future by design
annual report 2013

ST. JOHN'S
International Airport Authority

Who We Are

St. John's International Airport Authority is a private, not-for-profit corporation that exists to provide a safe and efficient transportation facility at Newfoundland and Labrador's premier gateway.

We generate our own revenues, 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.

Mission Statement

We deliver an outstanding airport experience and facilitate our region's economic development.

Vision Statement

We will be a leader in our community and industry, providing exceptional facilities and services as Newfoundland and Labrador's premier gateway.

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A MESSAGE FROM OUR CHAIR & CEO

The past year was another one of continued growth for our Airport. For the fourth year in a row, the number of passengers using our facilities set a new record high. In 2013, approximately 1.5 million passengers travelled through our gates, representing a 3% growth over the previous year. This new and significant milestone highlights the continuing need to expand our Airport facilities to accommodate the increasing demand for air travel, to facilitate economic growth in our province, and to ensure that our passengers continue to enjoy a positive experience at our Airport.

Airport Improvement Program Takes Shape

While much of our effort was focused on the operations of the Airport throughout the labour dispute that lasted for a considerable portion of 2013, we continued to make significant progress on our Airport Improvement and Expansion Plan. The advancement of this Plan put us in a position to move full steam ahead for the 2014 construction season, laying the groundwork for the commencement of the Airport Terminal Building expansion and the Airfield Accessibility and Safety Initiative.

We completed the construction of the new Ramp Services and Cargo Building last year so that our airline partners now have a new home for their cargo and ground handling facilities adjacent to the Airport Terminal Building apron; our passenger loading bridges were refurbished; and we advanced our expansion plans for the Airport Terminal Building.

Airport Accessibility and Safety Initiative is Launched

In the fall of 2013, we were delighted to begin work on the Airport Accessibility and Safety Initiative that involves extensive infrastructure improvements to our airfield that will allow NAV CANADA to install and operate a Category III Instrument Landing System. Since this project was originally announced in 2011, its scope has been expanded to comply with the most current runway design regulations. This project is now a three year project with an estimated cost of $37.3 million.

The significant benefits of this project far outweigh the costs and are well-understood by the leaders in our community and our country. We have therefore successfully negotiated a funding arrangement with the Government of Canada and the Government of Newfoundland and Labrador to share with us in the costs associated with this project, and we thank them for their continued commitment to this initiative. Once operational in late 2015, we will enjoy the same level of accessibility as the other major transportation gateways in Canada.

Another highlight of last year's Airport Improvement Program was the opening in December of our new access road to the Airport Terminal Building, named World Parkway. This new access road was designed to accommodate the growth in vehicular traffic, and quite literally paves the way for the construction of the east expansion to the terminal building. Opening World Parkway also represents the completion of the first major project associated with the broader Airport Improvement Program.

$243 MILLION AIRPORT IMPROVEMENT AND EXPANSION PLAN

Diversifying our Business

In addition to World Parkway, two other new roads were constructed to improve access to the service and cargo delivery areas of our Airport. This new road structure has also opened access to over 30 acres of land for commercial development. By signing long-term leases with land tenants, we will increase our revenue from non-aeronautical sources, which is one of our key strategic objectives.

In 2013, the revenue we received from non-aeronautical sources represented more than half of all revenue collected.* Our core business is and will always be focused on being a transportation facility. However, if we were to depend solely on the fees received from airlines as our primary source of revenue, we would be left vulnerable to the highs and lows of the commercial airline industry, and the pressure to increase fees to airlines would put us at a great disadvantage to other competing airports who are also looking to attract more airline services. Seeking new sources of revenue is important for our long-term financial sustainability, to maintain our competitive position against other airports, and to increase the overall total revenue that can be reinvested back into our Airport's facilities to enable continuous improvement in service for our passengers.

*Excluding Airport Improvement Fees

67% INCREASE
IN AIRLINE SEATS DIRECT TO SUN DESTINATIONS

Increased Choice for Passengers

While we saw a record number of passengers in our terminal building last year, we also set a record for the number of available airline seats offered by the commercial airlines to and from our Airport. Since 2008, seat capacity growth at our Airport has been significantly higher than that experienced at most other medium and large-sized airports in Canada. This is attributable to both our aggressive air service development efforts and the fact that our booming provincial economy has made St. John's an attractive location for airlines to invest.

We were therefore extremely pleased when WestJet announced it was launching its first transatlantic service from St. John's to Dublin, Ireland. This new service will further strengthen the already strong cultural ties that exist between Newfoundland and Labrador and Ireland. It will also support tourism, trade, and the recruitment efforts of the business community that have identified Ireland as a source for skilled workers to assist with the development of the more than $50 billion worth of megaprojects under construction in our province. All indications thus far are that this service will be a tremendous success, and we are committed to working with WestJet to find effective ways to expand the season and to ensure this new European service remains successful over the long term.

The new Dublin service is the second direct, daily flight to Europe that is offered from our Airport during the summer season. The addition of the Dublin flight, however, does not negate the need for a year-round service to London, and we remain committed to working with Air Canada on this very strategic airline route until it can be offered throughout the year.

KEITH COLLINS,
PRESIDENT & CEO

NEIL PITTMAN,
CHAIR

Balancing Fiscal Responsibility and Investment

As the demand for air travel continues to grow and our airline partners respond to that demand, it is essential that we build additional capacity into our facilities to handle the added passenger traffic and aircraft movements we expect to see. Our extensive forecasting and planning has led to the establishment of an updated Airport Improvement and Expansion Plan that will take us to the year 2023. While the growth in our economy has increased the demand for travel, it has also escalated the cost to construct, and our updated ten-year Plan is now estimated to approach an overall cost of $243 million. This represents a significant investment by the Authority in the regional and provincial economy.

It is imperative that we continue to grow and expand, and it is equally important to ensure that we can financially afford to pay for these investments while remaining financially stable in the long-term. A new ten-year Finance Plan has been developed to outline the additional long-term debt financing that is required to support the Airport Improvement and Expansion Plan, and how this debt will be repaid while ensuring our financial sustainability and maintaining our A1 credit rating.

Our commitment to sound financial stewardship was also evident in the new collective agreement the Authority negotiated with the union at the end of the recent strike. The new agreement achieved a reasonable balance between the rights and interests of our unionized employees and the Authority's responsibility to affordably manage our Airport's future. With the strike now behind us, the Authority and all its employees are focused on the future.

Our Airport and our region grew rapidly over the last number of years, and we are very optimistic about our future. In 2014 we will be updating our Strategic Business Plan that will determine our strategic priorities for the 2015-2019 planning horizon. These priorities will guide the investment of all our resources toward the initiatives that will ensure we continue to operate a safe and effective Airport, to facilitate the continued economic growth of our region and our province, and to deliver a range of air travel services that will support the growing demand in our community.

Finally, we would like to acknowledge the strong leadership of our outgoing Board Chair, Darlene Whalen, and to say thank-you for her remarkable service to our Airport and our community for the past two years. Under her leadership, the Authority was able to make clear advances in all our major strategic priorities and objectives, and we are now well-positioned for the next phase of our growth.

Neil Pittman, Chair

Keith Collins, President & CEO

UPDATE ON STRATEGIC BUSINESS PLAN

FUTURE BY DESIGN

In 2013, our corporate energy was focused on three of our key strategic objectives that included improving and enhancing the Airport's facilities, diversifying our business, and aggressively pursuing new air services. While plans were developed and projects initiated, they were being done within the context of ensuring the long-term financial stability of the Airport. This report provides an overview of the progress we've made in these areas over the last year.

IMPROVED AND ENHANCED FACILITIES

The opening of the new access road to the Airport Terminal Building in 2013, named World Parkway, signaled the completion of the first substantial project associated with our Airport Improvement and Expansion Plan that was originally announced in 2011. Since that time, approximately $40 million has been invested in the Airport's facilities, and these developments lay the groundwork for the expansion of the Airport Terminal Building.

Project Elements (2011-2013)	Project Benefits
Airport Terminal Building Apron Expansion	• Provides additional overnight parking for 5 aircraft
Parking Lot Expansion	• 242 additional vehicle parking stalls were added to the long-term parking lot
World Parkway (new access road) and adjacent road network	• Improved road structure for vehicle traffic • Designed to accommodate future growth in traffic • Provides better access for cargo deliveries and airline support operations • Enables the east expansion to the Airport Terminal Building to proceed • Opens 32 acres of land for development
Ramp Services & Cargo Building	• A 30,000 square foot building was constructed to support cargo and ramp services operations • Allows for the west expansion of the Airport Terminal Building

Features of Expanded Terminal Building

- Additional 217,000 square feet of space (387,000 square feet in total)
- Larger Pre-Board Screening area
- Larger seating area in Departures Lounge
- Full-service restaurant/bar in Departures Lounge
- Food & Beverage seating in Departures Lounge
- Additional retail options in Departures Lounge
- Six new jet gates and six passenger loading bridges
- Expanded arrivals hall and customs area
- Two new baggage belts in arrivals
- Additional parking stalls for long-term parking
- Designated parking area for taxis and shuttles

Airport Terminal Building Expansion Project

While these projects were being completed, extensive planning and refining to the Airport Terminal Building Expansion Project was also being conducted so that construction would be ready to commence during the 2014 construction season.

It is projected that close to two million passengers will travel through the Airport by 2020. The expanded Airport Terminal Building is designed to accommodate the unprecedented passenger growth we have already experienced and the future anticipated growth. When complete in 2020, the building will be more than double its existing size, and will have a multitude of services and amenities for passengers, including more food, beverage, and retail options; an expanded departures lounge; more space for the pre-board screening area; and more aircraft gates with passenger loading bridges that provide comfortable access to the aircraft.

This project involves an expansion to both the east and west ends of the existing terminal building. Construction on the east end commences in 2014 and this first phase of the expansion will increase the size of the building by 145,000 square feet when it is completed in 2017. Following this, the west end expansion will commence and will add just over 72,000 square feet. When the Airport Terminal Building Expansion Project is complete in 2020, the building will be more than double the existing size at almost 400,000 square feet.

Accessibility and Safety Initiative

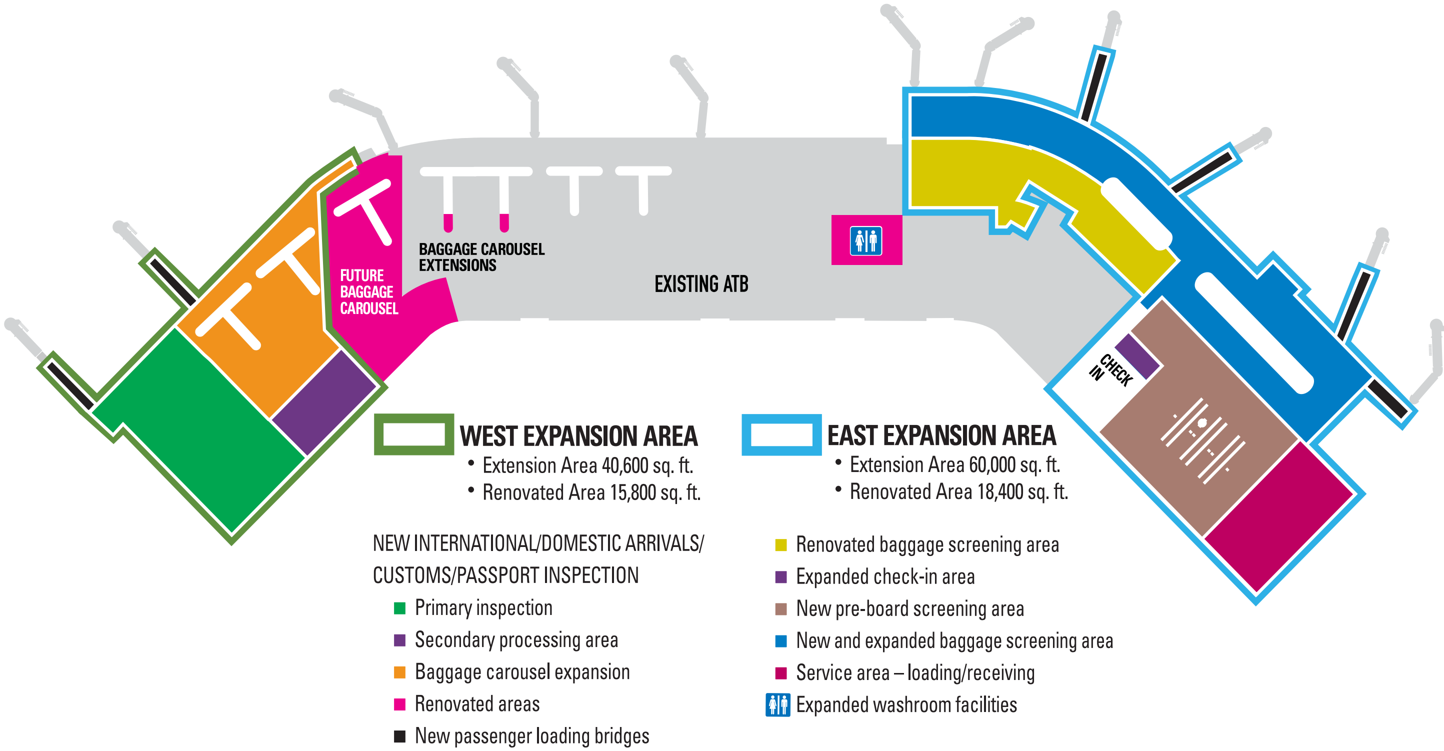
The Airport's Accessibility and Safety Initiative will be transformational for our Airport, with significant, long-term benefits that will be enjoyed by the entire region. This is a substantial infrastructure project that involves preparing the airfield for the installation and operation of a Category III Instrument Landing System by NAV CANADA. Once operational, this technology will allow aircraft to land and take-off in conditions of very low visibility.

As a result, our accessibility as an Airport will increase from 93.8% annual average to 98.9%, putting St. John's International Airport on par with the usability of the top 8 airports in Canada. This will eliminate our reputation for being an inaccessible destination, especially during the spring, which is the foggy season of the year. In addition, this project incorporates the installation of runway end safety areas (RESAs) at the end of each runway, further increasing the level of safety in the use of our facilities.

A funding partnership agreement was established between the Airport Authority, the Government of Newfoundland and Labrador, and the Government of Canada to share in the costs associated with this project, as each party understands the significant benefits of this project to the entire region. A Request for Proposals was issued in 2012 that yielded only one proposal at a cost that was approximately 40% over the estimated budget. As a result, the project was temporarily put on hold with the intent to reissue the request for proposals the following year. Meanwhile, that period of time was spent working with Transport Canada to clarify the requirements for the runway design, based on the most current runway design regulations.

2 MILLION
ANNUAL PASSENGERS FORECAST BY 2023

Level 1 ATB Expansion

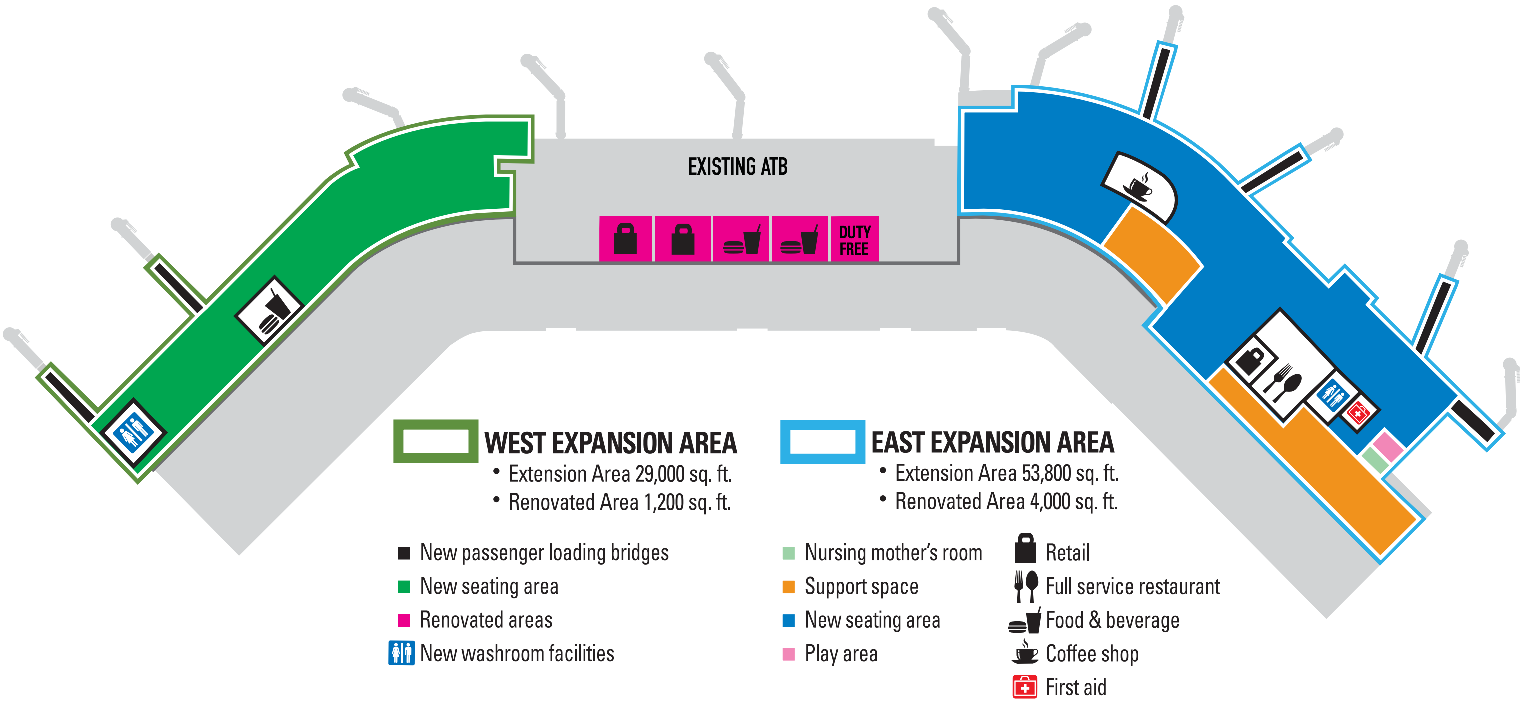


This project commenced in late 2013 as Year 1 of a three-year infrastructure project, with the initial phase involving the extensive removal of terrain on the sides of the runway. The construction will continue for the next 2 years, and will be completed by the fall of 2015. At the same time, NAV CANADA will be installing the Category III instrument landing technology that is expected to be operational by late 2015 for the benefit of the airlines, the travelling public and the tourism and business communities.

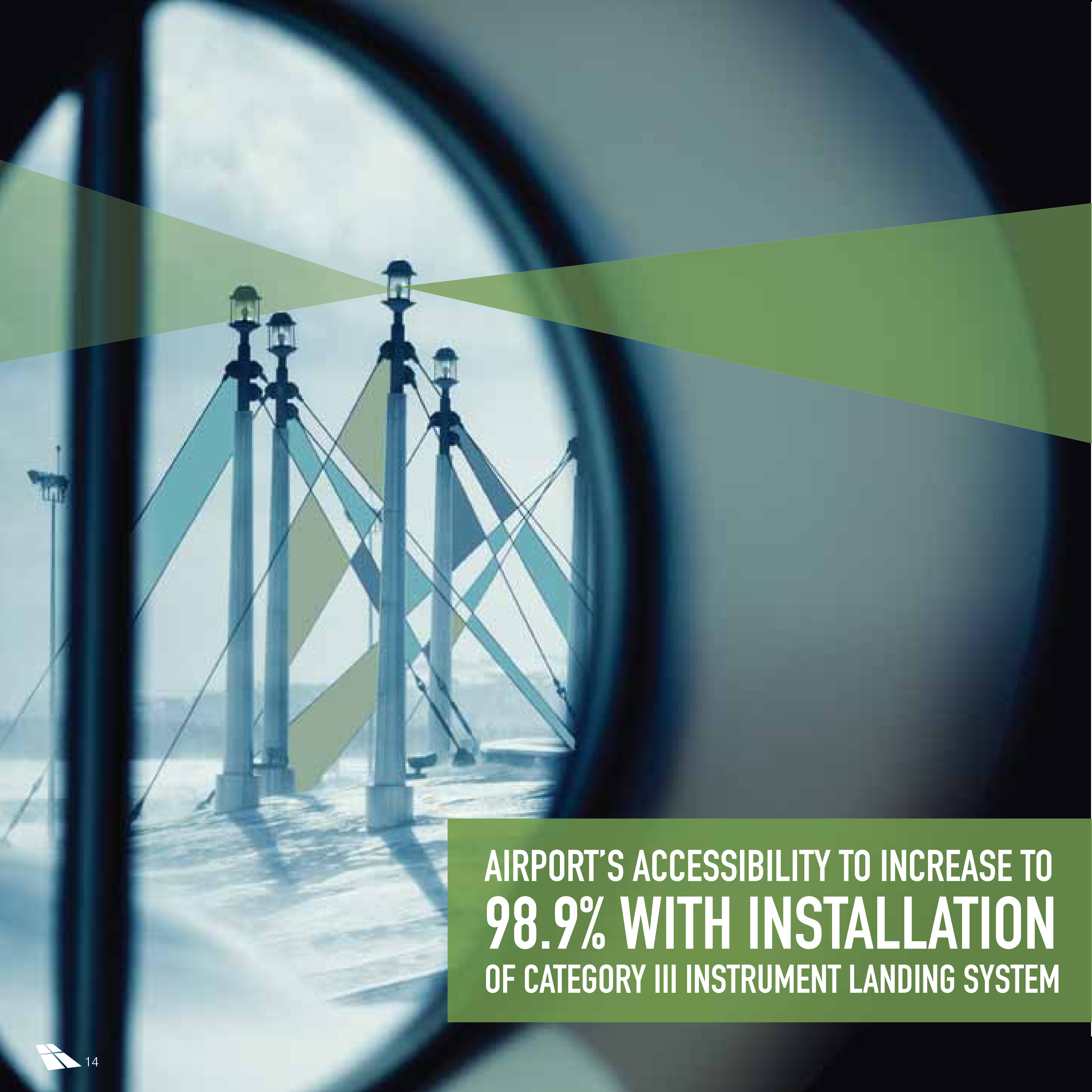
10-Year Airport Improvement and Expansion Plan

The new, ten-year Airport Improvement and Expansion Plan commencing in 2014 is designed to increase the Airport's capacity to meet the existing and projected demand on its facilities by the year 2020, as well as overall life-cycle replacement that is necessary to continue to operate a safe and reliable transportation facility. This new, ten-year plan is estimated to cost $243 million such that by 2023, the total investment in the improvements of the Airport's facilities since the Airport was privatized in 1998 will total $400 million.

Level 2 ATB Expansion



AIRPORT TERMINAL BUILDING WILL MORE THAN DOUBLE ITS CURRENT SIZE BY 2020



AIRPORT'S ACCESSIBILITY TO INCREASE TO 98.9% WITH INSTALLATION OF CATEGORY III INSTRUMENT LANDING SYSTEM

Airport Accessibility and Safety Initiative Project Details

Year 1 (2013)

- Terrain Removal

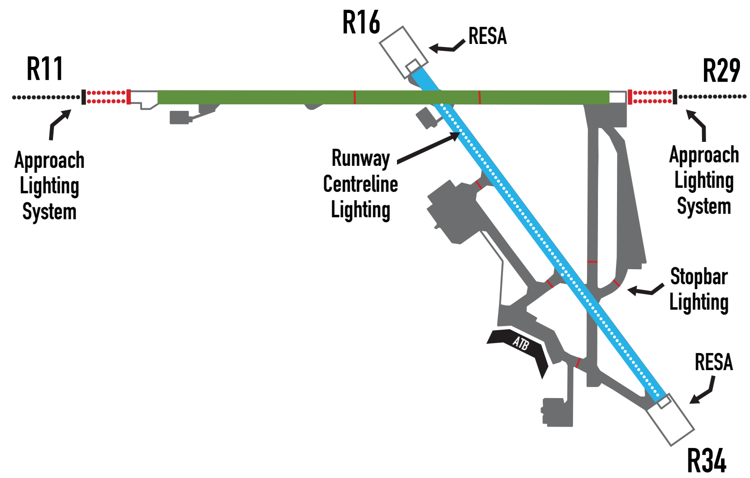
Year 2 (2014)

- Terrain Removal
- Runway 16/34 improvements:
  - Installation of runway centerline & stopbar lighting
  - Construction of runway end safety areas (RESAs)
- Runway 11/29 improvements:
  - Installation of new approach lighting systems

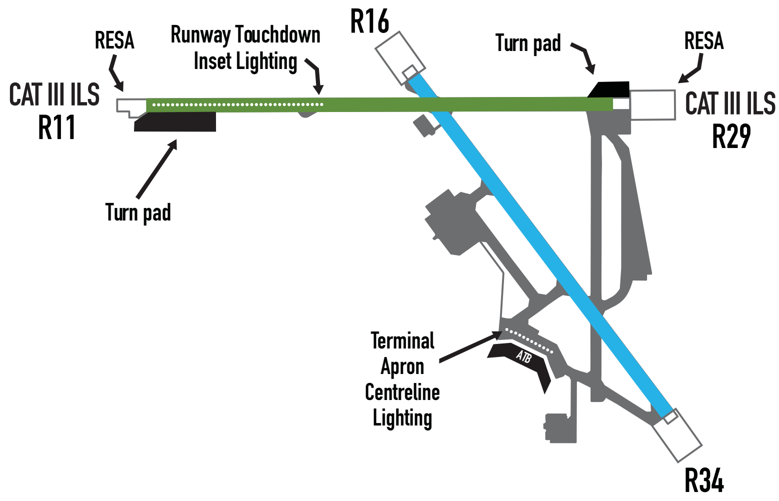
Year 3 (2015)

- Terrain Removal
- Airport Terminal Apron Centreline Lighting
- Runway 11/29 improvements:
  - Construction of runway end safety areas (RESAs)
  - Installation of runway touchdown inset lighting
  - Construction of aircraft turn pads (at ends of runway)
  - Pavement improvements
  - Installation of Category III ILS at each end of the runway

2014



2015



DIVERSIFICATION OF BUSINESS

Our focus over the last number of years has been to maximize revenue received at our Airport that is not related to aeronautical sources. In doing so, we generate additional revenue that can help finance the debt associated with our Airport Improvement Program; we reduce our dependency on the commercial airline industry that can be unpredictable; and we are able to limit the increases to our aeronautical fees that will ensure we remain competitive with other airports when negotiating with airlines to provide additional services at our Airport.

More than half of our existing revenue is now being generated from non-aeronautical sources,* and we have the potential to increase that even further as we expand our facilities. This can be achieved through an expanded and improved food and beverage and retail program, additional real estate space to sell advertising, and through the lease of land that is available for development.

Retail Program

As we expand our Terminal Building, there will be a significant increase in space available in the Departures Lounge for more food and retail outlets. This will improve the service offerings available for our passengers, and in turn increase our revenue.

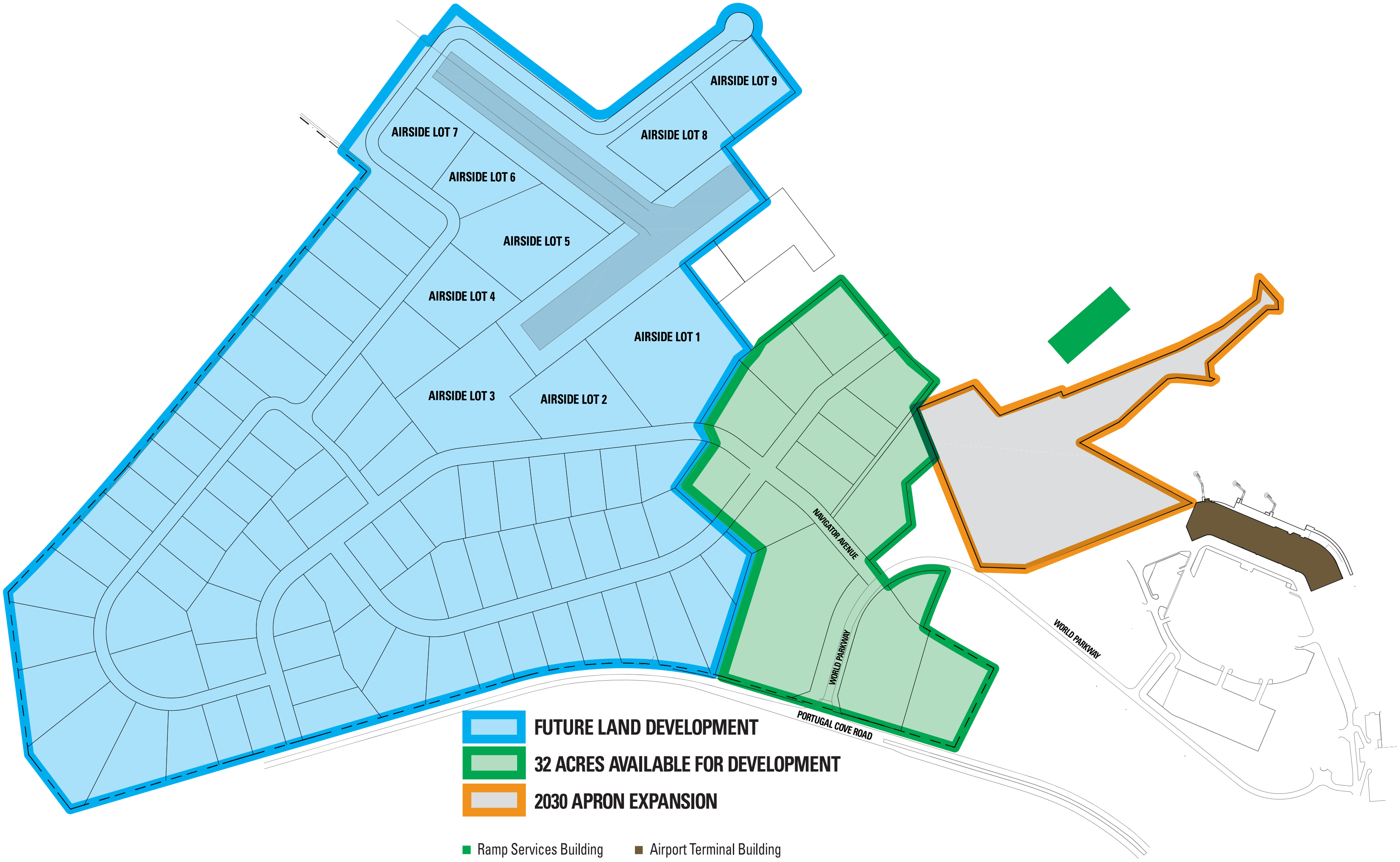
Advertising Sales

With 1.5 million passengers, and on average five greeters for each of these passengers at our Airport on an annual basis, it's no wonder that the Airport's advertising space has become increasingly more popular for local and national advertisers. The expanded Terminal Building and the new access road provide opportunities to extend the advertising offerings both inside and outside the Airport Terminal Building.

Land Development

The opening of three new roads last year, one of which is the new access road to the Terminal Building, also enabled immediate access to 32 acres of serviced land for commercial/light industrial development. This land is situated adjacent to an international airport; about three kilometers from the major highway network; approximately 10 minutes from the downtown core; and in a city that has limited land available for development. There is considerable demand for this land. A number of preliminary contracts have already been signed for many of the available land lots, including one for the development of a hotel. The lease of these land lots will generate secure, long-term streams of revenue.

*Excluding Airport Improvement Fees



32 ACRES OF SERVICED LAND IMMEDIATELY AVAILABLE FOR COMMERCIAL & LIGHT INDUSTRIAL DEVELOPMENT

AIR SERVICE DEVELOPMENT

It would not be possible for continued growth in our passenger numbers without also continued increases in the frequency of flights and the choice of destinations being offered by the airlines at our Airport. It is for this reason that we are continually working with our airline partners and presenting business cases to them that support new airline services. And our efforts are paying off. Since we privatized as an Airport Authority in 1998, the airline seat capacity at our Airport has increased by 45%, whereas all the major airports in Atlantic Canada have experienced a decline over the same period. Over the last five years alone, we have grown our airline seat capacity by 23%, a rate that is significantly higher than that of most medium to large-sized airports in Canada.

There are now 1.5 million passengers each year travelling through our gates. Over the last year our overall seat capacity grew by 3%, with significant growth realized in capacity to and from US destinations (41%) and sun charter destinations (67%). Projections for 2014 are looking very strong, with an additional 8% increase in the overall number of airline seats that will be available for purchase to and from our Airport. A large portion of this increase relates to the three new services being offered by WestJet Airlines during the 2014 summer season. These include a new European destination (Dublin, Ireland), and new services to and from Ottawa and Toronto. These additional services facilitate connections with the new Dublin service, and also help to relieve the constraints in air capacity that exist during the peak summer season.

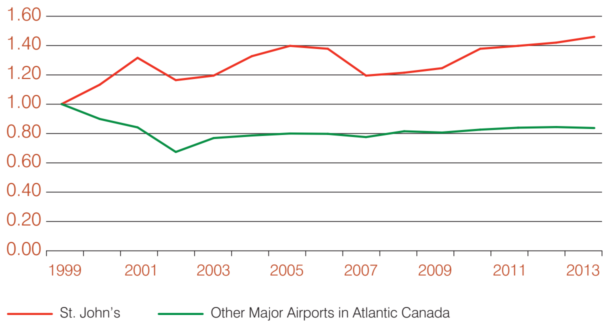
As part of our mandate as an Airport Authority, we facilitate the economic growth of our region. One of the ways we do this is by ensuring there is sufficient airline capacity to allow for the movement of goods and people.

We will continue to work to provide choice in destinations, schedules and airline service providers, based on strong business cases, for the benefit of our community.

Regional Seat Capacity Growth

St. John's & Other Atlantic Canada Airports

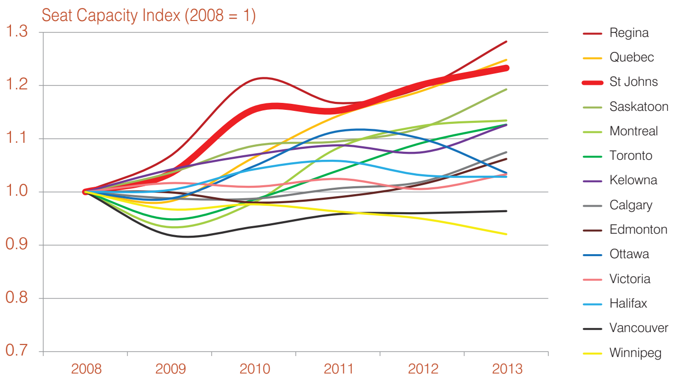
Index (1999 = 1)



Source: OAG and Innovata schedules

Review of Current Situation

Capacity Benchmarking



Over the period of 2008 to 2013, YYT seat capacity growth has been significantly higher than that of most other large/medium airports in Canada.

Source: Innovata Schedules (via Diio), outbound seats.

WESTJET CHOSE ST. JOHN'S TO LAUNCH ITS FIRST TRANSATLANTIC SERVICE TO IRELAND

BUSINESS PLAN SUMMARY

2013 Capital Program

During 2013, the Ramp Services & Cargo Building and the new access road were completed, as well as a major extension to the long-term parking lot. Other projects involved continued planning and design for the Airport Terminal Building expansion and the Airport Accessibility and Safety Initiative Project.

2013 Actual vs. Business Plan

(Shown in thousands of dollars)

	Actual	Plan	Difference	Explanation
Revenue (Note 1)	34,699	40,416	(5,717)	Lower AIF revenue due to timing of fee increases.
Expenses (Note 2)	23,068	24,105	(1,037)	Lower interest on borrowings due to less capital spent in 2013 than planned.
Capital	9,350	31,692	(22,342)	Certain construction projects were rescheduled.

Note 1. Revenue includes net AIF and operating revenue.
Note 2. Expenses include interest and exclude the non-cash items of depreciation and amortization.

Planning for Growth (2014–2018)

We have completed a long-term infrastructure plan to address capacity constraints and to accommodate the approximate two million annual passengers forecast by the year 2020. Highlights of the Plan include the necessary infrastructure improvements to support the implementation of the Airport Accessibility and Safety Initiative Project and a two-phased expansion of the Airport Terminal Building. A long-term Financial Plan was also prepared in order to support the investment in infrastructure improvements, and includes future borrowings in the form of a private placement bond and credit facilities.

Business Plan Forecast 2014–2018

(Shown in thousands of dollars)

	2014	2015	2016	2017	2018
Revenue (Notes 1 & 2)	39,287	45,536	50,906	53,370	55,606
Expenses (Note 3)	24,872	28,040	29,606	31,365	32,631
Capital (Note 4)	30,432	45,185	41,361	34,323	19,726

Note 1. Assumes passenger growth will be between 2.5% and 3.0% in 2014 to 2018.
Note 2. Revenue includes net AIF and operating revenue.
Note 3. Expenses include interest and exclude the non-cash items of depreciation and amortization.
Note 4. Capital includes the Airport Accessibility and Safety Initiative Project, expansion of the Airport Terminal Building, additional aircraft bridges and surface parking.

SENIOR LEADERSHIP TEAM


Bob Nurse


Keith Collins


Frank Wyse


Lynn Holwell


Laura Cooper


Glenn Mahon

Peter Avery

Phil O'Connell

Marie Manning

Jennifer Williams

Janet O'Brien

Randy Mahon

BOARD OF DIRECTORS


Art Cheeseman


Katharine Hickey


Jerry Byrne


Jim Heale


Gail Carroll


Roger Butt


Darren Martin


Neil Pittman


Darlene Whalen


Irene Baird


John Chapman


Gary Follett

INDEPENDENT AUDITOR'S REPORT

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, 2013 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, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP

Chartered Accountants
April 22, 2014

FINANCIAL STATEMENTS

BALANCE SHEET

St. John's International Airport Authority

As at December 31, 2013 (in thousands of dollars)

		2013		2012
Assets				
Current				
Cash and cash equivalents	$	583	$	1,493
Accounts receivable (note 3)		3,298		5,480
Consumable inventory (note 2)		316		343
Prepaid expenses		498		355
Total current assets		**4,695**		**7,671**
Capital assets, net (note 4)		112,775		111,016
Debt service reserve fund (note 6)		1,721		1,719
Accrued benefit asset (notes 2 & 9)		1,954		1,753
Intangible assets, net		77		135
	$	**121,222**	**$**	**122,294**
Liabilities and Equity in Capital Assets				
Current				
Accounts payable and accrued liabilities (notes 5 & 13)	$	10,361	$	13,597
Current portion of long-term debt (note 6)		5,122		6,990
Total current liabilities		15,483		20,587
Long-term debt (note 6)		49,975		50,476
Deferred contributions for capital projects, net (note 7)		11,374		11,513
Equity in capital assets		44,390		39,718
	$	**121,222**	**$**	**122,294**

Commitments (note 11)

See accompanying notes

On behalf of the Board:

Neil Pittman, Chair

John Chapman, Chair, Finance and Audit Committee

STATEMENT OF OPERATIONS AND EQUITY IN CAPITAL ASSETS

St. John's International Airport Authority

For the year ended December 31, 2013 (in thousands of dollars)

		2013		2012
Revenues				
Landing fees	$	5,635	$	5,247
Terminal fees		4,597		4,272
Concessions		4,128		3,996
Car parking		3,386		3,303
Rentals		2,500		2,260
Other		1,125		965
		21,371		20,043
Airport improvement fees (note 8)		13,328		12,910
		34,699		32,953
Operating Expenses				
Salaries and benefits		8,352		8,035
Operating		7,555		5,895
Amortization		6,959		6,463
Interest and financing costs		3,149		3,128
Ground rent (note 11)		1,657		1,515
Municipal tax		725		655
Business development		432		446
Professional services		599		557
General and administrative		559		540
Bad debts		40		40
		30,027		27,274
Excess of revenues over expenses	**$**	**4,672**	**$**	**5,679**
Total equity in capital assets, beginning of year	$	39,718	$	34,039
Total equity in capital assets, end of year	**$**	**44,390**	**$**	**39,718**

See accompanying notes

STATEMENT OF CASH FLOWS

St. John's International Airport Authority

For the year ended December 31, 2013 (in thousands of dollars)

	2013	2012
Operating Activities		
Excess of revenues over expenses	$ 4,672	$ 5,679
Add (deduct) items not involving cash		
Amortization - capital assets, net	7,519	7,026
Amortization - deferred contributions	(621)	(617)
Amortization - intangible assets	61	54
Amortization - other	111	100
Gain on disposal of capital assets	(134)	(3)
Increase in accrued benefit asset	(201)	(288)
	11,407	11,951
Changes in non-cash working capital balances related to operations		
Accounts receivable	2,182	(2,055)
Consumable inventory	27	24
Prepaid expenses	(143)	235
Accounts payable and accrued liabilities	(3,236)	5,783
Cash provided by operating activities	10,237	15,938
Financing Activities		
Increase in debt service reserve fund	(2)	(271)
Repayment of revenue bond	(581)	(551)
Repayment of demand installment loan	(210)	(210)
(Repayment of) proceeds from revolving credit facility	(1,689)	1,190
Cash (used in) provided by financing activities	(2,482)	158
Investing Activities		
Additions to capital assets	(9,350)	(19,719)
Additions to deferred contributions	482	2,543
Additions to intangible assets	(3)	(73)
Proceeds from sale of capital assets	206	24
Cash used in investing activities	(8,665)	(17,225)
Net decrease in cash during the year	(910)	(1,129)
Cash and cash equivalents, beginning of year	1,493	2,622
Cash and cash equivalents, end of year	$ 583	$ 1,493

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2013
(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 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.

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 $60,966 (2012 - $53,543) 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.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued):

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, 2013 amounted to $297,522 (2012 - $147,585).

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.

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.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued):

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. Previously recorded write-downs to replacement cost are reversed when there is clear evidence that replacement cost has increased. For 2013, $921,585 (2012 – $811,680) of inventories were recognized as an expense.

3. Accounts receivable:

	2013	2012
Trade	$ 2,117	$ 4,011
Airport improvement fees	830	1,138
HST	209	381
Other	273	67
Allowance for doubtful accounts	(131)	(117)
	$ 3,298	$ 5,480

NOTES TO FINANCIAL STATEMENTS

4. Capital assets:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Airport terminal building, other buildings, and bridges	$ 71,712	$ 26,332	$ 45,380	$ 39,176
Leasehold improvements and improvements to leased land	48,401	11,597	36,804	36,672
Vehicles, machinery, furniture, and fixtures	20,896	9,356	11,540	12,452
Computer hardware and software	4,274	2,886	1,388	1,512
Multi-purpose/central de-icing facility	14,234	3,824	10,410	10,973
Assets under construction or development	7,253	-	7,253	10,231
	$ 166,770	$ 53,995	$ 112,775	$ 111,016

Assets under construction or development in 2013 were not being amortized and consisted of the Airport Terminal Building Expansion (design), the Airport Accessibility Project and the Flight Information Display System.

5. Accounts payable and accrued liabilities:

	2013	2012
Trade	$ 5,555	$ 8,489
Accrued liabilities	3,285	2,482
Salaries and benefits	1,355	2,408
Deferred revenue and other	166	218
	$ 10,361	$ 13,597

6. Long-term debt:

	2013	2012
Revenue bonds	$ 53,868	$ 54,449
Revolving credit facility	2,994	4,683
Demand installment loan	1,516	1,726
	58,378	60,858
Less transaction costs (net of amortization of $110,679; 2012 - $106,704)	(3,281)	(3,392)
	55,097	57,466
Current portion	5,122	6,990
	$ 49,975	$ 50,476

NOTES TO FINANCIAL STATEMENTS

6. Long-term debt (continued):

(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 $1,720,891 Debt Service Reserve Fund required for the bond and a $3,878,343 (2012 – $4,462,785) 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, 2013, the Debt Service Reserve Fund included $1,720,891 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 2013, the SJIAA was required to maintain an Operating and Maintenance Reserve Fund of approximately $3,878,348. 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 2014, approximately $4,432,000 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 $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.

6. Long-term debt (continued):

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.

On November 19, 2013, the SJIAA issued a Banker's Acceptance in the gross amount of $2,993,910, at an interest rate of 0.8%, due January 20, 2014. As at December 31, 2013, letters of credit for $759,526 (2012 – $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. During 2013, the interest rate ranged from 0.69% to 1.2% (2012 – 0.27% 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 12, 2013, the SJIAA issued two Banker's Acceptances in the gross amount of $844,473 and $671,815, at an interest rate of 0.94%, due February 10, 2014.

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

2014	$ 5,122
2015	644
2016	678
2017	714
2018	752
Thereafter	50,468
	$ 58,378

NOTES TO FINANCIAL STATEMENTS

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.

	2013	2012
Balance, beginning of the year	$ 11,513	$ 9,587
Add capital contributions received during the year	482	2,543
Less amortization	(621)	(617)
Net deferred contributions for capital projects	$ 11,374	$ 11,513

During the year the SJIAA received capital contributions of $482,120 from the Province of Newfoundland and Labrador 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, and further increased to $20 on April 1, 2011. 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, 2013, cumulative expenditures of $146,197,232 (2012 – $136,848,181) exceeded cumulative net AIF revenue collected of $103,654,849 (2012 - $90,326,814) by $42,542,382 (2012 - $46,521,367). A summary of the AIF collected and the related collection costs are as follows:

AIF revenue (net):	2013	2012
AIF revenue	$ 14,341	$ 13,891
AIF collection cost	(1,013)	(981)
	$ 13,328	$ 12,910

NOTES TO FINANCIAL STATEMENTS

9. Pension plan:

	2013	2012
Plan assets		
Market value, beginning of year	$ 12,848	$ 11,682
Interest earned	728	713
Employer contributions	1,053	702
Employee contributions	119	73
Benefits paid	(397)	(383)
Actuarial gain	1,160	61
Market value, end of year	15,511	12,848
Plan obligations		
Accrued benefit obligations, beginning of year	14,961	12,940
Current service cost	745	401
Interest cost	606	608
Benefits paid	(397)	(383)
Actuarial (gain) loss	(1,018)	1,395
Accrued benefit obligations, end of year	14,897	14,961
Plan assets/obligations		
End of year market value less accrued benefit obligations	614	(2,113)
Unamortized amounts	1,340	3,866
Accrued benefit asset	1,954	1,753
Plan expense		
Current service cost, net of employee contributions	626	328
Interest on accrued benefits	605	609
Expected return on assets	(728)	(713)
Amortization	349	191
Plan expense	852	415

NOTES TO FINANCIAL STATEMENTS

9. Pension plan (continued):

Weighted average actuarial assumptions

	2013	2012
Discount rate	4.00%	4.70%
Expected long-term rate of return on plan assets	5.50%	6.00%
Rate of compensation increase	3.25%	3.25%

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

	Percentage of plan assets	
	2013	2012
Bonds/fixed-income securities	23.83%	36.23%
Equity securities	76.17%	63.77%
Total	100%	100%

The date of the last actuarial valuation of the defined benefit pension plan is December 31, 2012. According to this valuation, the SJIAA's employer service contribution as a percentage of payroll was 20.6% for 2013 (2012 – 20.4%). 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 $4,316,900 solvency deficiency in the defined benefits pension plan existed as at December 31, 2012. This resulted in a special annual payment to fund the deficiency in the amount of $682,288 for 2013. This annual special payment of $682,288 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.

NOTES TO FINANCIAL STATEMENTS

10. Financial risk factors (continued):

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 55% (2012 – 55%) 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:

2014	$ 2,043
2015	2,572
2016	3,026
2017	3,229
2018	3,413

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.

NOTES TO FINANCIAL STATEMENTS

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, $360,775 (2012 – $559,391) is included in accounts payable and accrued liabilities.

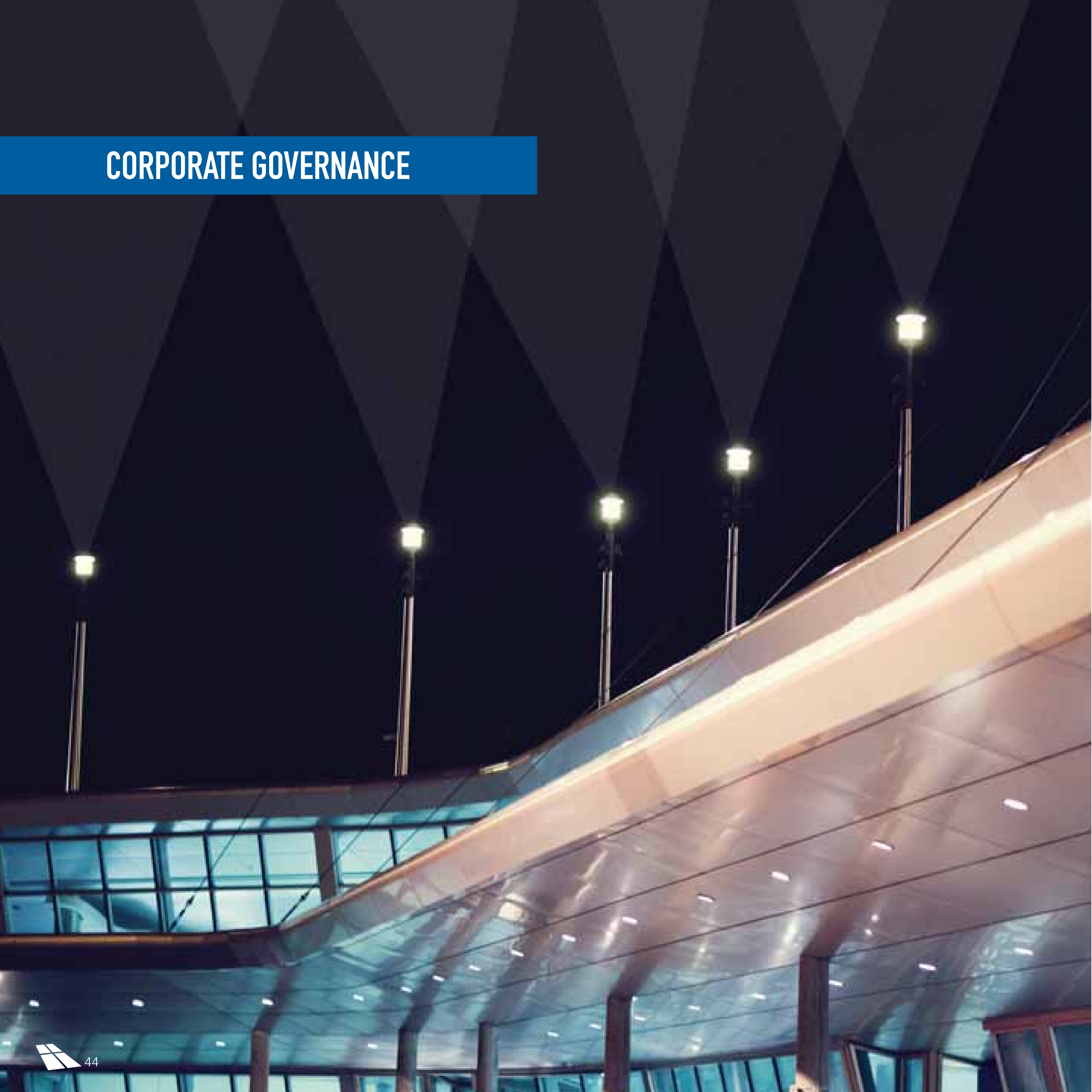
14. Directors' and officers' remuneration:

The salary range for the Authority's President & CEO and for senior managers reporting to the President & CEO was $103,500 to $248,000 during 2013 (2012 - $95,500 to $229,200).

15. Subsequent Event

In March 2014, the Board of Directors of the SJIAA approved the decision to proceed with a private placement bond offering. Anticipated bond proceeds of $60,000,000 will be used to finance capital expenditures.

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. The Federal Government is the only stakeholder with the power to appoint Directors. 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 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 Operating 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. A further review of the By-Laws was undertaken in 2013 and is on-going.

The By-laws contain Conflict of Interest Guidelines and a prescribed Code of Conduct. In 2013 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 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 during 2013 are listed below:

St. John's International Airport Authority
Schedule of Director's Fees For the Year 2013

Board Member	Total
Neil Pittman (Board Chair)	$ 37,083.33
Art Cheeseman (Board Vice Chair)	21,666.67
Darlene Whalen (Past Chair)	32,250.00
Gary Follett (Chair, Development Committee)	22,500.00
John Chapman (Chair, Finance & Audit Committee)	23,000.00
Irene Baird (Chair, Governance Committee)	22,000.00
Jim Heale	17,500.00
Katharine Hickey	16,500.00
Darren Martin	18,000.00
Gail Carroll	17,500.00
Jerry Byrne	15,500.00
Roger Butt*	7,833.33
	$ 251,333.33

*Commenced term as of September 1, 2013

RECORD NUMBER OF PASSENGERS SERVED 4 YEARS IN A ROW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AIRLINE SEAT CAPACITY HAS
INCREASED BY 23%
OVER THE LAST 5 YEARS

ST. JOHN'S
International Airport Authority

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