pension asset	**110**	99
Surplus for the year	**1,709**	1,441
Net assets, end of year	**29,767**	28,507

See accompanying notes

Statement of CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2017 $	2016 $
OPERATING ACTIVITIES		
Surplus for the year	**1,709**	1,441
Add (deduct) items not involving cash:		
Amortization of capital assets	**2,132**	2,014
Gain on disposal of capital assets	**—**	(6)
Recaptured airline incentive	**(377)**	—
Pension recovery	**(8)**	(4)
Contributions to pension plan	**(126)**	(170)
	3,330	3,275
Net change in non-cash working capital balances related to operations *[note 7]*	**(181)**	(408)
Cash provided by operating activities	**3,149**	2,867
INVESTING ACTIVITIES		
Purchase of capital assets	**(1,283)**	(3,055)
Proceeds of disposal of capital assets	**—**	13
Deferred contributions received	**—**	150
Increase in cash and marketable securities restricted for capital purposes	**(1,000)**	—
Cash used in investing activities	**(2,283)**	(2,892)
FINANCING ACTIVITIES		
Repayment of promissory note payable	**—**	(81)
Repayment of demand installment loan	**(1,141)**	(1,128)
Cash used in financing activities	**(1,141)**	(1,209)
Net decrease in cash during the year	**(275)**	(1,234)
Cash, beginning of year	**1,212**	2,446
Cash, end of year	**937**	1,212

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

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 the Canada Business 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 *Income Tax Act* (Canada).

2/Significant Accounting Policies

Basis of presentation

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.

[in thousands of dollars]

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.

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the asset is impaired, the impairment loss to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value, generally determined on a discounted cash flow basis. Any impairment results in a write-down of the asset and a charge to income during the year. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

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. 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 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 and changes in net assets. Current service cost and finance cost for the period are recognized as an expense in the statement of operations and changes in net assets.

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:

	2017 **$**	2016 $
Cash	**1,928**	1,482
Marketable securities	**2,009**	1,730
	3,937	3,212
Less internally restricted for capital purposes	**3,000**	2,000
Unrestricted cash	**937**	1,212

Marketable securities consist of fixed income, government and corporate bonds and other notes bearing interest at rates ranging from 1.05% to 3.86% [2016 – 2.50% to 4.38%] and having maturity dates ranging from November 28, 2018 to December 6, 2024 [2016 – July 17, 2017 to December 6, 2024].

NOTES TO **FINANCIAL STATEMENTS**

[in thousands of dollars]

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 are subject to change at the discretion of the Board of Directors. In 2017, the Board of Directors has increased the amounts restricted for approved capital projects to $3 million [2016 –$2 million].

4/Capital Assets and Deferred Capital Contributions

Capital assets consist of the following:

	2017		2016	
	Cost $	**Accumulated Amortization $**	Cost $	Accumulated Amortization $
Office furniture and equipment	**134**	**85**	123	77
Terminal furniture and fixtures	**668**	**524**	645	456
Shop equipment	**412**	**341**	383	326
Mobile equipment	**5,735**	**3,390**	5,733	3,118
Computer software	**76**	**67**	76	61
Computer hardware	**195**	**154**	172	128
Pavement leasehold improvements	**4,635**	**1,993**	4,284	1,765
Structural leasehold improvements	**37,741**	**13,055**	36,913	11,699
Security equipment	**951**	**543**	946	490
Baggage system	**3,405**	**1,922**	3,405	1,768
Gateway project	**11,136**	**1,392**	11,136	1,113
Land leasehold improvements	**2,838**	**896**	2,827	816
	67,926	**24,362**	66,643	21,817
Less accumulated amortization	**24,362**		21,817	
Net book value	**43,564**		44,826	

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $52,860 [2016 – $49,935]. During the same period, cumulative AIF revenue amounted to $49,858 [2016 – $46,191].

The cost of certain capital assets were funded through external contributions as set out below:

	2017			2016
	Contribution $	**Accumulated Amortization $**	**Unamortized contribution $**	Unamortized contribution $
Security grant	**451**	**228**	**223**	228
Canadian Air Transport Security Authority ['CATSA']	**2,643**	**1,480**	**1,163**	1,281
Gateway	**10,500**	**1,314**	**9,186**	9,449
Nav Canada	**13**	**5**	**8**	9
Non-passenger Screening Vehicle - CATSA	**150**	**44**	**106**	132
	13,757	**3,071**	**10,686**	11,099

These deferred contributions are amortized on the same basis as the amortization of the related assets as follows:

	2017 $	2016 $
Amortization of capital assets	**2,545**	2,420
Amortization of related deferred contributions	**(413)**	(406)
Amortization	**2,132**	2,014

In 2017, the Authority did not receive any capital contributions [2016 – $150].

5/Demand Installment Loan and Promissory Note Payable

The demand installment loan comprises three non-revolving credit facilities that assisted in financing of the Air Terminal Building expansion. The first facility, having an outstanding balance of $5,574 [2016 – $6,352], bears interest at the bank's prime rate of 3.20% [2016 – 2.70%] minus 15 basis points, and is repayable in monthly principal payments based on the following installment schedule:

	$
March 2013 – February 2018	65
March 2018 – February 2023	91

NOTES TO **FINANCIAL STATEMENTS**

[in thousands of dollars]

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 of 3.20% [2016 – 2.70%] minus 15 basis points for a fixed rate of 6.09%. As at December 31, 2017, the swap had a fair value of $575 [2016 – $974] in favour of the lender. The fair value of interest rate swaps generally reflects 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 $1,150 [2016 – $1,350], bears interest at either the bank's prime rate of 3.20% [2016 – 2.70%] minus 15 basis points or banker's acceptance rate plus a stamping fee at 1.25% per annum, and is payable in monthly payments of principal of $17 plus interest. As at December 31, 2017, the facility bore interest at the banker's acceptance rate of 1.44% plus a stamping fee of 1.25%.

The third non-revolving facility, having a balance outstanding of $1,987 [2016 – $2,150], bears interest at either the bank's prime rate of 3.20% [2016 – 2.70%] minus 15 basis points or banker's acceptance rate plus a stamping fee at 1.25% per annum, and is payable in monthly payments of principal of $13 plus interest. As at December 31, 2017, the facility bore interest at the banker's acceptance of 1.44% plus a stamping fee of 1.25%.

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 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, with interest payable at the bank's prime rate of 3.20% [2016 – 2.70%] minus 15 basis points. As at December 31, 2017, there is no balance outstanding [2016 – nil].

6/Statement Of Operations And Changes In Net Assets

	2017 $	2016 $
Aeronautical revenue		
Landing fees	**1,498**	1,421
Terminal fees	**1,375**	1,418
Security	**402**	399
	3,275	3,238
Airport revenue		
Parking	**2,069**	1,999
Concessions	**1,253**	1,144
Rentals *[note 11]*	**793**	792
Other	**232**	269
	4,347	4,204
Salaries and employee benefits		
Salaries and wages	**3,094**	2,719
Benefits *[note 8]*	**548**	492
	3,642	3,211
Other operating and administration expenses		
Municipal taxes	**803**	779
Utilities	**693**	700
Office and administration	**433**	435
Contracted maintenance	**392**	391
Repairs, maintenance and equipment rentals	**337**	355
Materials and supplies	**317**	319
Advertising and business development	**139**	227
Directors' fees and expenses	**174**	190
Contracted services	**—**	151
Insurance	**122**	117
Vehicle maintenance	**119**	103
Professional fees	**97**	84
Recaptured airline incentive	**(377)**	—
	3,249	3,851

NOTES TO **FINANCIAL STATEMENTS**

[in thousands of dollars]

7/Statement of Cash Flows

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

	2017 $	2016 $
Decrease (increase) in current assets		
Accounts receivable	**(51)**	(256)
Prepaid expenses and deposits	**(29)**	—
	(80)	(256)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(108)**	(148)
Deferred revenue	**7**	(4)
	(101)	(152)
	(181)	(408)

8/Employee Benefit Plans

	2017 $	2016 $
[a] Defined benefit pension plan asset	**1,892**	2,155
[b] Supplemental pension plan obligation	**(387)**	(335)
Accrued pension asset, net	**1,505**	1,820

[a] Defined benefit pension plan asset

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, 2017 and was extrapolated to December 31, 2017.

[i] Pension expense for the defined contribution plan is $71 [2016 – $80].
[ii] Information about the Authority's defined benefit plan is as follows:

	2017 $	2016 $
Fair value of plan assets	**11,129**	10,583
Benefit obligation	**(7,659)**	(7,409)
Funded status - plan surplus	**3,470**	3,174
Valuation allowance	**(1,578)**	(1,019)
Defined benefit asset	**1,892**	2,155

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:

	2017 %	2016 %
Equity securities	**56.3**	56.0
Debt securities	**34.5**	34.9
Other	**9.2**	9.1
	100.0	100.0

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

	2017 $	2016 $
Defined benefit asset, beginning of year	**2,155**	1,833
Pension recovery for the year	**32**	26
Authority contributions	**117**	161
Decrease (increase) in valuation allowance	**(559)**	21
Actuarial gain	**147**	114
Defined benefit asset, end of year	**1,892**	2,155

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:

	2017 %	2016 %
Discount rate	**4.50**	4.75
Rate of compensation increase	**2.50**	2.50
Inflation rate	**2.00**	2.00

[b] Supplemental pension plan obligation

Information about the unfunded supplemental pension plan is as follows:

	2017 $	2016 $
Defined benefit obligation, beginning of year	**(335)**	(307)
Pension expense for the year	**(24)**	(22)
Authority contributions	**9**	9
Actuarial loss	**(37)**	(15)
Defined benefit obligation, end of year	**(387)**	(335)

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.

NOTES TO **FINANCIAL STATEMENTS**

[in thousands of dollars]

9/Government Remittances

Included in accounts payable and accrued liabilities are government remittances payable of $105 [2016 – $72] 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, 2017, 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 79% [2016 – 87%] of the trade accounts receivable balance as at December 31, 2017. 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.

11/Operating Leases

The Authority as lessee: 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 a 20-year extension to the ground lease with an expiry date of July 31, 2078. At the end of the renewal term, unless otherwise extended, the Authority is obligated to return control of the Airport to the Government of Canada.

In 2005, Transport Canada announced the adoption of a new rent policy that has resulted in reduced rent for Canadian airport authorities, including the Authority. Under this formula, rent is calculated as a royalty based on a percentage of gross annual revenues on a progressive scale.

Based on forecasts of future revenues [which are subject to change depending on economic conditions and changes in the Authority's rates and fees], estimated rent payments for the next five years are approximately as follows:

	$
2018	147
2019	150
2020	153
2021	157
2022	162

The Authority as lessor: The Authority leases out, under operating leases, land and certain assets that are included in property, plant and equipment. Many leases include renewal options, in which case they are subject to market price revision. The lessee does not have the possibility of acquiring the leased assets at the end of the lease.

The estimated lease revenue for the next five years is approximately as follows:

	$
2018	793
2019	793
2020	793
2021	793
2022	793

12/Comparative Figures

Certain 2016 comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

KEEP IN TOUCH

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