Management's Responsibility for Financial Statements

Management of the St. John's International Airport Authority ("The Authority") is responsible for the preparation and presentation of the accompanying financial statements. The financial statements contain all disclosures necessary for a fair presentation of the financial position, results of operations, and cash flows of the Authority in accordance with Canadian generally accepted accounting principles.

The Authority maintains appropriate accounting procedures and related systems of internal control to provide reasonable assurance that its assets are safeguarded and that its financial records are reliable.

The Authority's Board of Directors ensures that management fulfills its responsibility by appointing a Finance and Audit Committee, composed of four Directors, to review and recommend the annual financial statements to the Board of Directors for approval.

The financial statements have been audited by Ernst & Young LLP, an independent firm of chartered accountants, who were appointed by the Board of Directors. The auditors meet with the Finance and Audit Committee annually to review any significant accounting, internal control or auditing matters.

Keith Collins
President & CEO

Laura Cooper
Director - Finance & Human Resources

AUDITORS' REPORT

To the Directors of St. John's International Airport Authority

We have audited the balance sheet of **St. John's International Airport Authority** (the "Authority") as at December 31, 2009 and the statements of operations and equity in capital assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Canada Corporations Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants

St. John's, Canada,

March 12, 2010

BALANCE SHEET

St. John's International Airport Authority

As at December 31 (in thousands of dollars)

	2009	2008
Assets		
Current		
Cash and cash equivalents	$ -	$ 4,397
Accounts receivable (note 4)	3,008	1,958
Consumable inventory	287	374
Prepaid expenses	201	214
Total current assets	3,496	6,943
Capital assets, net (note 5)	92,906	91,131
Debt service reserve fund (note 7)	1,445	1,447
Accrued benefit asset (note 10)	1,301	820
Intangible assets, net (note 3)	82	100
	$ 99,230	**$ 100,441**
Liabilities and Equity in Capital Assets		
Current		
Bank indebtedness	$ 324	$ -
Accounts payable and accrued liabilities (note 6)	5,893	11,142
Total current liabilities	**6,217**	**11,142**
Long-term debt (note 7)	54,281	51,219
Deferred contributions for capital projects (note 8)	10,732	11,162
Equity in capital assets	28,000	26,918
	$ 99,230	**$ 100,441**

Commitments (note 12)

See accompanying notes

On behalf of the Board:

Fraser Edison,
Chair

John Chapman,
Chair of Finance & Audit Committee

STATEMENT OF OPERATIONS AND EQUITY IN CAPITAL ASSETS

St. John's International Airport Authority

Year ended December 31 (in thousands of dollars)

	2009	2008
Revenues		
Landing fees	$ 4,203	$ 4,152
Terminal fees	2,889	2,728
Concessions	2,981	2,915
Car parking	1,877	1,980
Rentals	1,816	1,375
Other	707	1,215
	14,473	14,365
Airport improvement fees (note 9)	8,380	8,293
	22,853	22,658
Operating Expenses		
Salaries and benefits	5,871	5,456
Operating	5,234	5,087
Amortization	5,129	4,289
Interest and financing costs	3,048	2,956
Airport rent	724	715
Grant-in-lieu of taxes (Municipal)	607	605
Business development	568	750
Professional services	308	425
General and administrative	294	388
Bad debts	-	40
	21,783	**20,711**
Excess of revenues over expenses	**$ 1,070**	**$ 1,947**
Total equity in capital assets, beginning of year	$ 26,918	$ 24,958
Accumulated unrealized changes in net assets (note 2)		
Amortization - cash flow hedge loss	12	13
Total equity in capital assets, end of year	**$ 28,000**	**$ 26,918**

See accompanying notes

STATEMENT OF CASH FLOWS

St. John's International Airport Authority

Year ended December 31 (in thousands of dollars)

		2009		2008
Operating Activities				
Excess of revenues over expenses	$	1,070	$	1,947
Add (deduct) items not involving cash				
Amortization - capital assets, net		5,665		4,884
Amortization - deferred contributions		(568)		(643)
Amortization - intangible assets		32		48
Amortization - other		103		100
Loss on sale of capital assets		1		9
Increase in accrued benefit asset		(481)		(235)
		5,822		**6,110**
Changes in non-cash working capital balances related to operations				
Accounts receivable		(1,050)		726
Consumable inventory		87		(229)
Prepaid expenses		13		59
Accounts payable and accrued liabilities		(5,249)		4,391
Cash (used in) provided by operating activities		(377)		11,057
Financing Activity				
Proceeds from credit facility		2,973		-
Cash provided by financing activity		2,973		-
Investing Activities				
Additions to capital assets		(7,460)		(18,791)
Additions to deferred contributions		138		-
Additions to intangible assets		(14)		(77)
Proceeds from sale of capital assets		19		45
Cash used in investing activities		(7,317)		(18,823)
Net decrease in cash during the year		**(4,721)**		**(7,766)**
Cash and cash equivalents, beginning of year		4,397		12,163
(Bank indebtedness) cash and cash equivalents, end of year	**$**	**(324)**	**$**	**4,397**

See accompanying notes

Notes to Financial Statements

St. John's International Airport Authority

December 31, 2009

(tabular amounts expressed in thousands of dollars except where otherwise noted)

1. Organization and nature of operations:

The St. John's International Airport Authority (the "SJIAA") was incorporated on May 6, 1996 as a corporation without share capital under Part II of the *Canada Corporations Act*. *The Airport Transfers (Miscellaneous Matters) Act* exempts the corporation from paying income and large corporations tax.

On December 1, 1998, the operations and undertakings of the St. John's International Airport (the "Airport"), previously administered by Transport Canada, were transferred to the SJIAA. The SJIAA operates the Airport pursuant to the provisions of a long-term lease with the Government of Canada (the "Ground Lease"). As the principal document governing the relationship and allocating responsibilities between the SJIAA and the Government of Canada, the Ground Lease provides a formula for the calculation and payment of Airport Rent, after an initial rent-free period which ended December 31, 2005. The term of the Ground Lease is sixty years, ending 2057, with an option to extend the term for a further twenty years.

The SJIAA has all the powers and obligations of any Canadian private corporation and operates on a fully commercial basis. The SJIAA has the autonomy to set all fees and charges and does not rely on grants, donations or on contributions with restrictions imposed by the contributor.

The corporate structure ensures that the excess of revenues over expenses, or surplus from operations, is retained and reinvested in capital assets for development of the Airport. Equity in capital assets includes the net assets invested in capital assets to date and cumulative surpluses restricted for future airport infrastructure projects and associated financing costs.

2. Significant accounting policies:

Basis of accounting

The Authority's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

Cash and cash equivalents

The SJIAA considers deposits in banks, certificates of deposits and short-term investments with original maturities of three months or less as cash and cash equivalents.

Ground Lease

The Ground Lease is accounted for as an operating lease.

Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. This includes a provision for severance pay liability for employees who have less than ten years of continual service.

Notes to Financial Statements

2. Significant accounting policies (continued):

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis from their in-service date over the estimated useful lives of the assets at the following annual rates:

Asset	Rate
Airport terminal building, other buildings and bridges	15 - 25 years
Leasehold improvements and improvements to leased land	10 - 15 years
Vehicles, machinery, furniture and fixtures	5 - 15 years
Computer hardware and software	3 - 15 years
Multi-purpose/central de-icing facility	25 years

Construction in progress is recorded at cost and is transferred to capital assets when the projects are complete and the assets are placed into service.

Revenue recognition

Landing fees, terminal fees, and car parking revenues are recognized as the facilities are utilized. Airport improvement fees ("AIF"), net of airline administration costs, are recognized when originating departing passengers board the respective aircrafts, and are subject to reconciliation with air carriers. Concessions revenue is charged on a monthly basis and is recognized based on a percentage-of-sales or specified minimum levels. Rental revenue is recognized on a straight-line basis over the duration of the respective agreements.

Contributions for capital projects, exclusive of AIF, are accounted for under the deferral method. Contributions externally restricted for the purchase of capital assets are deferred and recognized in income as the related assets are amortized.

Pension plans

In 2005, the SJIAA established a contributory defined contribution pension plan for new employees hired after March 9, 2003, whereby retirement benefits are based on the investment in the marketplace of both the employer and the employee contributions. The employees determine where their funds are invested. The SJIAA's contributions to this plan for the year ended December 31, 2009 amounted to $81,194 (2008 - $55,350).

The SJIAA has a contributory defined benefit pension plan for its employees whereby retirement benefits are based on length of service and the best six years' average earnings. The defined benefit pension cost is charged to salaries and benefits expense as employees render services.

The Authority's policies for accounting for future employee benefits for the defined benefit pension plan are as follows:

I. The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees.

II. For the purpose of calculating expected return on plan assets, those assets are valued at market value.

III. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees.

Notes to Financial Statements

2. Significant accounting policies (continued):

Derivative financial instruments

Derivative financial instruments, including interest rate swaps, may be used from time to time to reduce exposure to fluctuations in interest rates. These financial instruments will be accounted for under the deferral method if the Authority meets the hedging requirements set out in existing accounting pronouncements and the Authority chooses to designate these financial instruments as hedges. Accordingly, the book value will not be adjusted to reflect the current market values. Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs where the underlying instrument is an Authority debt issue.

Derivative financial instruments that are not designated by the Authority to be an effective hedging relationship will be carried at fair value with the changes in fair value, including any payments or receipts made or received, being recorded in interest and financing costs.

Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated, dedesignated from a hedging relationship or cease to be effective prior to maturity, will be deferred and recognized in the period during which the underlying hedged item is realized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gain or loss on such derivative financial instrument will be recognized in the statement of operations and equity in capital assets.

Financial instruments

The Authority's financial instruments consist of cash and cash equivalents, accounts receivable, debt service reserve fund, bank indebtedness, accounts payable and accrued liabilities and long-term debt. Accounts receivable are classified as loans and receivables and are accounted for at amortized cost. Cash and cash equivalents and the debt service reserve fund ("DSRF") are classified as held-for-trading and are recorded at fair value with realized and unrealized gains and losses recorded in earnings in the period during which they arise. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are accounted for at amortized cost with gains and losses recorded in earnings in the period in which they arise. The Authority has no held-to-maturity or available-for-sale financial assets.

Effective interest rate method

Transaction costs are included in the debt balances and are recognized as an adjustment to interest expense over the term of the debt. The SJIAA uses the effective interest rate method to recognize bond interest expense and financing costs where the amount to be recognized varies over the life of the debt based on the principal outstanding.

Hedges

Deferred amounts relating to cash flow hedges, which were discontinued before the end of the original hedge term, are recorded in accumulated unrealized changes in net assets. The $352,000 hedge loss associated with the 2007 bond issue is being amortized to interest and financing costs in the statement of operations and equity in capital assets over the remaining term of the previously hedged instruments. The unamortized balance as at December 31, 2009 was $321,058 (2008 - $322,791).

Consumable Inventory

Inventories are valued at the lower of cost and replacement cost. Previously recorded write downs to replacement cost are reversed when there is clear evidence that replacement cost has increased. For 2009, $903,559 (2008 – $832,550) of inventories were recognized as an expense.

Notes to Financial Statements

3. Change in accounting policy:

Goodwill and intangible assets

Effective January 1, 2009, the SJIAA adopted the recommendations of the *Canadian Institute of Chartered Accountant's Handbook* Section 3064 - *Goodwill and Intangible Assets*. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires that intangible assets are to be segregated, presented separately on the balance sheet and amortized over their estimated useful lives. Intangible assets of the SJIAA include computer software and are amortized on a straight-line basis over 5 years. For 2009 this has resulted in the recognition of intangible assets, previously included in capital assets, in the amount of $81,748 (2008 - $100,110) net of accumulated amortization of $211,164 (2008 - $178,740). Amortization of $32,424 (2008 - $48,649) is included in excess of revenues over expenses for the year.

4. Accounts receivable:

	2009	2008
Trade	$ 2,234	$ 1,358
Airport improvement fee	502	154
HST	183	539
Other	179	41
Allowance for doubtful accounts	(90)	(134)
	$ 3,008	**$ 1,958**

5. Capital assets:

	2009			2008
	Cost	Accumulated amortization	Net book value	Net book value
Airport terminal building, other buildings and bridges	$ 59,137	$ 16,096	$ 43,041	$ 52,020
Leasehold improvements and improvements to leased land	31,118	4,003	27,115	16,887
Vehicles, machinery, furniture and fixtures	15,299	6,340	8,959	9,067
Computer hardware and software	2,283	1,160	1,123	1,221
Multi-purpose/central de-icing facility	14,231	1,563	12,668	11,936
	$ 122,068	**$ 29,162**	**$ 92,906**	**$ 91,131**

Notes to Financial Statements

6. Accounts payable and accrued liabilities:

	2009	2008
Trade – other	$ 3,333	$ 4,509
Accrued liabilities	1,797	5,926
Salaries and benefits	580	556
Deferred revenue and other	183	151
	$ 5,893	**$ 11,142**

7. Long-term debt:

	2009	2008
Revenue bonds	$ 55,000	$ 55,000
Credit facility	2,972	-
	$ 57,972	**$ 55,000**
Less transaction costs (net of accumulated amortization of $90,790; 2008 - $85,828)	(3,691)	(3,781)
	$ 54,281	**$ 51,219**

(a) Bond Issue

In May 2007, the SJIAA completed a $55,000,000 Revenue Bond issue. The $55,000,000, 5.252% Series A Revenue Bonds pay interest semi-annually. $27,500,000 of the initial principal amount is repayable in semi-annual installments commencing on May 11, 2012 until November 11, 2026. The remaining principal of $27,500,000 is payable on maturity which is May 11, 2037. The net proceeds from this offering were used to repay existing bank demand loan of $29,145,000 and are otherwise used to partially finance capital expenditures, to fund a $1,445,211 Debt Service Reserve Fund required for the bond and a $3,080,000 (2008 – $2,860,000) Operating and Maintenance Reserve Fund required by the Master Trust Indenture entered into by the SJIAA in connection with the offering. The bonds are direct obligations of the SJIAA ranking *pari passu* with all other indebtedness issued under the Master Trust Indenture.

(b) Reserve Funds

Pursuant to the terms of the Master Trust Indenture, the SJIAA is required to establish and maintain with a trustee a Debt Service Reserve Fund with a balance at least equal to 50% of the annual debt service costs. As at December 31, 2009, the Debt Service Reserve Fund included $1,445,211 in interest-bearing deposits held in trust. These trust funds are held for the benefit of bondholders for use in accordance with the terms of the Master Trust Indenture.

For 2009, the SJIAA was required to maintain an Operating and Maintenance Reserve Fund of approximately $3,080,000. The Operating and Maintenance Reserve fund must be established and funded as required by the Master Trust Indenture, for the benefit of bondholders. The balance in the fund is equal to 25% of the actual or estimated Operating and Maintenance Expenses incurred by the SJIAA over the previous 12-month period. For 2010, approximately $3,205,500 will be required to fund the Operating and Maintenance Reserve Fund. The Operating and Maintenance Reserve Fund may be satisfied by cash, qualified investments, letters of credit and the allocation by the Authority of un-drawn availability under a Committed Credit Facility.

Notes to Financial Statements

7. Long-term debt (continued):

(c) Credit Facility

The SJIAA entered into a Revolving Credit Facility ("Revolving Facility") during 2007. The Revolving Facility is secured by a $25,000,000 pledge bond issued pursuant to the Master Trust Indenture. Indebtedness under the Revolving Facility ranks *pari passu* with other indebtedness issued under the Master Trust Indenture. Under this Revolving Facility, the SJIAA is provided with a $15,000,000 facility for general business requirements, capital expenditures and funding for the Operating and Maintenance Reserve Fund as necessary. The facility has a term of 5 years.

On April 3, 2009, the SJIAA issued a Banker's Acceptance in the gross amount of $2,971,710, at an interest rate of 1.21%, due March 31, 2010. As at December 31, 2009, letters of credit for $1,159,526 (2008 – $706,522) were outstanding against the facility. Indebtedness under the Revolving Facility bears interest at rates that vary with the lender's prime rate and Banker's Acceptance rates as appropriate. During 2009, the interest rate ranged from 1.21% to 3% (2008 – 2.65%).

(d) The annual principal payments required over the next five years and thereafter are as follows:

2010	2,972
2011	-
2012	551
2013	580
2014	611
Thereafter	53,258
	$ 57,972

8. Deferred contributions for capital projects:

Pursuant to the Ground Lease and the Runway 11-29 Rehabilitation Agreement, the Government of Canada provided one-time financial assistance in the amount of $9,656,000 ($6,600,000 and $3,056,000 respectively) as deferred capital contributions for the Airport reconstruction program. On November 30, 2002, the construction of the new Airport terminal building was deemed to be substantially complete; therefore, amortization of the deferred contributions began at that time. Amortization of $386,252 (2008 - $386,252) is included in excess of revenues over expenses for the year.

In 2005, the Canadian Air Transport Security Authority (CATSA) funded the Hold Bag Screening/Explosive Detection System project, which included an additional expansion to the Airport terminal building to house the new baggage handling equipment. This project was deemed to be substantially complete as of December 30, 2005. Amortization of $132,097 (2008 - $132,097) is included in excess of revenues over expenses for the year.

In 2006, the City of St. John's contributed $1,000,000 towards funding the construction of the Multi-Purpose/Central De-icing Facility. Amortization of $40,000 (2008 – $40,000) is included in excess of revenues over expenses for the year.

Other contributions for capital projects total $437,544. Amortization of $9,459 (2008 - $84,183) is included in excess of revenues over expenses for the year.

	2009	**2008**
Balance, beginning of the year	$ 11,162	$ 11,805
Contributions received	138	-
Less amortization	(568)	(643)
Net deferred contributions for capital projects	**$ 10,732**	**$ 11,162**

9. Airport improvement fees:

The SJIAA entered into an AIF agreement dated May 27, 1999 with the Air Transport Association of Canada and major air carriers operating from the Airport. There is a consultative process with air carriers regarding the expansion of airport facilities and the collection of AIF by air carriers from passengers through the carriers' ticketing process.

On October 1, 1999 the SJIAA implemented an AIF of $10 per departing passenger. On April 3, 2006, this fee increased to $15 per departing passenger. These fees are collected by the air carriers for a fee of 7% of the amount collected. AIF revenues earned and the cash collected can only be used to fund Airport infrastructure projects and associated financing costs that relate primarily to the passenger-handling functions of the Airport.

As at December 31, 2009, cumulative expenditures of $99,670,018 (2008 – $92,207,071) exceeded cumulative net AIF revenue collected of $56,966,089 (2008 - $48,586,564) by $42,703,929 (2008 - $43,620,507). A summary of the AIF collected and the related collection costs are as follows:

AIF revenue (net):	**2009**	**2008**
AIF revenue	$ 9,015	$ 8,927
AIF collection costs	(635)	(634)
	$ 8,380	**$ 8,293**

Notes to Financial Statements

10. Pension plan:

	2009	2008
Plan assets		
Market value, beginning of year	$ 7,907	$ 8,787
Interest earned	515	562
Employer contributions	788	530
Employee contributions	118	119
Benefits paid	(238)	(218)
Actuarial gain (loss)	1,076	(1,873)
Market value, end of year	10,166	7,907
Plan obligations		
Accrued benefit obligations, beginning of year	7,327	8,186
Current service cost	403	497
Interest cost	537	479
Benefits paid	(238)	(218)
Actuarial loss (gain)	1,482	(1,617)
Accrued benefit obligations, end of year	9,511	7,327
Plan assets/obligations		
End of year market value less accrued benefit obligations	655	580
Unamortized amounts	646	240
Accrued benefit asset	1,301	820
Plan expense		
Current service cost, net of employee contributions	285	378
Interest on accrued benefits	537	479
Expected return on assets	(515)	(563)
Plan expense	**307**	**294**

Weighted average actuarial assumptions

	2009	2008
Discount rate	7.25%	5.75%
Expected long-term rate of return on plan assets	6.00%	6.25%
Rate of compensation increase	3.25%	3.25%

The assets of the pension plan are invested and maintain the following asset mix:

	Percentage of plan assets	
	2009	2008
Bonds/fixed income securities	44.79%	48.61%
Equity securities	55.21%	51.39%
Total	**100%**	**100%**


AIR CANADA
C-FEJB
4
3
2
1

Notes to Financial Statements

10. Pension plan (continued) :

The date of the last actuarial valuation of the defined benefit pension plan is December 31, 2008. According to this valuation, the SJIAA's employer service contribution as a percentage of payroll was 20.8% for 2009 (2008 – 17%). In recent years, the decrease in long-term interest rates, along with changes in actuarial standards, has resulted in solvency deficiencies for many defined benefit pension plans in Canada. A $2,309,900 solvency deficiency in the defined benefits pension plan existed as at December 31, 2008. This resulted in a special annual payment to fund the deficiency in the amount of $306,900 for 2009. This annual special payment of $306,900 is required over the next nine years.

11. Financial instruments:

(a) Carrying values

The carrying value of long-term debt is measured at amortized cost using the effective interest method and is net of transaction costs. The carrying value of the remaining financial instruments is measured at amortized cost.

(b) Fair values

The fair value of long-term debt is calculated by discounting the future cash flows at the estimated yield to maturity for the same or a similar debt instrument at the balance sheet date. As at December 31, 2009, the fair value of long-term debt was $52,367,000 (2008 - $42,070,000). The fair value of the SJIAA's remaining financial instruments, including cash and cash equivalents, accounts receivable, debt service reserve fund, bank indebtedness, and accounts payable and accrued liabilities, approximates their carrying value due to either their nature or short-term maturity.

(c) Interest rate risk

The SJIAA's exposure to interest rate risk relates to its floating rate Revolving Facility described in Note 7 (c) long-term debt. It should be noted that the majority of SJIAA's debt is fixed rate debt and therefore changes in interest rates do not significantly impact interest payments but may impact the fair value of this debt.

(d) Liquidity risk

The SJIAA manages liquidity risk by maintaining adequate cash, reserves and available credit facilities. Cash flow projections are prepared and reviewed by the Finance and Audit Committee to ensure a sufficient continuity of funding. The SJIAA structures its debt and credit facilities to match cash flow requirements and to provide flexibility.

(e) Credit risk

The SJIAA is subject to credit risk through its financial assets. The SJIAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about the customer.

The SJIAA's revenues are largely dependent on the domestic air transportation industry. One major carrier providing passenger traffic to the Airport accounted for approximately 57% (2008 – 57%) of the total enplaned and deplaned passengers for the Airport during the year.

Receivables	**2009**	**2008**
Current	$ 1,662	$ 1,492
Past due 31-60 days	207	128
Past due 61-90 days	632	307
Past due over 90 days	597	166
Total Accounts Receivable	**3,098**	**2,093**
Less: allowance for doubtful accounts	(90)	(135)
Net Exposure	**$ 3,008**	**$ 1,958**

Notes to Financial Statements

12. Commitments:

Ground Lease:

The Ground Lease requires that the SJIAA operate the Airport as a "first class facility" and that, as the operator, it exercise sound business practices. The Ground Lease also contains specific conditions for compliance with a series of requirements, including environmental standards, minimum insurance coverage, reporting requirements and various other matters that have a significant effect on the day-to-day operations of the Airport. The SJIAA believes that it has complied with all the requirements under the Ground Lease. During the year, all contracts entered into in excess of $75,000 (adjusted for the Consumer Price Index from 1994) were awarded on the basis of a competitive tendering process.

In January 2006, the SJIAA began paying Airport Rent to Transport Canada as outlined in its terms of the Ground Lease.

The annual payments are forecasted to be as follows over the next five years:

2010	$ 797
2011	1,142
2012	1,246
2013	1,318
2014	1,386

13. Other information:

The Authority may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business which the Authority believes would not reasonably be expected to have a material adverse effect on the financial condition of the Authority.

14. Supplemental cash flow information:

	2009	2008
Cash paid during the year for interest	$ 2,920	$ 2,905
Cash received during the year for interest	13	412

15. Related party transactions:

During the year, related party transactions for services rendered to SJIAA relating to the operation of the Airport totaled $215,224 (2008 - $572,405). These transactions are in the normal course of business and are measured at the exchange amount of consideration established and agreed to by the related parties. One of the Directors of the SJIAA Board also serves as a Director for the Canadian Corps of Commissionaires, Newfoundland and Labrador, which reflects $215,224 of the related party transaction amount referenced above (2008 - $558,054). There was an amount of $1,439 outstanding as of December 31, 2009 (2008 - $24,633) for the Canadian Corps of Commissionaires, which was paid in January 2010.

16. Directors and officers' remuneration:

For the year ended December 31, 2009, the SJIAA expensed remuneration to its Directors in the amount of $272,900 (2008 - $258,745). Of this amount, $68,680 was paid in January 2010. A further $804,082 (2008 - $730,980) was expensed as remuneration in 2009 to its senior officers/managers who are not Directors.

Notes to Financial Statements

17. Capital risk management:

The SJIAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenue, reserve funds, the debt capital markets and its bank credit facility. Aeronautical charges are set each year to cover the projected operating costs, after consideration of the projected air traffic and passenger activity and non-aeronautical revenues. Any funds generated by the SJIAA are used to cover costs within its mandate.

The SJIAA's objective for managing capital is to acquire and maintain sufficient capital in order to safely and effectively manage the Airport's operations. SJIAA aims to manage capital in order to deliver world-class facilities and services to the travelling public. The capital managed by SJIAA is composed of long-term debt and in 2009 the balance outstanding was $54,281,000 (2008 - $51,219,000) (note 7).

Capital Markets Platform

As a corporation without share capital, the SJIAA's ongoing capital requirements are financed with debt. The SJIAA established a financing plan referred to as the Capital Markets Platform. All indebtedness incurred under the Capital Markets Platform is secured under the Master Trust Indenture (note 7), and supplemented from time to time, which establishes common security and a set of common covenants by the SJIAA for the benefit of its lenders. The covenants that the SJIAA must meet include two specific coverage tests for operating expenses and debt service payments. The gross debt service covenant states that the total revenue, including the revenue account balance at the beginning of the year, must at least cover operating expenses, including interest and principal payments. The debt service covenant states that the net revenues for that specific year must be at least 1.25 times the total interest and principal payments for that year. As at December 31, 2009 the SJIAA was not in default of any of the covenants outlined in the Master Trust Indenture.

In accordance with The Master Trust Indenture, two reserve funds must also be maintained: a Debt Service Reserve Fund and an Operating and Maintenance Reserve Fund. As at December 31, 2009 the SJIAA satisfied the requirements of both of these funds (note 7).

18. Comparative figures:

Certain amounts for 2008 have been reclassified to conform to the financial statement presentation adopted for 2009.

CORPORATE GOVERNANCE

The St. John's International Airport Authority is a private, not-for-profit corporation with the mandate to provide the region with a safe, cost-efficient transportation facility that is a catalyst for economic growth. Under the provisions of a long-term Ground Lease with the Government of Canada, the Airport Authority is responsible for the management, maintenance and development of the St. John's International Airport on behalf of the community it serves.

The community's interests are represented through a diverse board of 12 Directors, nominated by various stakeholders in the region. These Directors are nominated by the following entities:

Federal Government: 2	Mount Pearl Chamber of Commerce: 1
Provincial Government: 1	City of Mount Pearl: 1
City of St. John's: 2	Town of Conception Bay South: 1
St. John's Board of Trade: 1	SJIAA Board of Directors: 3

The corporate operations and the activities of the Board of Directors are guided by the National Airports Policy of 1994 and specifically the "Public Accountability Principles for Canadian Airports" and the Authority's corporate by-laws. The St. John's International Airport Authority Operating by-laws were amended in 2008 to incorporate the relevant elements of the Not-for-Profit Corporations Act, the proposed Canada Airports Act, as well as the best practices of corporate governance currently employed in Canada.

The by-laws contain conflict of interest guidelines and a prescribed Code of Conduct. In 2009, the Governance Committee of the Board reported that there were no breaches of the conflict of interest guidelines by any Officer or Director of the Airport Authority. The declaration of Conflict of Interest is referenced in Note 15 of the Financial Statements, titled Related Party Transactions.

The role of the Board of Directors is to guide the management team on the strategic vision for the Airport Authority. Solid business practice, including formal strategic planning, is carried out and reviewed on a periodic basis. Directors also serve on the committees of the Board: Development, Finance & Audit, and Governance. The Board is kept informed on the day-to-day operation of the Airport through monthly financial statements and management reports. Compensation for the Directors of the Airport Authority is reviewed annually and the amounts paid to the Airport Authority's Directors during 2009 are listed below:

St. John's International Airport Authority
Schedule of Director's Fees For the year 2009

Board Member		**Total Board Fees**
William Mahoney	$	38,600.00
John Chapman		24,000.00
Blair Patrick		19,500.00
Elizabeth Adey		23,500.00
Fraser Edison		28,800.00
John Outerbridge		19,500.00
Raymond Stamp		19,000.00
Katharine Hickey		18,000.00
Gary Follett		25,000.00
Irene Baird		19,500.00
Darlene Whalen		18,000.00
Neil Pittman		19,500.00
	$	**272,900.00**