London International
start here. go *anywhere*.

GREATER LONDON INTERNATIONAL AIRPORT AUTHORITY

Annual Report | 2018

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People will forget what you said. They will forget what you did.
But they will never forget how you made them feel.
- Maya Angelou

Jeff Clark & Lisa Ferreira, ACEs

MISSION

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

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 commited to being an inclusive, team-oriented organization which treats all employees with fairness, dignity and respect, and values their contributions.

CUSTOMER SERVICE

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

CREATIVITY & INNOVATION

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

STEWARDSHIP

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

SAFETY & SECURITY

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

From the Chair and President & CEO

2018 marks the 20th anniversary of the formation of the Greater London International Airport Authority (GLIAA). It was in August of 1998, when GLIAA negotiated the transfer of operations of the airport from the federal government under the National Airports Policy. GLIAA has invested over $70 million in the Airport since transfer and transformed it into a modern and growing transportation hub with a very bright future. We salute the Board of Directors, Management, and employees at GLIAA who have had the steady hand and foresight that have guided our Airport over these last 20 years.

As you read our Annual Report you will find stories and highlights of our successes this past year as well as our financial results for 2018. It has been a very good year for London International Airport (LIA) and we are confident that our approach to business has put us on the right track. The air travel industry is growing. Passenger traffic in Southern Ontario is forecast to double over the next ten years from 55 million passengers to over 100 million. London International Airport can play a big role in this growing market and in pursuit of this goal, we are guided by our Strategic Plan.

The "Easy and Comfortable" Airport is our mantra at LIA and together with Exceptional Passenger Experience, it is one of our key Strategic Objectives. We want our part of a passenger's trip to be a positive experience. Simple passenger processes, uncongested facilities, friendly staff, and a clean modern terminal building, these are a few of the priorities that we offer to the traveller. This approach has helped us achieve passenger satisfaction rates that are high today and getting better every year. Travellers coming and going from Southern Ontario prefer to use our airport. Our growth in 2018 took us to 537,245 passengers and we continue to surpass industry growth rates as new air services are added to our network.

Financial sustainability is another key element to our Airport's Strategic Priorities and one where we achieved excellent results in 2018. LIA operates a financially successful airport that has user operating costs that are among the lowest in Canada. We are surrounded by many airports, big and small, and it is essential that we adhere to disciplined business practices to ensure our long term success. This strategy includes investing prudently in our infrastructure, reducing our debt, and attracting new sources of revenue that allow us to grow without raising our fees and charges. The long term success of our airport requires profitable airlines and businesses that can thrive in the environment that we create.
We believe we're on the right path!

We're also very proud of our employees that work for the Airport and those that work at the Airport. The list includes employees from our airline partners, Government agencies, ground support companies, flight schools, Diamond Aircraft, Western University and Fanshawe College, and many other businesses that make this airport a great place to work. Our Airport community has close to 1000 employees that show up every day with a positive attitude and a desire to be part of the airport's success. There is no better asset than motivated and passionate employees, it's a reflection of our organizational culture.

Toronto Pearson Airport is the dominant airport in our region and has been growing over the last decade at record levels. Pearson is also an airport that is experiencing challenges from this growth, which includes capacity issues and congestion. Together with Pearson Airport, as well as other airports in Southern Ontario, we formed the Southern Ontario Airport Network (SOAN). This organization was brought together to understand the opportunities that growth will bring to our region, and to ensure that we can collectively meet the needs of the aviation sector.

LIA is centred in the middle of Southwestern Ontario with uncongested highways and a population of close to 2 million people within a 90 minute drive. Our airport's infrastructure is excellent and our business model is sound. We believe we are well positioned to take advantage of the growth in our industry and we believe that our airport has a bright future.
We encourage you to be part of this growth, show your support by looking at the excellent services from LIA and start and end your flights in London.

In closing, we would also like to thank Angie Francolini for her time on our Board of Directors.
Angie's contributions have been significant and will help shape the future of LIA and our vision to be a thriving airport serving our region of Southwestern Ontario.

We look forward to 2019.

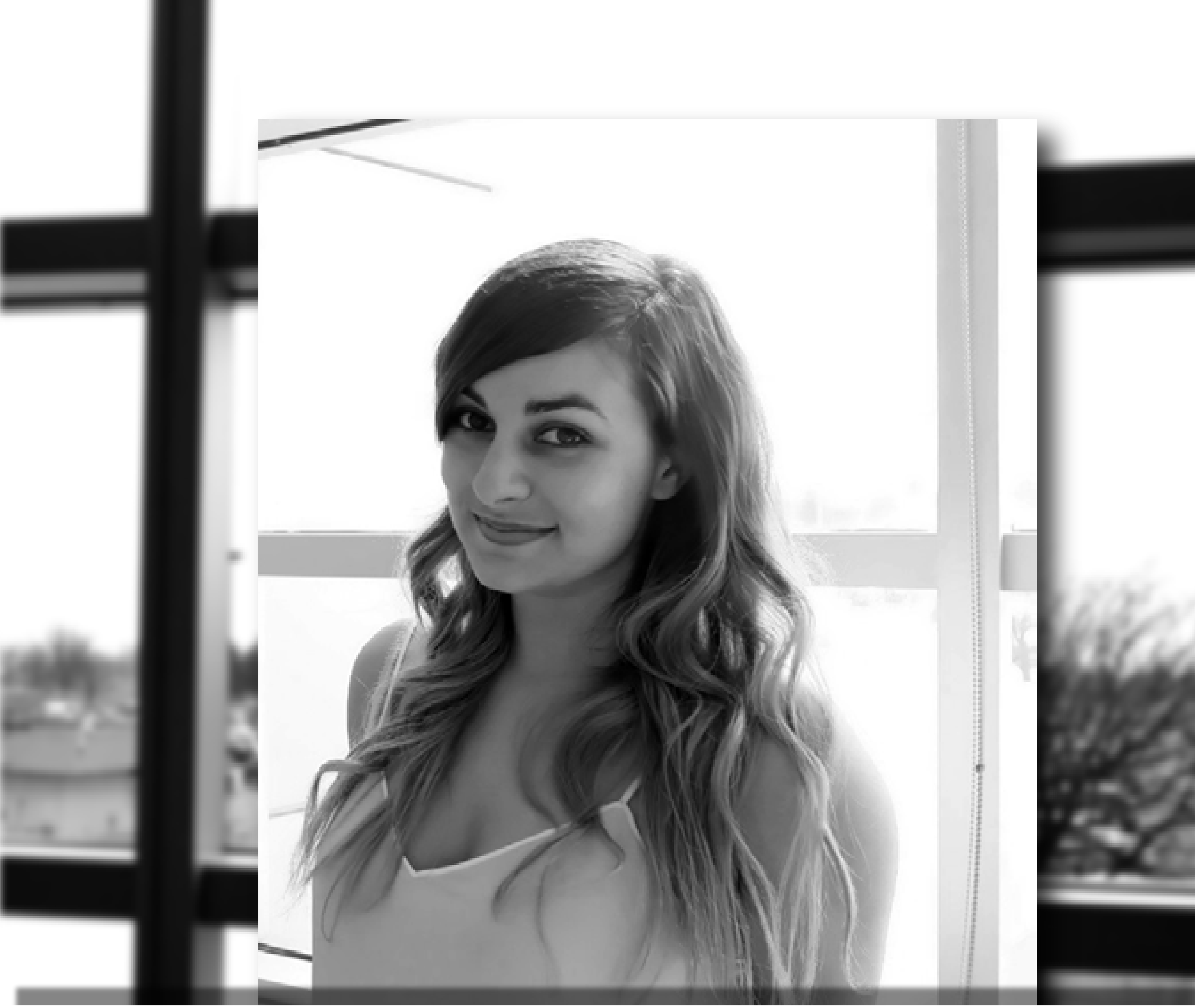
Rob Flack
Chair, Board of Directors

Michael Seabrook
President & CEO

2018 Highlights

London International was pleased to have another very productive, successful year in 2018. From exciting increases in air service to a complete refresh of the Airport's social media brand, there are a variety of highlights demonstrating our accomplishments in the local aviation community, workplace culture and safety, the continuous delivery of an exceptional passenger experience, and more.

- The addition of daily, direct service to Montreal with Air Canada
- The addition of a third daily WestJet Encore flight to Toronto
- Successful application to the National Trade Corridors Fund for funding to complete the resurfacing of Taxiway Golf
- Most passenger traffic ever recorded through London International, at 537,245 passengers served
- The construction of a 30,000 square foot hangar by ITPS and a 10,000 square foot hangar by Canusa
- Hosted multiple incredibly successful community and charity events including the Airshow London, Jordan's Run the Runway, and Sports Car Performance Rally in Support of Meals on Wheels
- Introduction and integration of the "Text to Talk Program" by the ACE staff
- Continued dedication to workplace safety completed via numerous workplace inspections, workplace committee meetings, and providing ongoing supplemental training modules
- Introduction of the Best Buy Electronics Vending Machine
- Refreshed London International's social media brand and significantly increased our reach on Twitter, Instagram, and Facebook
- Continued participation by the Airport in the Southern Ontario Airports Network
- Passenger Terminal Survey was conducted with 471 passengers to collect information on demographics and other important travel habit data
- Conducted an Employee Engagement Survey where results showed London International's compensation and benefits, workplace environment, and workplace engagement all exceed the benchmark



Lauren Stafford

Manager, Business Development & Marketing

Gerry Vanderhoek

Manager, Commercial Services
& Passenger Experience

PASSENGER Experience

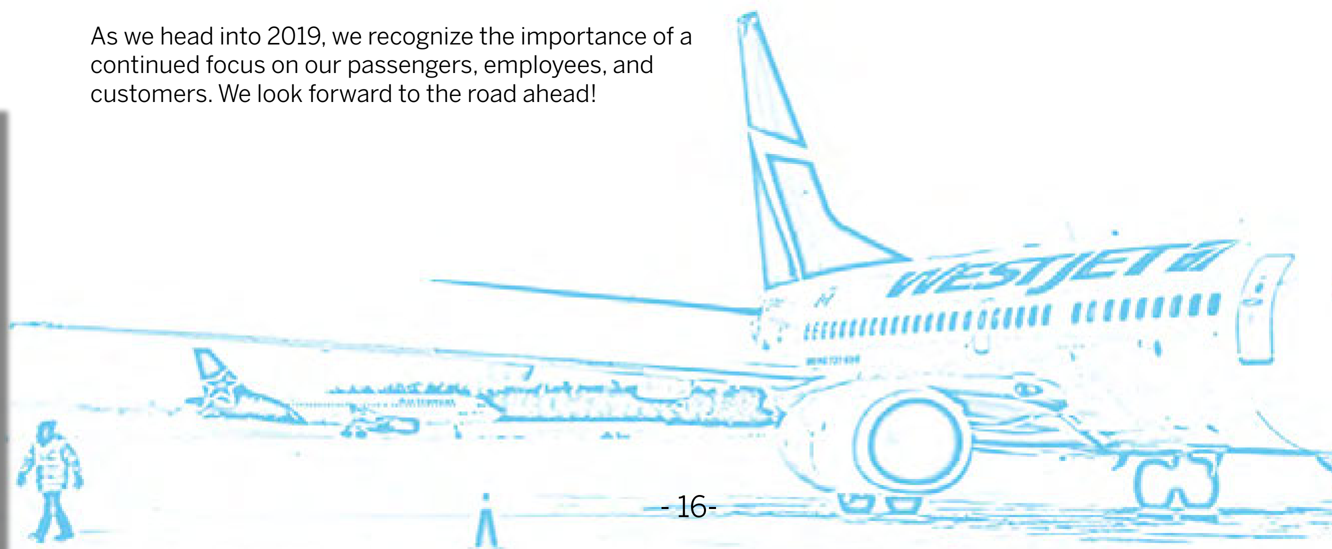
After the incredible year we have had in 2018, and in particular in our customer service endeavors, all I can say is, "Wow, have we ever come a long way!".

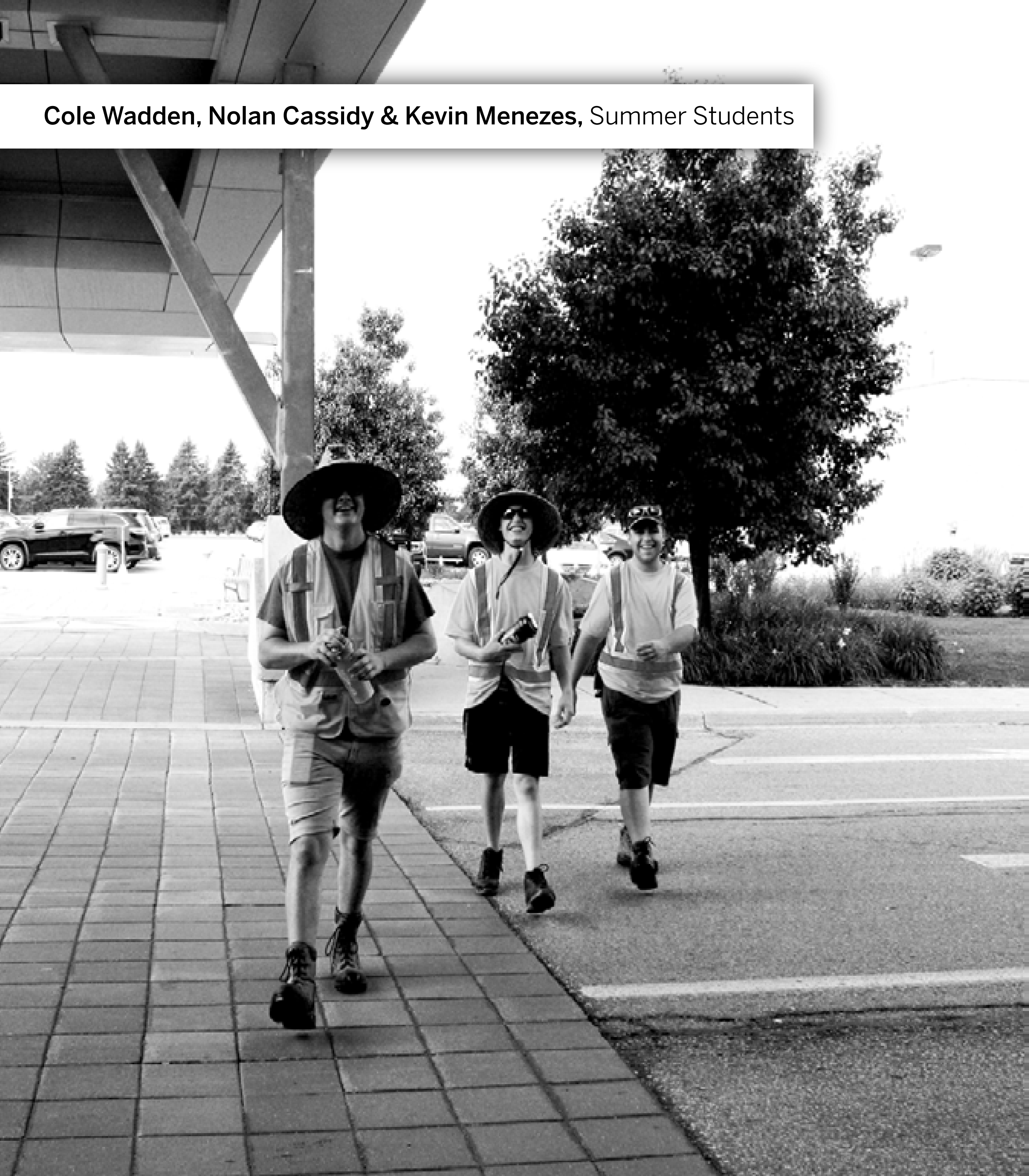
Airport experience has become an increasing focus for airports and is no longer the sole responsibility of the airlines. Accordingly, Airports have had to adapt to and exceed passenger expectations for airport experience. London International has added many enhancements over the last four years to our Customer Service program. In 2018, our focus for Passenger Experience has been to refine current programs and offerings to meet the needs and exceed expectations of passengers.

We introduced the "Text to Talk" program through our Blue ACEs (Airport Comfort Enhancers) where passengers are able to communicate their questions or concerns in real time to on-duty ACEs. London International also beta tested a curbside assistance program in 2018 that will be fully introduced and executed in Spring 2019. From curbside to the gate, our goal for passenger experience is to make it "Easy and Comfortable".

Passengers prefer to fly out of London International because of the experience we offer with shorter lines, an easy to navigate terminal and friendly staff. We proudly continue to receive continuous positive feedback about the staff throughout our airport. We greatly appreciate and value the commitment of staff to enhance the airport experience.

As we head into 2019, we recognize the importance of a continued focus on our passengers, employees, and customers. We look forward to the road ahead!





Cole Wadden, Nolan Cassidy & Kevin Menezes, Summer Students


Domestic Arrivals
Gates 5 4 3 2 &

COMMUNITY

London International Airport provides financial support to airport staff in their charitable endeavours and sporting team sponsorships. Fundraising initiatives and donations are contributed throughout the year in support of charities such as:

The Salvation Army
Mission Services of London
London Food Bank
Hope Air

Jesse's Journey
Jordan's Run the Runway
London Firefighters Association
+ numerous sporting teams

The dedication and generosity of LIA employees is commendable. LIA prides itself in the efforts and willingness of employees to participate in charity fundraising intitiatives and contribute to the community.

HEALTH, SAFETY & ENVIRONMENT

Chloe Minors, Health, Safety & Environmental Officer

The Airport's health and safety program operates on the basis of the internal responsibility system and continuous improvement, whereby everyone has a role to play in ensuring improved health and safety performance. As such, we continued to monitor our health and safety policies, procedures and programs and, where required, implement new ones. To ensure safe work practices were followed throughout the year, various workplace inspections, departmental safety talks, workplace health and safety committee meetings and health and safety training courses were conducted.

A number of activities were conducted in 2018 to ensure adequate management of our local environment. Regular water quality monitoring continued during seasonal de-icing operations, as well as intermittently throughout the summer months. The airport follows a robust and controlled waste management program and in 2018 increased capacity for recycling at the Airport Terminal Building as well as the Airport Operations Center. The Airport Authority also began tracking emissions data in 2018, with the aim of pursuing Airport Carbon Accreditation in the coming years.

AIRPORT Operations

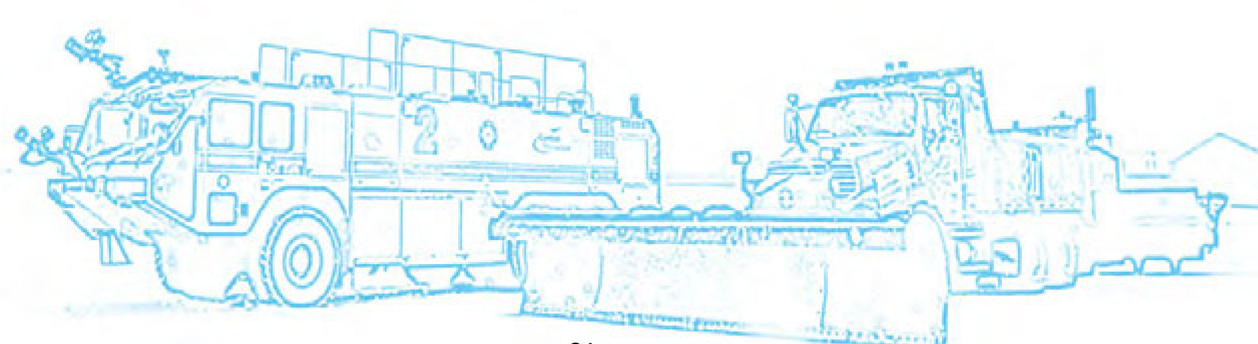
It's been another busy year here at London International Airport as we prepare for growth in 2019. This was a year that was primarily focused on planning for the future. Indeed, the largest projects we initiated in 2018 were focused on the three major pillars of Airport Operations, namely: Safety, Security, and Aircraft Operations.

To address safety, we conducted a search for an Aircraft Rescue and Fire Fighting (ARFF) vehicle to replace one of our aging fire trucks. Through negotiation with a supplier of these specialized vehicles, we purchased a refurbished 2001 Oshkosh ARFF Vehicle. This vehicle is being overhauled by the supplier and is scheduled for delivery to London in the spring of 2019.

Under the security heading, we hired an engineering firm to work with LIA and the Canadian Air Transport Security Authority (CATSA) for the replacement of our baggage screening equipment that is approaching the end of its service life. Together with CATSA the airport has finalized a design for the new system, and developed a plan for the provision of a temporary baggage screening facility to process baggage while the new units are installed. The actual installation of this new equipment this summer will increase the airport's baggage screening capacity, and will be virtually seamless or unnoticeable to our passengers.

Finally with respect to Aircraft Operations, this year we entered into a partnership with the Federal Government for the reconstruction of our primary Taxiway "G". This 50% funding agreement has been made available to us through the National Trade Corridor Fund. In 2018 the Airport hired a project engineering firm and worked with them to develop a scope of work and construction plan in preparation for the actual work that is scheduled to begin this spring.

All in all it has been a busy year, and we are poised to build on that momentum in 2019!



Steve Faulkner

Manager, Operations

Carlo Mancini, Airfield Electrician

Craig Turner, Redleader

Meaghan Riedl, ACE

Air Canada Jazz Pilot, Montreal Inaugural


Welcome Home Rodney


INVESTING $3.3M TO REBUILD LONDON INTERNATIONAL AIRPORT'S TAXIWAY G TO HELP BUSINESSES COMPETE BY MOVING GOODS TO MARKET.
INVESTIR 3,3 M$ POUR RECONSTRUIRE LA VOIE DE CIRCULATION G DE L'AÉROPORT INTERNATIONAL DE LONDON EN VUE D'AIDER LES ENTREPRISES À LIVRER CONCURRENCE EN TRANSPORTANT DES PRODUITS VERS LES MARCHÉS.
Canada


AIR CANADA


Bag Drop


Departures


London
International


Security Operations Centre
London
International
start here. go anywhere.


start here
WELCOME HOME
PRIME MINISTER
AIDEN


go anywhere.

Board of Directors

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

Rob Flack
Chair

Michelle T. Faysal
Vice Chair

Michelle Campbell
Federal

Don Bryant
Chamber

Bill Graham
Municipal

Angela Francolini
Provincial

Gus Kotsiomitis
Municipal

Elizabeth Cormier
Federal

John Stein
Chamber

Maureen O'Leary-Pickard
Municipal

Mike Parkinson
Labour

Financial

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 2018 (000's)

	Plan	Actual	Explanation
Revenue	$11,594	$11,700	New Montreal and additional Toronto flights
Expenses	$10,316	$10,445	Expense reduction actions offset by cost of settlement of interest rate swap
Capital Expenditures	$1,566	$1,137	Deferral of a capital project to a future year

Report on the business forecast for 2019-2023 (000's)

	2019	2020	2021	2022	2023
Revenue	$14,038	$15,631	$16,030	$16,511	$17,006
Expenses	$10,433	$10,681	$10,803	$11,127	$11,460
Capital Expenditures	$12,542	$2,580	$1,615	$3,411	$10,283

- 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, 2018 was $185 thousand.
The annual compensation for the management team for the year ending December 31, 2018 was $700 thousand.

Competitive Tenders

GLIAA is committed to doing business locally and in a 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.

Ethical Business Conduct

GLIAA 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 during 2018.

Christopher G. Ryan

Chief Financial Officer

Independent Auditor's Report

To the Members of
Greater London International Airport Authority

Opinion
We have audited the financial statements of Greater London International Airport Authority [the "Organization"] which comprise the statement of financial position as at December 31, 2018, and the statement of operations and changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, 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.

Basis for opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

•Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
March 21, 2019

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

STATEMENT OF Financial Position

As at December 31

	2018 $	2017 $
Assets		
Current		
Cash *[note 3]*	**1,937**	937
Accounts receivable	**1,008**	975
Prepaid expenses and deposits	**124**	120
Total current assets	**3,069**	2,032
Accrued pension asset *[note 8]*	**1,827**	1,505
Capital assets, net *[notes 4 and 11]*	**42,089**	43,564
Cash and marketable securities restricted for capital purposes *[note 3]*	**3,000**	3,000
	49,985	50,101
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[note 9]*	**1,056**	937
Demand instalment loan *[note 5]*	**7,325**	8,711
Total current liabilities	**8,381**	9,648
Deferred capital contributions *[note 4]*	**10,321**	10,686
Total liabilities	**18,702**	20,334
Net assets	**31,283**	29,767
	49,985	50,101

See accompanying notes

On behalf of the Board:

Rob Flack

John Stein

STATEMENT OF Operations & Changes in Net Assets

Year ended December 31

	2018	2017
	$	$
Revenue		
Aeronautical *[note 6]*	3,292	3,275
Airport *[note 6]*	4,628	4,347
	7,920	7,622
Airport Improvement Fees *[note 4]*	3,780	3,667
	11,700	11,289
Expenses		
Salaries and employee benefits *[note 6]*	3,627	3,642
Other operating and administration *[note 6]*	3,728	3,249
Transport Canada rent *[note 11]*	140	132
	7,495	7,023
Surplus of revenue over expenses before amortization and interest	4,205	4,266
Amortization *[note 4]*	2,186	2,132
Interest and financing charges	764	501
Surplus of revenue over expenses before the following	1,255	1,633
Investment income (loss)	(14)	76
Loss on disposal of capital assets	(8)	—
Surplus for the year	1,233	1,709
Net assets, beginning of year	29,767	28,507
Remeasurement gain (loss) on pension valuation allowance *[note 8[a]]*	832	(559)
Actuarial gain (loss) on accrued pension asset *[note 8[a] and note 8[b]]*	(549)	110
Surplus for the year	1,233	1,709
Net assets, end of year	31,283	29,767

See accompanying notes

STATEMENT OF Cash Flow

Year ended December 31

	2018 $	2017 $
Operating activities		
Surplus for the year	1,233	1,709
Add (deduct) items not involving cash		
Amortization of capital assets	2,186	2,132
Loss on disposal of capital assets	8	—
Recaptured airline incentive	—	(377)
Net pension expense (recovery)	17	(8)
Contributions to pension plan	(56)	(126)
	3,388	3,330
Net change in non-cash working capital balances related to operations *[note 7]*	82	(181)
Cash provided by operating activities	3,470	3,149
Investing activities		
Purchase of capital assets	(1,137)	(1,283)
Proceeds on disposal of capital assets	5	—
Deferred contributions received	48	—
Increase in cash and marketable securities restricted for capital purposes	—	(1,000)
Cash used in investing activities	(1,084)	(2,283)
Financing activities		
Repayment of demand instalment loan	(1,386)	(1,141)
Cash used in financing activities	(1,386)	(1,141)
Net increase (decrease) in cash during the year	1,000	(275)
Cash, beginning of year	937	1,212
Cash, end of year	1,937	937

See accompanying notes

NOTES TO
Financial Statements

1. Description of Business

The Greater London International Airport Authority [the "Authority"] was continued under the Canada Not-for-profit Corporations Act as a corporation without share capital.

The objectives of the Authority are:

• 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;
• to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities; and
• to expand transportation facilities and generate economic activity in ways that 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 a 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 Organizations", 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 as at the date of the financial statements, and the reported amounts of revenue 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. Aeronautical and airport revenue 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 and changes in net assets in the period during which they are incurred.

Other financial instruments, including accounts receivable and 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 used 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 or it is probable that the interest-bearing hedged item will be prepaid, 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

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 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 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 and Marketable Securities

Cash and marketable securities consist of the following:

	2018 $	2017 $
Cash	**1,936**	1,928
Marketable securities	**3,001**	2,009
	4,937	3,937
Less internally restricted for capital purposes	**3,000**	3,000
Unrestricted cash	**1,937**	937

Marketable securities consist of fixed income, government and corporate bonds and other notes bearing interest at rates ranging from 1.05% to 3.12% [2017 - 1.05% to 3.86%] and having maturity dates ranging from December 2, 2019 to December 6, 2024 [2017 – November 28, 2018 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 are subject to change at the discretion of the Board of Directors. In 2018, the Board of Directors has restricted $3 million [2017 – $3 million] for future capital projects.

4. Capital Assets and Deferred Capital Contributions

Capital assets consist of the following:

	2018		2017	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Office furniture and equipment	136	93	134	85
Terminal furniture and fixtures	744	594	668	524
Shop equipment	415	358	412	341
Mobile equipment	5,794	3,553	5,735	3,390
Computer software	78	73	76	67
Computer hardware	204	178	195	154
Pavement leasehold improvements	4,805	2,234	4,635	1,993
Structural leasehold improvements	38,254	14,463	37,741	13,055
Security equipment	952	593	951	543
Baggage system	3,405	2,075	3,405	1,922
Gateway project	11,136	1,670	11,136	1,392
Land leasehold improvements	2,898	978	2,838	896
Construction in progress	130	—	—	—
	68,951	26,862	67,926	24,362
Less accumulated amortization	26,862		24,362	
Net book value	42,089		43,564	

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $56,114 [2017 - $52,860]. During the same period, cumulative AIF revenue amounted to $53,638 [2017 – $49,858].

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

	2018			2017
	Contribution $	Accumulated amortization $	Unamortized contribution $	Unamortized contribution $
Security grant	**451**	**234**	**217**	223
Canadian Air Transport Security Authority ["CATSA"]	**2,643**	**1,598**	**1,045**	1,163
Gateway	**10,500**	**1,578**	**8,922**	9,186
Nav Canada	**13**	**6**	**7**	8
Non-passenger Screening Vehicle – CATSA	**150**	**68**	**82**	106
Hold Baggage Screening (HBS) – CATSA	**48**	**—**	**48**	—
	13,805	**3,484**	**10,321**	10,686

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

	2018 $	2017 $
Amortization of capital assets	**2,599**	2,545
Amortization of related deferred contributions	**(413)**	(413)
Amortization	**2,186**	2,132

In 2018, the Authority received a contribution of $48 [2017 - $nil] from CATSA for 100% of the engineering costs related to the HBS Project. This contribution was deferred and will be amortized to income on the same basis as the amortization of the related asset once construction is complete. Contributions for HBS are recognized as costs are incurred, with total estimated future costs for this project totaling $3.3M. No contributions were unspent as at December 31, 2018.

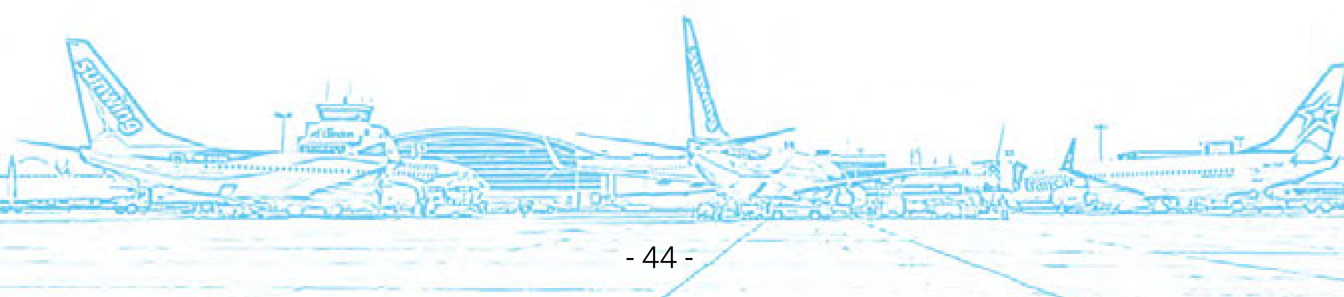
5. Demand Instalment Loan

The demand instalment loan bears interest at an average floating rate of 2.93% and resets every 90 days based on the banker's acceptance market. Annual principal repayments amount to $1,439 payable monthly.

In prior years, the Authority was a party, along with its lender, to an interest rate swap agreement to fix the interest rate at 6.09% on approximately 64% of its obligation. On September 24, 2018, the interest rate swap was settled at a cost of $387. This cost has been included in Interest and financing charges in the Statement of Operations and Net Assets.

The loan is subject to a financial covenant in the form of a modified fixed charge coverage ratio.
The Authority was in compliance at year-end. 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 available an undrawn revolving operating line of credit in the amount of $500.



6. Statement of Operations and Changes in Net Assets

	2018 $	2017 $
Aeronautical revenue		
Landing fees	1,518	1,498
Terminal fees	1,364	1,375
Security	410	402
	3,292	3,275
Airport revenue		
Parking	2,152	2,069
Concessions	1,355	1,253
Rentals *[note 11]*	928	793
Other	193	232
	4,628	4,347
Salaries and employee benefits		
Salaries and wages	3,055	3,094
Benefits *[note 8]*	572	548
	3,627	3,642
Other operating and administration expenses		
Municipal taxes	837	803
Utilities	655	693
Office and administration	470	433
Contracted maintenance	414	392
Repairs, maintenance and equipment rentals	344	337
Materials and supplies	303	317
Advertising and business development	186	139
Directors' fees and expenses	185	174
Insurance	131	122
Vehicle maintenance	124	119
Professional fees	79	97
Recaptured airline incentive	—	(377)
	3,728	3,249

7. Statement of Cash Flows

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

	2018 $	2017 $
Decrease (increase) in current assets		
Accounts receivable	**(33)**	(51)
Prepaid expenses and deposits	**(4)**	(29)
	(37)	(80)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**123**	(108)
Deferred revenue	**(4)**	7
	119	(101)
	82	(181)

8. Employee Benefit Plans

	2018 $	2017 $
[a] Defined benefit pension plan asset	**2,292**	1,892
[b] Supplemental pension plan obligation	**(465)**	(387)
Accrued pension asset, net	**1,827**	1,505

[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, 2018 and was extrapolated to December 31, 2018.

[i] Pension expense for the defined contribution plan is $97 [2017 – $71].

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

	2018 $	2017 $
Fair value of plan assets	10,712	11,129
Benefit obligation	(7,674)	(7,659)
Funded status – plan surplus	3,038	3,470
Valuation allowance	(746)	(1,578)
Defined benefit pension plan asset	2,292	1,892

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:

	2018 %	2017 %
Equity securities	58.8	56.3
Debt securities	38.0	34.5
Other	3.2	9.2
	100.0	100.0

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

	2018 $	2017 $
Defined benefit asset, beginning of year	1,892	2,155
Pension recovery for the year	10	32
Authority contributions	47	117
Increase (decrease) in valuation allowance	832	(559)
Actuarial gain (loss)	(489)	147
Defined benefit asset, end of year	2,292	1,892

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit asset [obligation] under the defined benefit pension plan as at December 31, 2018 are as follows:

	2018 %	2017 %
Discount rate	**4.50**	4.50
Rate of compensation increase	**2.00**	2.50
Inflation rate	**2.50**	2.00

[b] Supplemental Pension Plan Obligation
Information about the unfunded supplemental pension plan obligation is as follows:

	2018 $	2017 $
Defined benefit obligation, beginning of year	**(387)**	(335)
Pension expense for the year	**(27)**	(24)
Benefits paid	**9**	9
Actuarial loss	**(60)**	(37)
Defined benefit obligation, end of year	**(465)**	(387)

The Authority contributed $9 [2017 – $9] to the supplemental pension plan to fund the benefits paid. 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 $96 [2017-$105] 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, 2018, 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 82% [2017 – 79%] of the trade accounts receivable balance as at December 31, 2018. 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 of 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 floating interest rate financial instruments.

11. Operating Leases

The Authority as Lessee

The Authority's ground lease with Transport Canada expires in 2078. At the end of the 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:

	$
2019	267
2020	288
2021	296
2022	305
2023	314

The Authority as Lessor

The Authority leases out, under operating leases, land and certain assets that are included in capital assets. 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:

	$
2019	928
2020	928
2021	928
2022	928
2023	928