FINANCIAL & GOVERNANCE MATTERS 2010

ST. JOHN'S
International Airport Authority

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of St. John's International Airport Authority (the Authority), which comprise the balance sheet as at December 31, 2010 and 2009 and the statements of operations and equity in capital assets and cash flows for the years 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 generally accepted accounting principles 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.

Auditor's 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 auditor's 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 auditor considers 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 in our audit 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 the Authority as at December 31, 2010 and 2009 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Other Matters

The comparative figures were reported on by another firm of chartered accountants in their report dated March 12, 2010.

PricewaterhouseCoopers LLP

Chartered Accountants

March 18, 2011

BALANCE SHEET

St. John's International Airport Authority

As at December 31 (in thousands of dollars)

		2010		2009
Assets				
Current				
Cash and cash equivalents	$	4,734	$	-
Accounts receivable (note 3)		2,723		3,008
Consumable inventory (note 2)		306		287
Prepaid expenses		240		201
Total current assets		8,003		3,496
Capital assets, net (note 4)		94,062		92,906
Debt service reserve fund (note 6)		1,447		1,445
Accrued benefit asset (note 9)		1,653		1,301
Intangible assets, net		80		82
	$	**105,245**	**$**	**99,230**
Liabilities and Equity in Capital Assets				
Current				
Bank indebtedness	$	-	$	324
Accounts payable and accrued liabilities (note 5)		6,636		5,893
Current portion of long term debt (note 6)		1,206		-
Total current liabilities		7,842		6,217
Long-term debt (note 6)		56,835		54,281
Deferred contributions for capital projects, net (note 7)		10,159		10,732
Equity in capital assets		30,409		28,000
	$	**105,245**	**$**	**99,230**

Commitments (note 11)

See accompanying notes

On behalf of the Board:

Fraser Edison, Chair

John Chapman, Chair, Finance and Audit Committee

STATEMENT OF OPERATIONS AND EQUITY IN CAPITAL ASSETS

St. John's International Airport Authority

Year ended December 31 (in thousands of dollars)

		2010		2009
Revenues				
Landing fees	$	4,675	$	4,203
Terminal fees		3,628		2,889
Concessions		3,281		2,981
Car parking		2,504		1,877
Rentals		1,961		1,816
Other		560		707
		16,609		14,473
Airport improvement fees (note 8)		9,028		8,380
		25,637		22,853
Operating Expenses				
Salaries and benefits		6,396		5,871
Operating		5,199		5,234
Amortization		5,526		5,129
Interest and financing costs		3,092		3,048
Ground rent (note 11)		895		724
Municipal tax		647		607
Business development		691		568
Professional services		460		308
General and administrative		304		294
Bad debts		30		-
		23,240		21,783
Excess of revenues over expenses	**$**	**2,397**	**$**	**1,070**
Total equity in capital assets, beginning of year	$	28,000	$	26,918
Accumulated unrealized changes in net assets (note 2)				
Amortization - cash flow hedge loss		12		12
Total equity in capital assets, end of year	**$**	**30,409**	**$**	**28,000**

See accompanying notes

STATEMENT OF CASH FLOWS

St. John's International Airport Authority

Year ended December 31 (in thousands of dollars)

	2010	2009
Operating Activities		
Excess of revenues over expenses	$ 2,397	$ 1,070
Add (deduct) items not involving cash		
Amortization - capital assets, net	6,070	5,665
Amortization - deferred contributions	(573)	(568)
Amortization - intangible assets	28	32
Amortization - other	109	103
(Gain) loss on sale of capital assets	(53)	1
Increase in accrued benefit asset	(352)	(481)
	7,626	5,822
Changes in non-cash working capital balances related to operations		
Accounts receivable	285	(1,050)
Consumable inventory	(19)	87
Prepaid expenses	(39)	13
Accounts payable and accrued liabilities	743	(5,249)
Cash provided by (used in) operating activities	8,596	(377)
Financing Activities		
Proceeds from demand installment loan	1,206	-
Proceeds from revolving credit facility	2,455	2,973
Cash provided by financing activities	3,661	2,973
Investing Activities		
Additions to capital assets	(7,255)	(7,460)
Additions to deferred contributions	-	138
Additions to intangible assets	(26)	(14)
Proceeds from sale of capital assets	82	19
Cash used in investing activities	(7,199)	(7,317)
Net increase (decrease) in cash during the year	**5,058**	**(4,721)**
(Bank indebtedness) cash and cash equivalents, beginning of year	(324)	4,397
Cash and cash equivalents (bank indebtedness), end of year	**$ 4,734**	**$ (324)**

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

St. John's International Airport Authority

December 31, 2010

(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.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued):

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.

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	15 - 25 years
Vehicles, machinery, furniture and fixtures	5 - 15 years
Computer hardware and software	3 - 15 years
Multi-purpose/central de-icing facility	25 years

Assets under construction or development are recorded at cost and are transferred to capital assets when the projects are complete and the assets are placed into service.

Intangible assets

Intangible assets of the SJIAA include computer software and are recorded at cost and amortized on a straight-line basis over their estimated useful lives. Amortization of $28,399 (2009 - $32,424) is included in operating expenses for the year.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued):

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, 2010 amounted to $99,740 (2009 - $81,194).

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, 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.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued):

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, 2010 was $309,325 (2009 - $321,058).

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 2010, $489,191 (2009 – $903,559) of inventories were recognized as an expense.

3. Accounts receivable:

	2010	2009
Trade	$ 1,976	$ 2,234
Airport improvement fees	468	502
HST	175	183
Other	197	179
Allowance for doubtful accounts	(93)	(90)
	$ 2,723	$ 3,008

NOTES TO FINANCIAL STATEMENTS

4. Capital assets:

	2010			2009
	Cost	Accumulated amortization	Net book value	Net book value
Airport terminal building, other buildings and bridges	$ 59,491	$ 18,448	$ 41,043	$ 43,127
Leasehold improvements and improvements to leased land	32,305	5,718	26,587	26,848
Vehicles, machinery, furniture and fixtures	19,036	7,182	11,854	8,959
Computer hardware and software	2,581	1,483	1,098	992
Multi-purpose/central de-icing facility	14,231	2,132	12,099	12,668
Assets under construction or development	1,381	-	1,381	312
	$ 129,025	$ 34,963	$ 94,062	$ 92,906

Assets under construction or development are not being amortized and consist of the Ramp Services Building and Common User Terminal Equipment.

5. Accounts payable and accrued liabilities:

	2010	2009
Trade - other	$ 3,827	$ 3,333
Accrued liabilities	1,884	1,797
Salaries and benefits	733	580
Deferred revenue and other	192	183
	$ 6,636	$ 5,893

NOTES TO FINANCIAL STATEMENTS

6. Long-term debt:

	2010	2009
Revenue bonds	$ 55,000	$ 55,000
Revolving credit facility	5,429	2,972
Demand installment loan	1,206	-
	61,635	57,972
Less transaction costs (net of amortization of $96,145; 2009 - $90,790)	(3,594)	(3,691)
	58,041	54,281
Current portion	1,206	-
	$ 56,835	$ 54,281

(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, 2036. 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 $1,446,799 Debt Service Reserve Fund required for the bond and a $3,358,228 (2009 – $3,080,000) 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. The bonds are secured by an assignment, and security interest in, all revenues and book debts, and all assets of the Authority including reserve funds, all leases and related property and an unregistered mortgage of the Authority's leasehold interest in Airport lands and the Ground Lease.

(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, 2010, the Debt Service Reserve Fund included $1,446,799 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 2010, the SJIAA was required to maintain an Operating and Maintenance Reserve Fund of approximately $3,358,228. The Operating and Maintenance Reserve fund must be established and funded as required by the Master Trust Indenture, for the benefit of bondholders.

NOTES TO FINANCIAL STATEMENTS

6. Long-term debt (continued)**:**

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 2011, approximately $3,467,909 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.

(c) Credit Facilities

The credit facilities of the SJIAA are secured by a $25,000,000 pledge bond issued pursuant to the Master Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Master Trust Indenture.

i) Revolving Credit Facility

In May 2007, the SJIAA entered into a Revolving Credit Facility ("Revolving Facility"). 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 five years.

On April 8, 2010, the SJIAA issued a Banker's Acceptance in the gross amount of $5,428,565, at an interest rate of 1.32%, due April 7, 2011. As at December 31, 2010, letters of credit for $759,526 (2009 – $1,159,526) 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 2010, the interest rate ranged from 1.21% to 3% (2009 – 1.21% to 3%).

ii) Demand Installment Loan

In July 2010, the SJIAA entered into a Demand Installment Loan ("Demand Loan"). Under this Demand Loan, the SJIAA is provided with a $2,500,000 non-revolving Installment Loan to be used for capital expenditures relating to movable equipment. The term of each advance under this facility is in accordance with the useful life of the respective assets to a maximum of ten years.

Indebtedness under the Demand Loan bears interest at rates that vary with the lender's prime rate and Banker's Acceptance rates, as appropriate. On November 19, 2010, the SJIAA issued a Banker's Acceptance in the gross amount of $1,206,350, at an interest rate of 1.39%, due February 17, 2011.

NOTES TO FINANCIAL STATEMENTS

6. Long-term debt (continued):

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

2011	1,206
2012	5,980
2013	580
2014	611
2015	644
Thereafter	52,614
	$ 61,635

7. 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 (2009 - $386,252) is included in excess of revenues over expenses for the year.

In 2005, the Canadian Air Transport Security Authority (CATSA) contributed $3,302,415 to fund 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 (2009 - $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 (2009 – $40,000) is included in excess of revenues over expenses for the year.

Other contributions for capital projects total $437,544. Amortization of $14,209 (2009 - $9,459) is included in excess of revenues over expenses for the year.

	2010	2009
Balance, beginning of the year	$ 10,732	$ 11,162
Contributions received	-	138
Less amortization	(573)	(568)
Net deferred contributions for capital projects	$ 10,159	$ 10,732

NOTES TO FINANCIAL STATEMENTS

8. 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, 2010, cumulative expenditures of $106,548,888 (2009 – $99,670,018) exceeded cumulative net AIF revenue collected of $65,993,817 (2009 - $56,966,089) by $40,555,071 (2009 - $42,703,929). A summary of the AIF collected and the related collection costs are as follows:

AIF revenue (net):	**2010**	**2009**
AIF revenue	$ 9,715	$ 9,015
AIF collection costs	(687)	(635)
	$ 9,028	$ 8,380

NOTES TO FINANCIAL STATEMENTS

9. Pension plan:

	2010	2009
Plan assets		
Market value, beginning of year	$ 10,166	$ 7,907
Interest earned	621	515
Employer contributions	625	788
Employee contributions	100	118
Benefits paid	(360)	(238)
Actuarial gain	216	1,076
Market value, end of year	11,368	10,166
Plan obligations		
Accrued benefit obligations, beginning of year	9,511	7,327
Current service cost	422	403
Interest cost	572	537
Benefits paid	(360)	(238)
Actuarial loss	953	1,482
Accrued benefit obligations, end of year	11,098	9,511
Plan assets/obligations		
End of year market value less accrued benefit obligations	270	655
Unamortized amounts	1,383	646
Accrued benefit asset	1,653	1,301
Plan expense		
Current service cost, net of employee contributions	322	285
Interest on accrued benefits	573	537
Expected return on assets	(621)	(515)
Plan expense	274	307

Weighted average actuarial assumptions

	2010	2009
Discount rate	6.00%	7.25%
Expected long-term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	3.25%	3.25%

9. Pension plan (continued):

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

	Percentage of plan assets 2010	2009
Bonds/fixed-income securities	50.00%	44.79%
Equity securities	50.00%	55.21%
Total	100%	100%

The date of the last actuarial valuation of the defined benefit pension plan is December 31, 2009. According to this valuation, the SJIAA's employer service contribution as a percentage of payroll was 20.8% for 2010 (2009 – 20.8%). 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 $1,504,900 solvency deficiency in the defined benefits pension plan existed as at December 31, 2009. This resulted in a special annual payment to fund the deficiency in the amount of $218,072 for 2010. This annual special payment of $218,072 is required over the next eight years.

10. Financial instruments:

(a) Carrying values

The carrying value of long-term debt is measured at amortized cost using the effective interest rate 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, 2010, the fair value of long-term debt was $60,368,988 (2009 - $52,367,000). The fair value of the SJIAA's remaining financial instruments, including cash and cash equivalents, accounts receivable, debt service reserve fund, and accounts payable and accrued liabilities, approximates their carrying value due to either their nature or short-term maturity.

NOTES TO FINANCIAL STATEMENTS

10. Financial instruments (continued):

(c) Interest rate risk

The SJIAA's exposure to interest rate risk relates to its floating rate Credit Facilities described in Note 6 (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 56% (2009 – 57%) of the total enplaned and deplaned passengers for the Airport during the year.

Receivables	**2010**	**2009**
Current	$ 2,543	$ 1,662
Past due 31-60 days	207	207
Past due 61-90 days	20	632
Past due over 90 days	46	597
Total Accounts Receivable	2,816	3,098
Less: allowance for doubtful accounts	(93)	(90)
Net Exposure	$ 2,723	$ 3,008

NOTES TO FINANCIAL STATEMENTS

11. Commitments:

Ground Lease:

The Ground Lease requires that the SJIAA operate the Airport as a "first-class facility" and that, as the operator, it exercises 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:

2011	$ 1,220
2012	1,447
2013	1,647
2014	2,091
2015	2,272

12. 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.

13. Supplemental cash flow information:

	2010	2009
Cash paid during the year for interest	$ 2,951	$ 2,920
Cash received during the year for interest	22	13

NOTES TO FINANCIAL STATEMENTS

14. Related party transactions:

During the year, related party transactions for services rendered to SJIAA relating to the operation of the Airport totaled $199,393 (2009 - $215,224). 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.

15. Directors and officers' remuneration:

For the year ended December 31, 2010, the SJIAA expensed remuneration to its Directors in the amount of $279,000 (2009 - $272,900). A further amount of $859,315 (2009 - $743,957) was expensed as remuneration in 2010 to its senior officers/managers who are not Directors.

16. 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 2010 the balance outstanding was $58,040,755 (2009 - $54,281,000) (note 6).

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 6), 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.

NOTES TO FINANCIAL STATEMENTS

16. Capital risk management (continued)**:**

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, 2010 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, 2010, the SJIAA satisfied the requirements of both of these funds (note 6).

17. Comparative figures:

Certain amounts for 2009 have been reclassified to conform to the financial statement presentation adopted for 2010.

CORPORATE GOVERNANCE

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
Provincial Government: 1
City of St. John's: 2
St. John's Board of Trade: 1
City of Mount Pearl: 1
Mount Pearl Chamber of Commerce: 1
Town of Conception Bay South: 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's 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 2010, 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 14 of the Financial Statements, titled Related Party Transactions.

CORPORATE GOVERNANCE

The role of the Board of Directors is to guide the strategic direction 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 are listed below:

St. John's International Airport Authority

Schedule of Director's Fees for the year 2010

Board Member	Total Board Fees
Fraser Edison (Board Chair)	$ 48,000.00
Darlene Whalen (Board Vice-Chair)	26,500.00
Gary Follett[1]	24,000.00
Elizabeth Adey[†]	16,250.00
Gail Carroll*	5,750.00
John Chapman[2]	26,000.00
John Outerbridge	20,000.00
Raymond Stamp	19,500.00
Katharine Hickey	17,500.00
Blair Patrick	19,000.00
Irene Baird	25,500.00
William Mahoney[†]	13,500.00
Neil Pittman[3]	17,500.00
	$ 279,000.00

1. Chair, Development Committee
2. Chair, Finance and Audit Committee
3. Chair, Governance Committee (appointed September 1, 2010)

* Joined the Board on September 1, 2010

† Completed terms on the Board on August 31, 2010

ST. JOHN'S
International Airport Authority

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