

Building a Better Gateway

Who We Are

St. John's International Airport Authority is a private, non-for-profit corporation that exists to provide a safe and efficient transportation facility at Newfoundland and Labrador's premier transportation gateway.

We generate our own revenue, raise our own capital, pay municipal taxes, and pay rent to the Federal Government on an annual basis to operate the airport on behalf of the community we serve. We are committed to offering an outstanding airport experience for our passengers and enhancing the economic and social well-being of our community.

Vision Statement

We will create
an exceptional airport experience
at Newfoundland & Labrador's premier gateway
community leader | enabling prosperity

A Message from our Chair and CEO

2015 was a very busy and successful year for the St. John's International Airport Authority, with significant progress made on all the corporate objectives outlined in our five-year Strategic Business Plan. We continued to add choice of airline services and destinations for our passengers, while completing the largest annual capital investment in the Airport Authority's history. These initiatives were pursued and completed with our vision of creating an exceptional airport experience at our province's premier gateway.

While there was significant progress made last year on the first phase of the expansion of the terminal building, the project that garnered the most attention was the Airfield Accessibility and Safety Initiative. After years of extensive planning and three years of construction, this project was completed ahead of schedule, on budget, without any reported work safety incidents or incidents related to the safety of aircraft operations, and had less impact on flight operations during the peak travel season than was anticipated during the six month closure of the primary runway. This is despite the record-breaking bad weather experienced this past July, and is a testament to the extensive planning, communication and cooperation of all parties involved.

We are grateful for the support, patience and understanding received from our passengers, our tourism and business stakeholders, and the entire the community as we made these significant improvements to our airfield. There was a clear understanding that the possible short-term pain experienced as a result of this construction project would yield long-term benefits to the entire community; benefits that were well-understood as a result of the extensive communications program that was implemented. We were delighted when the St. John's Board of Trade recognized these marketing and communications efforts by awarding the Airport Authority a Business Excellence Award for Marketing and Promotional Achievement.

Our Airport is now the fourth airport in Canada to operate a Category III Instrument Landing System (Cat III ILS); the only airport serving less than 10 million passengers annually with Cat III ILS; and the second airport in Canada to deploy this technology on both ends of our primary runway. We were also the first in the world to incorporate LED technology on our approach lighting towers.

This project has increased the accessibility of our airfield to 99 per cent, putting us on par with the top airports in Canada and will reverse our reputation as being an inaccessible destination especially during our foggy spring season. Now that this technology is operational, we look forward to reaping the benefits for many years to come.

We again thank our funding partners, the Government of Canada and the Government of Newfoundland and Labrador, who understood the strategic value of the project to the economy, the national air transportation system and our community. We also thank NAV Canada who installed the technology and will operate and maintain it.

New & Expanded Air Services

In 2015, there were more than 1.5 million annual passengers that passed through our gates. For the first time in eight years we experienced a decline in passenger traffic as a result of low oil prices impacting the mobile work force; the temporary closure of our primary runway that had an impact on flight operations; and less convention travel while the convention centre was closed for expansion construction. In 2016 we are again forecasting growth in passenger traffic that will be supported by the additional airline services and offerings that have been announced over the past year. We have made great progress in strengthening our European connections with the announcement of WestJet's new service to London Gatwick, and are welcoming a new airline to our airport community. National Airlines is providing year-round service to our most popular destination in the United States: Orlando, Florida.

Over the last eight years, only two other medium to large-sized airports in Canada have outpaced our growth in adding airline seat capacity at our airport. With these new services and additional frequencies, we're increasing the accessibility of our province to the world and providing more travel choices for our passengers.

Improved and Enhanced Facilities

The record-breaking passenger growth we've experienced since our terminal building opened in 2002, along with the long-term forecast for continuous growth, has placed tremendous pressure on our existing facilities. It is for this reason we announced in 2014 a two-phased expansion of our Terminal Building to accommodate existing passengers and airline operations, as well as future growth. We're delighted to see the first phase of our expansion plan take shape, and are on schedule for completion in 2018. When the east expansion to the building is complete, our passengers will enjoy a larger pre-board screening area and a larger departures area with many new amenities and services that will enhance the travel experience. We will also have expanded areas to support more airline operations.

Offering passengers an exceptional airport experience at our province's premier transportation gateway is integral to everything we do. Our \$245 million, 10-year investment into the Airport's infrastructure will improve and expand our facilities to build a better gateway to our city and our province.

Strong Team

The successes we continue to have as an organization are made possible through the effective leadership of our Board of Directors, and with the strong support of all employees. We have been fortunate to attract very solid candidates to key positions within our organization over the last year, both within the leadership team and among our bargaining unit employees. The high calibre of talent we have working within our organization is the reason we enjoy a strong, positive reputation within our province. An independent study conducted by Corporate Research Associates asked residents of the province to rate 47 large and mostly private organization that operate in our province in terms of overall reputation. St. John's International Airport Authority was ranked among the top three organizations in terms of overall reputation.

Over the last year we've also been recognized nationally within the airport industry, having received an award from Airports Council International North America (ACI-NA) for our crisis communications plans and procedures, particularly in relation to our handling of the bomb scare that occurred on June 25, 2015.

As the premier transportation gateway of Newfoundland and Labrador, we understand our role in facilitating the economic and social development of our region and our province. The investments we are making in our facility will allow us to meet the travel demands of our region, and provide an exceptional experience at our Airport that will be the pride of our city and province.

Update on Strategic Objectives

The Airport Authority's Strategic Business Plan was updated in 2015. This Plan defines the Authority's ideal future and includes objectives and strategic initiatives that will serve as our guiding framework that will lead to our vision of providing an exceptional airport experience at our province's premier gateway. This report provides an update on progress associated with these seven strategic objectives: Outstanding Facilities; Exceptional Passenger Experience; Focused Business and Air Service Development; Culture of Engagement; Enhanced Community Partnerships and Collaboration; Organizational Effectiveness; and Financial Stability.

Outstanding Facilities

Objective: *Deliver new, improved, and expanded air terminal building and related airport facilities to meet 2020 demand.*

The increased demand in our region for air travel has created the need to expand our facilities. Our current Terminal Building is designed to handle 900,000 passengers and is currently operating well beyond design capacity, with more than 1.5 million annual passengers in 2015 using our facilities. By 2020, we are forecasting this traffic to grow to approximately 2 million passengers annually. As part of our \$245 million expansion plans, the facilities at the Airport will be improved and expanded to accommodate the growth and demand of our travellers.

Airfield Accessibility & Safety Initiative

2015 was the busiest year of construction in our organization's history as we spent close to \$50 million on a number of major capital projects. The most notable project was the three-year, \$37.3 million Airfield Accessibility and Safety Initiative that was completed in January 2016. Category III Instrument Landing Systems (CAT III ILS) are now operational on both ends of the primary runway (R11/29) and are being maintained by NAV Canada.

This project was completed on budget, ahead of schedule, without any reported work safety incidents or incidents related to the safety of aircraft operations, and with less impact on flight operations than was anticipated. This is a testament to the extensive planning, communication and cooperation of all parties involved.

While the primary runway was closed to complete the infrastructure improvements associated with this project, it was also rehabilitated at an additional cost of \$15.7 million. This runway was scheduled for rehabilitation in 2017 as part of its regular maintenance schedule. In order to avoid any further downtime on this runway, it was decided to complete both projects at the same time. As a result, no extensive work is required on the runway for at least 15 years.

The benefits of having CAT III ILS are tremendous:

- **700 flights** and **70,000 passengers** that are annually disrupted due to low visibility conditions at our airfield will arrive and depart on schedule
- Increase in the airfield's accessibility to **99 per cent**, putting it on par with major airports in Canada
- It **reverses our reputation** for being an inaccessible location, especially during our spring foggy season
- The improved reliability of air travel increases the attractiveness of the region for conferences and tourists, as well as business investment

This project was a long-term investment in our province's premier transportation gateway, supported by all levels of government and cost-shared between the Airport Authority, the Government of Newfoundland and Labrador, and the Government of Canada through the Gateways and Border Crossing Fund in support of the Atlantic Gateway and Trade Corridor Strategy.

Airport Terminal Building Expansion

The largest capital project in our history, the Airport Terminal Building expansion, commenced in 2014 and really started to take shape last year. The project is occurring in two phases and involves an expansion to both the east and west ends of the existing Terminal Building. By the end of 2015, construction on the first phase (east end) was approximately 25 per cent complete. This first phase will add 145,000 square feet to the existing 175,000 square foot Terminal Building. When the first phase is completed in 2018, the second phase (west end) extension will commence and add just over 72,000 square feet. When the entire project is complete in 2021, the Terminal Building will be more than double its existing size and will be able to accommodate an annual traffic volume of 2 million passengers.

When the first phase opens in 2018, travellers will enjoy additional food and beverage and retail outlets; an expanded and more comfortable waiting area in the Departures Lounge; additional and larger washroom facilities; and a larger pre-board screening area. The airlines operating in the building will have additional and expanded facilities, including a larger baggage processing area and more aircraft gates with additional passenger loading bridges that will allow more aircraft to operate at the same time.

Additional and Improved Parking Facilities

Accommodating the building expansion on both ends of the existing terminal building means both a reshuffling and displacement of existing parking facilities. While more work is to be done in 2016, the new rental car lot was expanded and moved to its new location. The new lot features 264 parking spaces, which are clearly identified for each rental agency, and has a baggage cart corral for the convenience of travellers. While temporarily further away from the terminal building than the previous rental car parking spaces, it will be located in close proximity to the expanded arrivals area of the Terminal Building, once the west expansion is complete. In the meantime, we are investing in the installation of covered walkways through the long-term parking lot and to the rental car lot that will provide passengers with protection

from the elements. Additional baggage cart corrals are also planned for the short-term and long-term parking lots.

Exceptional Passenger Experience

Objective: *Provide an exceptional passenger experience at our airport.*

Passenger satisfaction is a priority for us at St. John's International. As the gateway to Newfoundland and Labrador, we understand the experience at our Airport helps shape the perception of our city and our province. We are committed to ensuring this perception is positive for all passengers travelling through our Airport.

Despite the flight disruptions experienced by passengers last summer when our runway was closed for construction, we achieved an **83 per cent overall passenger satisfaction rating** last year, as measured by the Airport Service Quality Index (ASQ benchmarking survey). This survey is conducted year-round in our Terminal Building and enables us to measure passengers' satisfaction with all aspects of our Airport. While areas for improvement were identified, we recognize that many of these cannot be realized until our facilities have expanded. In the meantime, we are consistently looking for ways, big and small, to enhance the passenger experience.

Over the last year we've incorporated new services and made enhancements to existing services and passenger facilities. For example, our complimentary Wi-Fi has been enhanced throughout the Terminal Building; two new Information Centres were added to the first floor (across from the Visitor Information Centre and the check-in counters); new charging tables, lounge seating, and additional seats were installed in the waiting areas. We also installed new Flight Information Displays with new LED screens, and improved the baggage belt information screens in the Arrivals Area.

Our Passenger Advisory Panel is instrumental in helping us identify improvements for our passengers. This panel consists of frequent travellers who use our Airport, and offer valuable feedback on their airport experiences and suggestions for improvement. Their contributions will continue to play an important role in shaping the passenger experience at our Airport.

Focused Business & Air Service Development

Objective: *Pursue revenue diversification and aggressive air service development.*

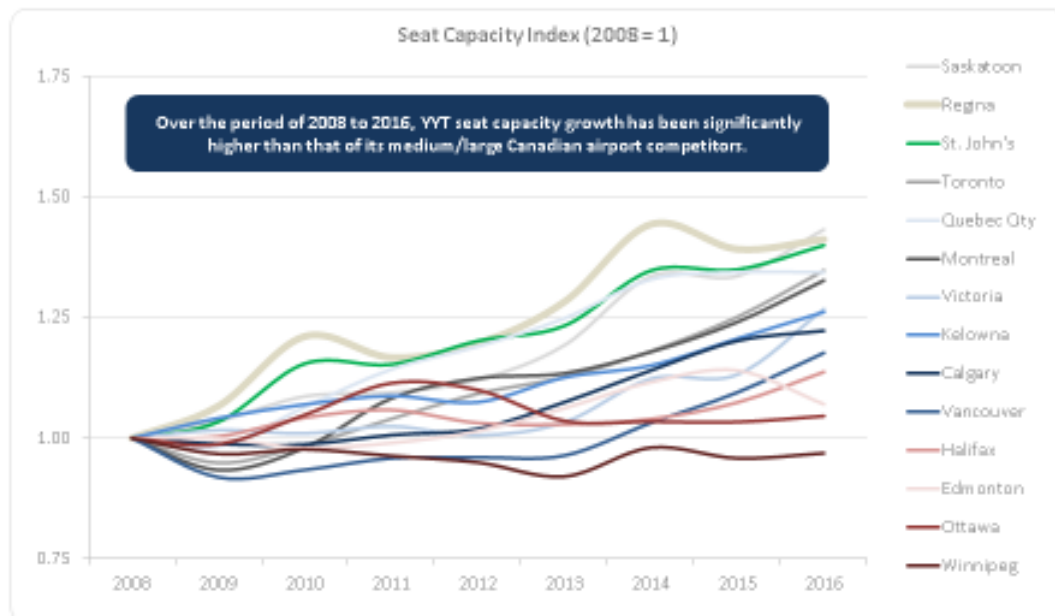
Attracting new and expanded airline services to our Airport is a core function of our business. Over the last seven years, our Airport has been in the top three for growth in airline seat capacity among the medium to large sized airports in Canada. The availability of airline seats at our airport grew by 35 per cent over the last seven years and will grow another five per cent in 2016.

In 2015 a new, seasonal, daily European service was announced by WestJet to London Gatwick. This addition means that in 2016 our Airport will be the only of its size in North America to offer three daily European services during the summer months – WestJet to Dublin and London Gatwick, and Air Canada to London Heathrow.

Three of our most popular destinations in the US are all located in Florida, with Orlando being the number one overall US destination. In 2016, the total number of available airline seats direct to Orlando will increase by 400 per cent. This is a result of a new airline, National Airlines, who came on board offering direct year-round service to Orlando Sanford. The airline has since partnered with Provincial Airlines to offer special discount fares to Orlando Sanford from many airports in the province, through St. John's. WestJet has also increased capacity to Orlando International Airport with two flights per week during the winter season, and will also be extending its direct service year-round.

United Airlines has been operating at our Airport for approximately 12 years, offering direct flights to Newark, New Jersey. While the airline abandoned many Canadian markets over the last few years and reduced services at others, we were disappointed when they announced they were leaving St. John's. Key factors influencing the decision included the declining value of the Canadian dollar which provided an unfavourable currency exchange rate with the US dollar, as well as lower demand for oil-related travel between Houston and St. John's, via Newark. We are currently exploring all options to fill this important route with another airline.

2016 Seat Capacity



Diversifying our Revenue

While we expend significant effort to develop the air services to and from our Airport, we are also focused on diversifying our revenue in order to reduce our dependence on aeronautical fees. We are pleased that revenue generated from non-aeronautical sources in 2015 represented 55 per cent of total revenue (excluding AIF) generated by the Airport Authority.

In 2015 we strengthened our advertising sales program with the installation of two digital billboards installed on World Parkway, the only access road into St. John's International Airport. With an unobstructed view, high resolution, and millions of impressions, the digital billboards offer a unique opportunity to be the first or last message travellers see. The expanded terminal building will offer new advertising real estate space for companies looking to target our passenger profile.

There is also potential to increase passenger satisfaction and generate additional revenue when the food and beverage and retail program is expanded and improved in the larger Terminal Building.

The Airport Authority has approximately 300 acres of land that is available for commercial development through long-term land lease agreements. As the Airport grows and continues to develop, so does the interest in leasing the land that is only three kilometres from a major highway, and 10 minutes from the downtown core.

Over the last year there were a number of developments under construction on our land, including the Holiday Inn Express & Suites. This is the first hotel to be located on our Airport property, and will provide a convenient stay for travellers with a late arrival or early departure. Additional land developments, both aviation and non-aviation related, are in various stages of negotiations and construction. In 2016, an Expression of Interest will also be issued to construct a gas station along the Airport's access road that will provide a new service at our Airport while contributing to our non-aeronautical revenue.

Culture of Engagement

Objective: Create a culture of employee engagement within the organization.

The Airport Authority determined that creating a culture of employee engagement where all members of an organization are motivated to contribute to the organization's success is necessary to achieve an experience for passengers that would be described as exceptional.

In order to determine the existing level of engagement from employees at the Airport Authority and to establish a benchmark, an Employee Engagement Survey was conducted in December

2015. Ninety-two per cent (92%) of all employees participated in the survey, an exceptionally high employee participation rate especially for the first survey. Results from the survey enable the Airport Authority to understand the level of engagement; identify areas of success; and opportunities for improvement. Based on these results, a plan will be developed to improve employee engagement within the organization.

Enhanced Community Partnerships & Collaboration

Objective: *Enhance partnerships and collaboration with community while strengthening brand.*

The Airport plays an important role in enhancing the economic and social well-being of our community. We intend to enhance the existing partnerships with our community partners and stakeholders and create new collaborations within our community, especially when those partnerships result in the increased health and wealth of our community. In doing so, we also strengthen our corporate brand.

For example, in 2015 we held an Entertainment Series during the holiday season as well as the summer months. Both series featured local musicians as well as school choirs. The goal was not only to create partnerships within the community, but to also provide entertainment for travellers throughout our Airport. We also intend to continue our partnership with Business and Arts Newfoundland and Labrador (NL). The piano that was donated by Business and Arts NL to stimulate impromptu performances when travelling through the Airport proved to be a huge success, and both parties agree there are opportunities for further collaboration.

Late last year a Reputation Study was conducted to understand the general public's attitudes and perceptions of the Airport Authority. The study was done by the Corporate Research Associates (CRA) and concluded that the Airport Authority was most recognized for providing a safe and secure environment; being ethical; and generating employment in the province. Our reputation exceeds its goal of reaching the top 25 percentile of relevant organizations. In fact, we received the highest ratings among 47 large and mostly private sector organizations that operate in our province. While the survey concluded very favourable ratings, we will continue to invest in our community relationships and identify areas for improvement.

Organizational Effectiveness

Objective: *Improve organizational effectiveness with improvements to processes and systems*

St. John's International Airport Authority is seeking to improve processes and systems in order to deliver more efficient and effective services at our Airport. A new Time and Attendance Payroll System is being implemented in 2016 in order to modernize timesheet entry and the payroll administration process. With the significant construction program at the Airport, a new Capital Time Entry System will allow employees to track the time spent on various capital

projects in order to accurately track the labour costs of those projects. In addition, a new Document Management System will be implemented in 2016 to relate to the creation, modification, final versioning and accessibility of electronic documents, as well as the handling of existing and future paper documents, through a coordinated and controlled system. With all of these systems in place, organizational effectiveness will be improved.

Safety is our number one priority at our airport, and we try to lead by example. An Employee Safety Survey was conducted for employees of the St. John's International Airport Authority that was designed to measure our safety culture from both an Occupational Health & Safety, and Safety Management System (aviation safety) perspective. Results from the survey allow the Airport Authority to identify areas of success; areas where advancements in safety culture have been made; and all areas where further improvement is required.

Financial Sustainability

Objective: Ensure financial sustainability.

As a not-for-profit and private organization, we are responsible for generating our own revenue and raising our own capital funds to support our infrastructure improvements and expansion. Any excess revenue is reinvested back into our facilities.

The growth in demand for air travel at our Airport has necessitated an extensive investment into our facilities to ensure we continue to meet the needs of travellers at our Airport. In 2014, a 10-Year, \$245 million Airport Improvement and Expansion Plan and a corresponding 10-year Financial Plan was announced. The Financial Plan outlined the required borrowings in the form of private placement bond and credit facilities necessary to fund the investments, while ensuring long-term financial stability of the organization.

Since we issued our first private bond offering in 2007 we have maintained an A1 credit rating. This favourable credit rating has been reaffirmed each year by Moody's Investors Service, and our goal is to continue this credit rating throughout the entire five-year planning process.

Maintaining a strong financial position that ensures financial sustainability in the long term is our goal.

Business Plan Summary

2015 Financial Report

- Audited Financial Statements
- Corporate Governance

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

We have audited the accompanying financial statements of the St. John's International Airport Authority (the Authority), which comprise the balance sheet as at December 31, 2015 and the statements of operations and equity in capital assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, 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 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 St. John's International Airport Authority as at December 31, 2015 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP
Chartered Professional Accountants
April 19, 2016

St. John's International Airport Authority

Balance Sheet

As at December 31, 2015

(in thousands of dollars)

	2015	2014
Assets		
Current		
Cash and cash equivalents	\$ 26,760	\$ 47,107
Accounts receivable (note 3)	5,956	6,311
Consumable inventory (note 2)	381	362
Prepaid expenses	487	344
Total current assets	33,584	54,124
Capital assets, net (note 4)	187,066	135,900
Debt service reserve fund (note 6)	2,763	2,772
Defined benefit asset (notes 2 and 9)	4,335	3,556
Intangible assets, net	16	40
	\$ 227,764	\$ 196,392

Liabilities and Equity in Capital Assets

Current		
Accounts payable and accrued liabilities (notes 5 and 13)	\$ 27,153	\$ 20,936
Current portion of long-term debt (note 6)	678	644
Total current liabilities	27,831	21,580
Long-term debt (note 6)	108,424	108,940
Deferred contributions for capital projects, net (note 7)	28,041	12,593
Equity in capital assets (note 1)	63,468	53,279
	\$ 227,764	\$ 196,392


Commitments (note 11)

See accompanying notes

On behalf of the Board:



Art Cheeseman, Chair



Roger Butt, Chair, Finance and Audit Committee

St. John's International Airport Authority

Statement of Operations and Equity in Capital Assets

For the year ended December 31, 2015
(in thousands of dollars)

	2015	2014
Revenues		
Landing fees	\$ 5,950	\$ 5,867
Terminal fees	5,067	4,995
Concessions	4,498	4,463
Car parking	3,550	3,560
Rentals	3,747	3,360
Other	1,454	1,153
	24,266	23,398
Airport improvement fees (note 8)	20,222	16,137
	44,488	39,535
Operating Expenses		
Salaries and benefits	8,625	8,280
Operating	6,699	6,405
Amortization	8,190	7,549
Interest and financing costs	5,052	4,018
Ground rent (note 11)	2,440	2,060
Municipal tax	1,277	1,320
Business development	614	536
Professional services	560	611
General and administrative	802	654
Bad debts	40	40
	34,299	31,473
Excess of revenues over expenses	\$ 10,189	\$ 8,062
Total equity in capital assets, beginning of year	53,279	45,217
Total equity in capital assets, end of year	\$ 63,468	\$ 53,279

See accompanying notes

St. John's International Airport Authority

Statement of Cash Flows

For the year ended December 31, 2015
(in thousands of dollars)

	2015	2014
Operating Activities		
Excess of revenues over expenses	\$ 10,189	\$ 8,062
Add (deduct) items not involving cash		
Amortization - capital assets, net	8,908	8,162
Amortization - deferred contributions	(745)	(665)
Amortization - intangible assets	27	52
Amortization - other	162	141
Gain on disposal of capital assets	(31)	-
Increase in defined benefit asset	(779)	(775)
	17,731	14,977
Changes in non-cash working capital balances related to operations		
Accounts receivable	355	(3,013)
Consumable inventory	(19)	(46)
Prepaid expenses	(143)	154
Accounts payable and accrued liabilities	6,217	10,575
Cash provided by operating activities	24,141	22,647
Financing Activities		
Proceeds from bond issue	-	60,000
Decrease (increase) in debt service reserve fund	9	(1,051)
Repayment of revenue bond	(644)	(611)
Repayment of demand installment loan	-	(1,516)
Transaction costs	-	(533)
Repayment of revolving credit facility	-	(2,994)
Cash provided by (used in) financing activities	(635)	53,295
Investing Activities		
Additions to capital assets	(60,074)	(31,287)
Additions to deferred contributions	16,193	1,884
Additions to intangible assets	(3)	(15)
Proceeds from sale of capital assets	31	-
Cash used in investing activities	(43,853)	(29,418)
Net increase (decrease) in cash during the year	(20,347)	46,524
Cash and cash equivalents, beginning of year	47,107	583
Cash and cash equivalents, end of year	\$ 26,760	\$ 47,107

See accompanying notes

See accompanying notes

Notes to Financial Statements

December 31, 2015

(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 Ground 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 presentation

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board.

Use of estimates

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.

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 - 30 years
Leasehold improvements and improvements to leased land	15 - 30 years
Vehicles, machinery, furniture and fixtures	5 - 20 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 \$27,054 (2014 - \$51,673) is included in operating expenses for the year.

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, 2015 amounted to \$218,070 (2014 - \$200,458).

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 unit credit actuarial cost method. Under this method, the accrued benefit obligation represents the pensionable service accrued as at the valuation date and best estimate assumptions.
- II. For the purpose of calculating expected return on plan assets, those assets are valued at market value.

- III. Actuarial gains and losses are recognized in full in the period in which they occur, in excess of revenues over expenses.

Financial instruments

The financial instruments, which include cash, accounts receivable, debt service reserve fund, accounts payable and accrued liabilities and long term debt, are recorded at amortized cost. Amortization is recorded on a straight-line basis.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired.

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, designated 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.

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.

Consumable inventory

Inventories are valued at the lower of cost and replacement cost. For 2015, \$1,078,227 (2014 – \$925,648) of inventories were recognized as an expense.

3. ACCOUNTS RECEIVABLE

	2015	2014
Trade	\$2,473	\$2,540
Airport improvement fees	1,059	1,445
HST	2,378	2,057
Other	222	417
Allowance for doubtful accounts	(176)	(148)
	\$5,956	\$6,311

4. CAPITAL ASSETS

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Airport terminal building, other buildings and bridges	\$73,125	(\$32,279)	\$40,846	\$42,468
Leasehold improvements and improvements to leased land	115,174	(17,336)	97,838	40,336
Vehicles, machinery, furniture and fixtures	25,256	(12,303)	12,953	12,112
Computer hardware and software	5,477	(4,196)	1,281	1,612
Multi-purpose/central de-icing facility	14,234	(4,949)	9,285	9,849
Assets under construction or development	24,863	-	24,863	29,523
	\$258,129	(\$71,063)	\$187,066	\$135,900

Assets under construction or development in 2015 were not being amortized and consisted of the Airport Terminal Building Expansion, Non-Passenger Screening of Vehicles facility and a Waterline.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Trade	\$14,912	\$12,258
Accrued liabilities	11,143	7,529
Salaries and benefits	861	879
Deferred revenue and other	237	270
	\$27,153	\$20,936

6. LONG-TERM DEBT

	2015	2014
Revenue bonds	\$112,613	\$113,257
Less transaction costs (net of amortization of \$169,586; 2014 - \$141,560)	(3,511)	(3,673)
	109,102	109,584
Current portion	678	644
	\$108,424	\$108,940

a. Bond Issue

In May 2007, the SJIAA completed its inaugural \$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. The remaining principal is payable on maturity, which is May 11, 2037.

In July 2014, the SJIAA completed a \$60,000,000 Revenue Bond issue. The \$60,000,000, 3.479% Series C Revenue Bonds are due on July 15, 2024.

The net proceeds from these offerings are used to finance the capital plan and for general corporate purposes. These purposes include repaying existing bank indebtedness and funding of the Debt Service Reserve Fund. The bonds are direct obligations of the Authority 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, 2015, the Debt Service Reserve Fund included \$2,763,281 (2014 - \$2,772,000) 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 2015, the SJIAA was required to maintain an Operating and Maintenance Reserve Fund of approximately \$4,131,500. 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 2016, approximately \$4,335,000 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 \$75,000,000 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. In May 2012, the Revolving Credit Facility was amended and increased to \$25,000,000. The facility has a term of five years.

As at December 31, 2015, letters of credit for \$759,526 (2014 – \$759,526) 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.

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. In July 2015, the Demand Loan was amended and increased to \$10,000,000. 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.

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

2016	\$678
2017	714
2018	752
2019	792
2020	834
Thereafter	108,843
	<hr/>
	\$112,613
	<hr/>

7. DEFERRED CONTRIBUTIONS FOR CAPITAL PROJECTS

From time to time the SJIAA receives contributions for capital projects from various sources. These funds are accounted for under the deferral method, as outlined in note 2.

	2015	2014
Balance, beginning of the year	\$12,593	\$11,374
Add capital contributions received during the year	16,193	1,884
Less amortization	(745)	(665)
Net deferred contributions for capital projects	\$28,041	\$12,593

During the year the SJIAA received capital contributions of \$15,811,056 from the Province of Newfoundland and the Government of Canada for the Airport Accessibility Project (note 4).

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, to \$20 on April 1, 2011 and to \$30 on August 1, 2014. These fees are collected by the air carriers for a fee. 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, 2015, cumulative expenditures of \$237,557,827 (2014 – \$177,483,572) exceeded cumulative net AIF revenue collected of \$140,014,305 (2014 - \$119,792,511) by \$97,543,521 (2014 - \$57,691,060). A summary of the AIF collected and the related collection costs are as follows:

AIF revenue (net):	2015	2014
AIF revenue	\$21,767	\$17,356
AIF collection costs	(1,545)	(1,219)
	\$20,222	\$16,137

9. PENSION PLAN

	2015	2014
Plan assets		
Market value, beginning of year	\$18,362	\$15,511
Interest earned	985	845
Employer contributions	1,175	1,440
Employee contributions	101	151
Benefits paid	(475)	(422)
Actuarial (loss)/gain	(12)	837

	2015	2014
Market value, end of year	20,136	18,362
Plan obligations		
Accrued benefit obligations, beginning of year	14,806	12,730
Employee Contributions	101	151
Current service cost	373	434
Interest cost	777	673
Benefits paid	(475)	(422)
Actuarial loss	219	1,240
Accrued benefit obligations, end of year	15,801	14,806
Determination of total cost for the period		
Current service costs	373	434
Finance cost	(208)	(172)
Remeasurement and other items	231	403
Cost for the period	396	665
Defined benefit asset		
Defined benefit asset beginning of year	3,556	2,781
Cost for the period	(396)	(665)
Employer contributions during the period	1,175	1,440
Defined benefit asset, end of year	4,335	3,556
Weighted average actuarial assumptions		
	2015	2014
Discount Rate	5.25%	5.25%

	2015	2014
Rate of salary increases	3.25%	3.25%

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

Percentage of plan assets		
	2015	2014
Bonds/fixed-income securities	37.08%	42.77%
Equity securities	62.92%	57.23%
Total	100%	100%

The date of the last actuarial valuation of the defined benefit pension plan is December 31, 2014. According to this valuation, the SJIAA's employer service contribution as a percentage of payroll was 20.5% for 2015 (2014 – 20.8%). A \$4,273,700 solvency deficiency in the defined benefits pension plan existed as at December 31, 2014. This resulted in a special annual payment to fund the deficiency in the amount of \$825,876 for 2015. This annual special payment of \$825,876 is required over the next five years.

10. FINANCIAL RISK FACTORS

a. 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.

b. 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 52.9% (2014 – 52%) of the total enplaned and deplaned passengers for the Airport during the year.

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 of 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 Ground 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:

2016	\$2,622
2017	2,917
2018	3,152
2019	3,305
2020	3,465

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. GOVERNMENT REMITTANCES

Government remittances consist of amounts (such as payroll withholding taxes, property tax and sales taxes) required to be paid to government authorities and are recognized when the amounts become due. In respect of government remittances, \$2,156,370 (2014 – \$1,079,251) is included in accounts payable and accrued liabilities.

14. RELATED PARTY TRANSACTIONS

During the year, related party transactions for services rendered to SJIAA relating to the operation of the Airport totaled \$115,152 (2014 - \$355,592). These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties. There was an amount of \$24,669 outstanding as of December 31, 2015 (2014 - \$25,176), which was paid in 2016.

15. DIRECTORS' AND OFFICERS' REMUNERATION

The salary range for the Authority's President & CEO and for senior managers reporting to the President & CEO was \$117,000 to \$263,165 during 2015 (2014 - \$111,000 to \$255,500).

**Schedule of Director's Fees
For the year 2015**

Board Member	Total
Art Cheeseman (Board Chair)	39,167.00
Neil Pittman (Past Chair)	31,499.00
Gary Follett ¹	22,250.00
Irene Baird	21,250.00
Holly Hicks	19,500.00
Gail Carroll ²	19,333.00
Tom Williams (Board Vice Chair)	19,250.00
Darren Martin	18,416.66
Jim Heale	17,916.66
Roger Butt ³	17,750.00
John Chapman ⁴	16,833.33
Jerry Byrne	16,000.00

¹Chair, Development Committee

²Chair, Governance Committee

³Chair, Finance and Audit Committee

⁴Completed term August 31, 2015

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 and 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 Board of 12 Directors, nominated by various stakeholders in the region. These Directors are appointed or 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 Paradise 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 – specifically the “Public Accountability Principles for Canadian Airports” and the Authority's Operating By-Laws. The St. John's International Airport's 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. Further amendments to the By-Laws, as required under the new Canada Not-For-Profit Corporations Act, were submitted to Transport Canada in 2014 for approval.

The By-Laws contain Conflict of Interest Guidelines and a prescribed Code of Conduct. In 2014, there were no breaches of the Conflict of Interest Guidelines by any Officer or Director of the Airport Authority.

The role of the Board of Directors is to guide strategic direction for the Airport Authority. Solid business practice, including formal strategic planning, is carried out and reviewed periodically. Directors also serve on the committees of the Board: Development; Finance and 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 2015 are listed below.