INSPIRING GROWTH

HALIFAX INTERNATIONAL AIRPORT AUTHORITY

ANNUAL REPORT 2011

HALIFAX STANFIELD INTERNATIONAL AIRPORT

Halifax International Airport Authority is redefining what our airport can be. We're growing, creatively and boldly, acknowledging our responsibilities as Atlantic Canada's air gateway to the world.

Inspiring Growth

At Halifax International Airport Authority (HIAA), we're on a powerful trajectory, one that is re-defining the very notion of "airport."

Only eleven years ago, ours was a conventional mid-sized airport, little more than a place where planes came and went.

Today, Halifax Stanfield International Airport ranks as one of the world's premier airports, setting the global standards to which others aspire – standards the 5,400 members of our airport community work proudly each day to meet and exceed.

2011 was a year rich in achievement for HIAA. A year, for example, where we welcomed a record 3.59 million passengers through our doors; started extending our main runway, so essential to attracting the cargo carriers that link Atlantic Canada's exporters to lucrative global markets; and signed an agreement with Groupe Germain Hospitality for the region's first ALT boutique-style hotel, connected to our terminal building.

In the airport business, we plan for the long-term. And in 2011, HIAA laid the foundation for our next decade of growth – a concept TIME magazine named one of the ten ideas that will change the world: the Airport City.

This ambitious program will transform our groundside real estate, from the terminal building to Highway 102, into a dynamic, multi-faceted centre for trade and commerce.

For our region, Halifax Stanfield represents the future: a potent catalyst for economic development, a vibrant commercial engine for Atlantic Canada's air gateway to the world.

At HIAA, we're driven by a belief that we're part of something bigger than ourselves, something more than our individual jobs. It's this shared sense of purpose and growing confidence that defines us as a community of colleagues, encouraging us to imagine big, inspiring us to achieve even more as we build tomorrow's Halifax Stanfield International Airport. For Nova Scotia. For Atlantic Canada. For you.

Tom Ruth
President & CEO

Bob Winters
Chair of the Board of Directors

For the past ten years, I've joined you on a remarkable journey – Halifax Stanfield's steady climb to the highest levels of global airport excellence. While my tenure as chair and member of the HIAA board of directors will soon draw to a close, I leave enriched, privileged to have worked alongside the outstanding women and men of HIAA and our entire airport community. I truly appreciate our volunteers – the Tartan Team. They are the heart and soul of our focus on exceptional customer service.

I'm especially grateful to my board colleagues – wise and capable trustees who understand so well that airports are long-term businesses, built for tomorrow.

And finally, I want to thank Tom Ruth and our exceptional Executive Management Team. As leaders and colleagues, they live the values that define Nova Scotians – respect, trust, integrity – and it's my honour to call them friends.

Bob Winters

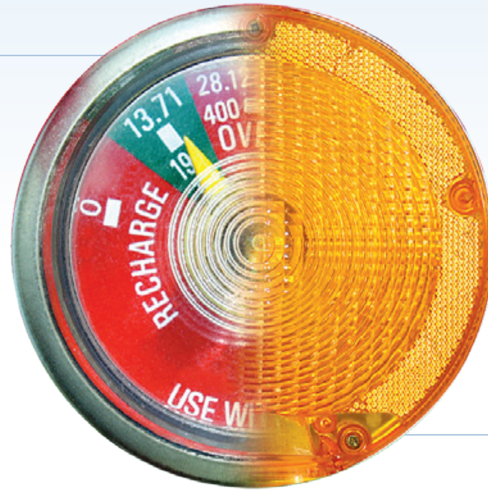
Safe and Secure. Depend on it.

Here at your airport, nothing is more important than ensuring the safety and security of all who come through Halifax Stanfield. Nothing.

It's a principle we live. Every minute of every day.

From exceeding regulatory standards to pioneering new programs, we work with our employees and partners from across the airport to build a culture of safety and security into all that we do here.

After all, we know you're depending on us.



" When we're out clearing the runway in the middle of a snow storm, or responding to a fire alarm or first aid call, we're doing more than our jobs. We're keeping people safe."

HIAA Firefighters Mike Walker and Rhonda Brassard and Howard Rose, HIAA Airfield Maintenance

Fuelling Growth. For Tomorrow.

“ I’m delighted to be part of HIAA’s next wave of growth. To plan and build a place where people, business and ideas converge.”

Tonya McLellan, P. Eng.,
HIAA Project Manager

At HIAA, we build to where the future is going, for the opportunities we want to create.

In little more than a decade, we dramatically, creatively revitalized a modest provincial airport into Atlantic Canada’s air gateway to the world. Thanks to bold planning and prudent investment, we’re building the right infrastructure to fuel Halifax Stanfield’s growth for the next 20 years.

And now? We’re getting ready to grow again; this time with an ambitious plan to transform our groundside real estate into a thriving regional centre for commerce and trade.

Because that’s where our future is going.

Building Bridges. Making Connections.

At HIAA, we build bridges. Air bridges, and plenty of them. Convenient, efficient bridges that link Atlantic Canada to the world – and bring the world to us.

By adding more flights, new non-stop routes, and attracting new carriers, we create choice – choice that drew a record 3.59 million passengers through our airport in 2011. Choice that's opening up lucrative new international cargo markets to our region's exporters.

Think of it as bringing the horizon to our own back yard.

" I travel the world to compete. And from Halifax Stanfield I can get anywhere I need to go, quickly and easily. Plus I love the convenience of US Preclearance. "

Adrienne Power, Olympic athlete

Superior Service. Kindness and Caring.

" Travel can be stressful. So whether it's a friendly smile or a helping hand, we bring a touch of Nova Scotia to folks when they need it most."

In the competitive world of international airports, who consistently sets the gold standard for exceptional customer service? We do. Proudly. Every day.

As a community of partners we know a great airport starts with great people. That's why we challenge ourselves and inspire each other to excel. To truly care about each and every passenger and visitor. To ensure that everyone's journey through Halifax Stanfield embodies our vision: great people delivering the best airport experience in the world.

Leonard and Audrey Pride,
Tartan Team volunteers

Growing People. Building Careers.

From the flight line to the front lines, wherever you find an HIAA employee, you'll find our future.

In fact, you'll find 186 inspiring futures. And we're committed to helping build each one. With engaging work, training and development opportunities, we provide our people with the environment and support they need to excel in their careers and in their lives.

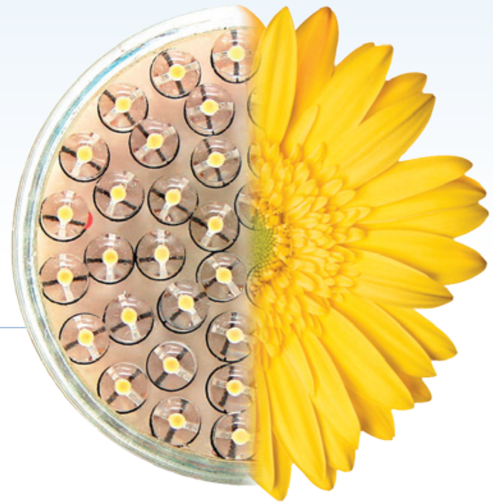
> "It's great to work at HIAA – a place where new people have the promise of an inspiring career and our veterans have the opportunity to build a meaningful legacy."

Mike Hartlen, HIAA HVAC & Mechanical Supervisor and Tara Mombourquette, HIAA Environmental Coordinator

Environmental Excellence – It's Second Nature.

> " We don't just check the box that says we're in compliance. We strive to create new boxes, higher standards."

Mike Rantala, HIAA Manager,
Safety & Environment



Call it inspiring the possible. At HIAA, we go beyond simply meeting today's environmental standards – we create tomorrow's.

Under our Environmental Management System, we continuously challenge ourselves to improve every aspect of operations. And we do so by answering two questions: Where do we want to be? How do we get there?

When your baseline is "excellence," diligence and innovation are the norm.

Looking Further. Looking Together.

At HIAA, we believe our future is bigger than ourselves.

By working collaboratively with colleagues in industry, government and across our many communities, we harness the power of partnership to shape change.

Directly, and through bodies like the Halifax Gateway Council, we champion the opportunities that will build our shared future as a confident, dynamic region.

" It's amazing what you can accomplish when all the players are around the same table, talking about the same issue, looking for the best solution. Together we really can create positive change."

Joyce Carter, Chair, Halifax Gateway Council and HIAA Vice President Finance, Chief Financial Officer & Chief Strategy Officer

Watch This Space. Don't Blink...

Think about it. As many as 15,000 people pass through our doors each day. And by anyone's reckoning that spells one word: opportunity.

And we're on it, with an aggressive strategy to grow Halifax Stanfield into a dynamic commercial hub for the region. A business destination in its own right.

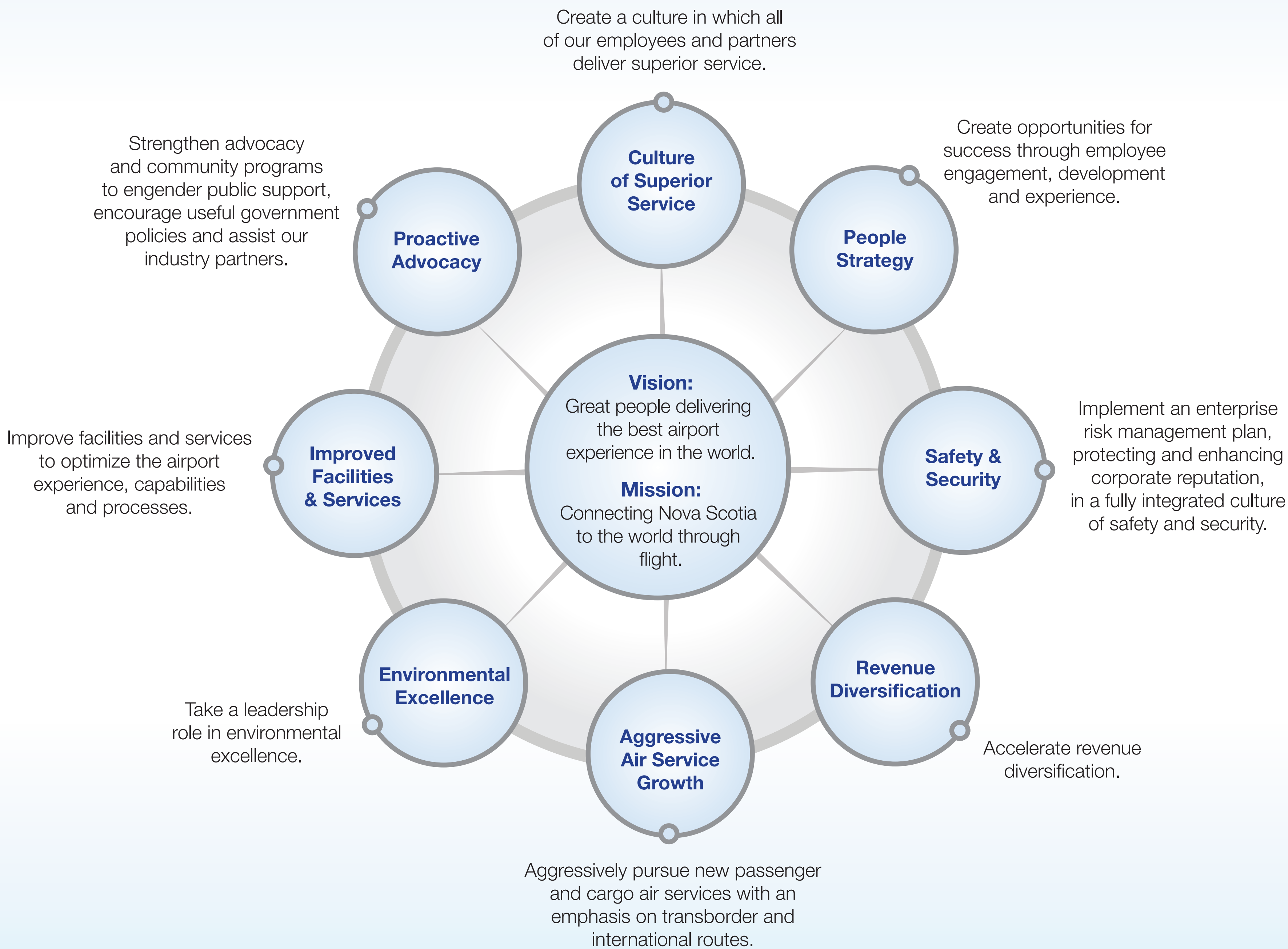
Walk through the airport and you'll see our strategy in action: new shops, new services, new franchises, the new ALT Hotel and soon, the exciting next chapter of our story: the commercial development of our groundside real estate.

That's what we call inspiring growth.

" As entrepreneurs, we're impressed with HIAA's big, bold vision of what our airport can really be. That's why we chose Halifax Stanfield as the home for our first Chickenburger franchise."

Colin MacDonald,
President of The Chickenburger and
John Marshall, Director of Operations,
HMSHost Halifax

Halifax International Airport Authority has identified eight strategic goals that support its mission and vision.



Safety and Security

In an airport's hierarchy of needs, safety and security sit firmly at the top of the pyramid. That's a given. Keeping customers safe and secure is the number one priority at HIAA, and we work closely with regulators like Transport Canada and our own employees to ensure we comply with stringent regulations.

But our diligence doesn't end there. We continue to look for innovative ways to make the airport experience as enjoyable, efficient and stress-free as possible for passengers and customers. All the while ensuring our safety and security measures run smoothly in the background.

- In 2011, HIAA received Transport Canada certification for Phase Four of our Safety Management System. This provides a far-reaching and proactive process for managing safety risks. And it ties together airport operations and technical systems with financial and human resource management. The result? Safe operations and compliance with Canadian aviation regulations.
- Also in 2011, HIAA created an in-house "threat level program" that increases security in both airside and groundside areas of the airport terminal building. Distinct from the pre-board screening provided by the Canadian Air Transport Security Authority (CATSA), this new protocol defines five threat levels – from normal to critical – and spells out specific responses to various situations. Again, HIAA strives to be ahead of the game: to comply with existing regulations, and anticipate future ones.

At HIAA, we never lose sight of the connection between safety, security and customer service. Case in point: efficient snow and ice removal from runways have a major impact on passengers' travel plans – and operating costs for airlines. In 2011, HIAA replaced its snow and ice removal equipment, introducing new high-speed, multi-task equipment capable of clearing aprons, taxiways and runways more quickly and efficiently. It's an investment that keeps our airfield safe and available during inclement weather conditions.

Improved Facilities and Services

At HIAA, we're always planning, designing, upgrading, expanding and improving our airport and airside facilities. And the reason? We build to where our future is going, always preparing the groundwork for competitive opportunities five, ten, even twenty years on the horizon.

In 2011, we did all that...and more. From wrapping up multi-million-dollar projects and breaking ground for new infrastructure to developing the strategic framework for the region's first airport-led commercial development, we're shaping Halifax Stanfield's future as Atlantic Canada's air gateway to the world.

Wrapping up, moving forward:

First steps in extending the main runway:

The first phase of site preparation work began in October on the $28-million project to extend the main runway from 8,800 to 10,500 feet, scheduled for completion in 2013.

Airfield Restoration completed:

2011 marked the seventh and final year of the Airfield Restoration Program, with all airfield surfaces now restored. The final stage, completed in phases to minimize disruption to the travelling public, focussed on two of the airport's taxiways, along with the aircraft parking apron at Gate 24.

Remaking Barnes Drive:

Until 2011, Barnes Drive – our main hangar line road and utility corridor – was little more than a narrow two-lane road, without sidewalks for thousands of airport workers needing access to the terminal. To provide a higher standard of safety, capacity, and efficiency, we completely upgraded Barnes Drive: expanding the road, putting in curbs, gutters and sidewalks, while replacing water and sewer pipes. Also included in this project was the extension of our fibre-optic cable plant. We now have high-speed communications capabilities to the Park'N Fly lot and taxi compound, with other sites coming on-line in the future.

Taking baggage screening to a higher, safer standard:

In 2011, HIAA developed a plan to expand the airport's baggage processing areas over the next two years. We worked closely with the Canadian Air Transport Security Authority (CATSA), who will replace its existing baggage screening equipment with new updated screening technology – providing an even faster, safer, more secure standard of baggage screening. Screening equipment will be replaced in both the domestic/international check-in area, and in the transborder check-in facility – which supports the joint Canada-US "Beyond the Border" perimeter security initiative and will mean shorter and more effective connection times at US airports.

Transforming Halifax Stanfield into tomorrow's airport:

Worldwide, the traditional view of airports as places where people and goods come and go is rapidly giving way to a new model – the dynamic development of groundside airport properties into thriving commercial centres.

Some call it the "Airport City." We call it our future. And in 2011, HIAA took the first steps to transform our real estate from the terminal building to Highway 102 into a powerful catalyst for future economic growth. We enlisted MXD Development Strategists Ltd, a world-renowned airport consulting group, to help us prepare our commercial development strategy. Over the next year, expect the momentum to pick up as we move from development to finalization of our commercial development plan.

Aggressive Air Service Growth

What a year it's been for Atlantic Canada's gateway airport.
Record passenger numbers. Dramatic increases in international and transborder traffic.
Growing strength in our cargo business.

New Heights in Passenger Service:

Halifax Stanfield welcomed a record 3,594,164 passengers in 2011 – more than half of all air passengers in Atlantic Canada – making this the busiest year in our history. Thanks to a combination of new carriers, more non-stop flights and larger aircraft:

- Transborder traffic (non-stop to the United States) grew by 10.8 per cent over 2010 – a new record
- International traffic rose by 9.1 per cent over 2010 – also a new record

Growing Cargo:

Infrastructure and markets: that's how you "capture the horizon" for cargo customers. In 2011, we successfully did both to move 29,263 metric tonnes of cargo, a credit to:

- The first full year of operation for Gateway Facilities' 40,000 square foot multi-tenant cargo facility, with its 7,000 square foot, climate controlled space
- FedEx and Cargojet upgrading to larger aircraft, carrying more cargo
- The welcome return of Icelandair's dedicated cargo service, offering Atlantic Canadian seafood exporters more direct, more efficient access to the lucrative European seafood market

Looking ahead:

By extending our main runway from 8,800 to 10,500 feet, Halifax Stanfield will be able to accommodate wide-bodied aircraft and new international carriers essential to building our cargo business – expected to grow by seven per cent in 2012. The project, which began in 2011, will be completed in 2013.

Seeding Tomorrow's Success:

Ours is a business where relationships count, where solid networking leads to new routes. In September, HIAA once again hosted the highly successful Altitudes East Air Access Forum, a biennial conference linking representatives from Atlantic Canadian airports with industry stakeholders from around the world. For the more than 100 participants, the conference sparked important discussions about aviation policy, business opportunities and potential future collaborations.

Air Service Summary 2011

Scheduled and Charter Passenger Services

15 Domestic Destinations	13 Transborder (USA) Destinations	15 International Destinations
Calgary, AB	Atlanta, Georgia	Bermuda – Hamilton
Charlottetown, PE	Boston, Massachusetts	Cuba – Cayo Coco, Holguin, Santa Clara, Varadero
Deer Lake, NL	Chicago, Illinois	Dominican Republic – Puerto Plata, Punta Cana, Samana
Edmonton, AB	Detroit, Michigan	Germany – Frankfurt
Fredericton, NB	Ft. Lauderdale, Florida	Iceland – Reykjavik
Gander, NL	Newark, New Jersey	Jamaica – Montego Bay
Goose Bay, NL	New York (JFK), New York	Mexico – Cancun
Hamilton, ON	Orlando, Florida	St. Pierre et Miquelon
Moncton, NB	Philadelphia, Pennsylvania	United Kingdom – London (Gatwick), London (Heathrow)
Montréal, QC	St. Petersburg, Florida	
Ottawa, ON	Tampa, Florida	
Saint John, NB	Washington (Dulles), Virginia	
St. John’s, NL	Washington (National), Virginia	
Sydney, NS		
Toronto, ON		

Scheduled and Charter Air Carriers

18 Passenger Air Carriers	12 Cargo Carriers
Air Canada	ABX Air / TNT
Air Canada Jazz	Air Canada
Air Georgian	Air St. Pierre
Air St. Pierre	Air Transat
Air Transat	Cargojet
American Airlines	Condor Flugdienst
CanJet Airlines	Finnair
Condor Flugdienst	Icelandair
Continental Airlines	Kelowna Flightcraft (Purolator)
Cubana Airlines	Morningstar Express (FedEx)
Delta Air Lines	Skylink Express
Icelandair	WestJet
Porter Airlines	
Sunwing Airlines	
Thomas Cook (UK)	
United Airlines	
US Airways	
WestJet	

Culture Of Superior Service

What lies at the heart of great customer service? Ask any of the Halifax Stanfield Tartan Team volunteers, employees and partners, and the answer is the same: kindness and compassion. The friendly smile, the helping hand, the warm welcome for every traveller and visitor... this is what we do every day.

It's our uncompromising commitment to delivering a superior visitor experience that's made us one of the top airports in the world and in 2011, earned us some of the industry's highest accolades.

Setting the Global Standard in Customer Service Excellence:

- **ACI Director General's Roll of Excellence:** In November 2011, Airports Council International (ACI) inducted Halifax Stanfield into its new Director General's Roll of Excellence – one of only 14 airports worldwide so honoured. This prestigious one-time award is reserved for those airports that have ranked among the top five in the world for five consecutive years in the annual Airport Service Quality (ASQ) customer satisfaction ratings.
- **Re-certified as ASQ Assured:** In 2010, Halifax Stanfield was the first Canadian airport to be designated ASQ Assured, our industry's global seal of approval for superior service. Retaining this standard requires a rigorous annual re-certification, which we successfully achieved in 2011. Halifax Stanfield remains one of only 13 ASQ Assured airports worldwide.

- **2011 ASQ Awards:** Halifax Stanfield's ASQ scores – determined through detailed and rigorous customer satisfaction surveys – increased yet again in 2011, making us:
  - Third best airport in the world for overall customer satisfaction in our class (under five million passengers)
  - Third best airport in North America, regardless of size

  Over the nine years of participating in this global airport rating program, Halifax Stanfield has earned 28 ASQ Awards, the second most of any airport worldwide, behind only Incheon International Airport of South Korea.
- **Closer to home:** Progress Magazine named HIAA one of the Top 101 Companies in Atlantic Canada.

Creating a Sense of Place:

Airports are busy, sometimes stressful places. That's why we work hard to make visitors' time with us as comfortable, relaxing and enjoyable as possible. In 2011, we paid special attention to the "look and feel" of our airport with initiatives that included:

- **Soft seating:** Thanks to the efforts of an employee-led airport ambience committee, a cozy nook with couches and coffee tables was installed near Gate 20.
- **Power outlets:** To help travellers stay connected, we installed 100 complimentary power outlets in the armrests of the seats in our domestic/ international departures area.
- **Performing Arts in the Terminal:** Designed to reflect Nova Scotia to the world, this new program showcases singers, dancers, musicians and visual artists from across the province, and is proving especially popular during peak travel times of the year.

People Strategy

At HIAA, we call it "fuelling the engine by developing great people." And in 2011, we rolled out new training, development and leadership opportunities, designed to build professionally satisfying, personally enriching careers for our people, in a collaborative culture that nurtures success.

Growing competence and confidence:

No one factor is as fundamental to career success as training: high quality training, consistently delivered to employees at all levels, and tied to our goals as an organization. That's why HIAA tripled its training dollars over the past two years, with these results:

- **Active Leadership Program:** Inaugurated in 2009 with our senior management, this ongoing training and leadership development program is cascading throughout our organization. In 2011, an additional 42 supervisors and managers were introduced to the principles and practices of Active Leadership.
- **Performance Management and Career Development:** After careful planning, our joint union/management consultative committee rolled out our first comprehensive training framework and career development program, designed for everyone, union and non-union, across HIAA. Soft-launched in 2011, Performance Management and Career Development will be fully implemented in 2012.

Building tomorrow's workforce:

Ensuring we have the right skills – and mix of skills – for tomorrow's airport is fundamental to our long-term competitiveness. In 2011, HIAA continued to make significant progress in labour force planning.

A new chapter in labour relations:

Three years ago, it took eight months. In December 2011, HIAA and the Union of Canadian Transportation Employees (UCTE) Local 80829, part of the Public Service Alliance of Canada, jointly negotiated a three-year collective agreement in a record nine days – a testament to the ongoing hard work and commitment of both labour and management to improve relations and build a more collaborative, open culture within HIAA.

Environmental Excellence

In business, you have a choice: you can lead or follow. At HIAA, our commitment to environmental excellence pushes us to stay ahead of the green curve. For us, it's not just about regulatory compliance. We constantly seek out new programs, partners and innovations that will help us better manage our environmental responsibilities.

2011 was no exception. HIAA rolled out a comprehensive new Environmental Management System (EMS), introduced new waste-reduction programs, established a "no idling" policy and installed exterior LED lighting that reduces costs and energy use.

Protecting the Airport Ecosystem:

- An airport is its own unique ecosystem, with its own environmental challenges and opportunities. That's why HIAA has a newly-integrated, robust EMS. The system is designed to help HIAA continuously improve and expand its environmental programs. It's all part and parcel of our focus on environmental leadership.
- HIAA has installed energy-efficient LED lighting outside the airport terminal building. The LED lights reduce energy use by 70 per cent and create long-term savings thanks to lamps with a 20-year lifespan. We're now looking at ways to bring LED lighting inside the terminal.
- HIAA's Combined Services Complex was designed and built to stringent LEED (Leadership in Energy and Environmental Design) standards. Opened in May of 2010, the building is expected to receive full LEED certification in 2012.

Proactive Advocacy

Successful advocacy is about partnerships – trusting, reciprocal relationships with government, industry, and community that work for the benefit of the greater good. As one of the region's top strategic economic assets – worth $1.25 billion annually to the provincial economy – Halifax Stanfield International Airport's success is very much the community's success. That's why we were delighted to see two significant and long-awaited joint projects come to fruition in 2011.

Partnering for Growth:

- **Government investment in Halifax Stanfield's future:** In February, we welcomed the federal and Nova Scotia governments as funding partners in our $28-million project to extend our main runway from 8,800 to 10,500 feet. The joint initiative – a first for HIAA, and several years in the making – sees the province investing $5 million and the federal government investing up to $9 million, with the remaining $14 million provided by HIAA.

  Extending the main runway to accommodate wider-bodied and heavier aircraft will help establish Halifax Stanfield as a premier air gateway for passengers and cargo, creating jobs and generating new commercial opportunities for Atlantic Canadian businesses.

- **Metro Transit enroute to the airport:** With 5,400 people working in the 24/7 operation that is Halifax Stanfield, our airport is its own community. Add to that the value of easier, more cost-effective access to and from the airport for both passengers and employees, and there's a clear business case for dedicated public transit. A case that ultimately appealed to both Halifax Regional Municipality (HRM) and Metro Transit.

  In 2011, HRM announced its decision to extend public transportation to the airport in 2012. Because we recognize the value of this new service, HIAA is contributing half a million dollars to the capital costs of purchasing new Metro Transit vehicles.

Leading Change:

Through organizations like the Halifax Gateway Council, the Greater Halifax Partnership, and the Halifax and East Hants Chambers of Commerce, HIAA advocates alongside industry, business and government colleagues, bringing the "air perspective" to strategic public policy and economic development initiatives.

In 2011, a number of HIAA executive team members shared their skills and experience with the community as volunteer leaders:

- Tom Ruth, President & CEO – Board member, Halifax Gateway Council; appointed by the Province of Nova Scotia as Interim Chair of the new Nova Scotia Tourism Agency; Vice Chair, Canadian Airports Council
- Peter Spurway, VP Corporate Communications, Concession Development & Airport Experience – Vice Chair, Greater Halifax Partnership; Vice Chair, Halifax Stadium Analysis Committee; Chair, HRM International Branding Initiative
- Joyce F. Carter, VP Finance, Chief Financial Officer & Chief Strategy Officer – Chair, Halifax Gateway Council; Vice Chair, Waterfront Development Corporation Limited; Member of the Advisory Board, Canadian Airports Reciprocal Insurance Exchange
- Paul Baxter, VP Operations – Member of the Board of Directors, Cobequid Community Health Centre Foundation
- Jerry Staples, VP Marketing & Business Development – Chair, Halifax Gateway Council's Air Gateway Committee
- Lydia Bowie, VP Human Resources – Member of the Board of Directors, Human Resources Association of Nova Scotia
- Michael Healy, VP Infrastructure & Commercial Development – Chair, Canadian Airports Council's Planning & Development Infrastructure Committee; Member, Halifax Gateway Council's Halifax Logistics Park Committee

Making a difference:

HIAA continues to give back through its Community Outreach Program. In 2011, we supported almost 300 organizations and events with over $200,000 in corporate donations, as well as promotional items and public display space.

We entered the second year of our Signature Partnership with Habitat for Humanity Nova Scotia. HIAA is providing $100,000 in this three-year collaboration.

Our people selflessly stepped up in 2011 and volunteered their time and talent to make a difference. Together, they raised over $12,000 for the United Way and championed fundraising events for the Canadian Cancer Society and Breast Cancer Foundation.

In February, HIAA proudly supported the 2011 Canada Winter Games. Dozens of HIAA staff members volunteered to ensure seamless arrivals and departures of thousands of athletes, coaches, officials and fans.

Revenue Diversification

With as many as 15,000 people coming and going at Halifax Stanfield each day – travellers, visitors, employees – Atlantic Canada's air gateway is evolving into a dynamic commercial centre. A destination in its own right.

In 2011, HIAA welcomed new concessions, services and partners to the successful enterprise and growing business hub that is Halifax Stanfield International Airport – all vital new sources of non-aeronautical revenue.

Whetting the appetite:

By any measure, 2011 marked a banner year in new business development for HIAA, featuring:

- Iconic Bedford eatery The Chickenburger, in its first franchise location in our main lobby
- Booster Juice, a Canadian success story, offering its unique line of healthy smoothies and juices to departures-level customers
- Halifax Stanfield's second Starbucks, which opened in the arrivals area in October
- Long-time partner Clearwater Seafoods expanding its main floor presence with a special kiosk location on our domestic/ international departures level – perfect for travellers wanting to take a taste of Nova Scotia to their destination

Boutique chic comes to Halifax Stanfield:

Soon, travellers flying in and out of Halifax Stanfield will enjoy the comfort and convenience of an on-site hotel. And not your standard airport hotel either, but Groupe Germain Hospitality's boutique ALT Hotel – the first of its kind east of Montreal.

Announced in October, the 14-story, 169-room ALT will connect directly to the terminal by an enclosed pedway. Combining European chic at an affordable price, this "green" hotel will offer a restaurant, spa and gym, lounges, a business centre and 10,000 square feet of meeting space, among other features. The $27-million Halifax ALT Hotel is under construction and is expected to open in Spring 2013.

Rethinking tomorrow's airport, from the groundside out:

As part of our 20-year Master Plan, HIAA began taking the first steps in 2011 toward an ambitious, long-term project: the commercial development of our airport property from the terminal building to Highway 102.

Our vision? To transform our groundside real estate into a multi-faceted regional centre for trade and commerce, creating a significant revenue development opportunity for HIAA.

The possibilities? Limitless. Think convenient services for travellers, visitors, tenants, employees and area residents. Industry-specific services for businesses and specialized facilities for regional exporters. And in the process, new jobs and economic activity generated where it matters most: right here.

Five-Year Forecast

	ACTUAL			FIVE-YEAR FORECAST				
YEAR	2009	2010	2011	2012	2013	2014	2015	2016
Passenger Volume	3,417,164	3,508,153	3,594,164	3,666,047	3,779,130	3,888,197	4,003,304	4,121,525
Per cent Change	-4.5 %	2.7 %	2.5 %	2.0 %	3.1 %	2.9 %	3.0 %	3.0 %
Total Aircraft Movements	88,477	87,021	86,874	88,898	91,241	93,263	95,605	97,798
Per cent Change	-0.6 %	-1.7 %	-0.2 %	2.3 %	2.6 %	2.2 %	2.5 %	2.3 %
Capital Expenditures ($000's)	$ 63,659	$ 22,667	$ 21,782	$ 81,600	$ 44,600	$ 12,900	$ 39,100	$ 31,100
Rent Payable to Transport Canada ($000's)	$ 3,290	$ 4,346	$ 5,192	$ 5,500	$ 5,700	$ 6,000	$ 6,400	$ 6,600

2011 Financial Overview

Thanks to a record year for passenger traffic, combined with our trademark measured approach to financial management, HIAA enjoyed one of its strongest years.

We are pleased to report that Standard & Poor's (S&P) once again affirmed our A+ ratings, second highest among Canadian airport authorities. S&P based its rating on, among other things, our strong financial risk profile, which benefits from strong internal cash flow generation, conservative management, robust liquidity support and a relatively low debt burden.

In January 2011, HIAA submitted its updated 20-year Master Plan to Transport Canada, as required under its ground lease. From that document, we subsequently developed our 10-year capital and financial plan. Together, these documents will guide HIAA's prudent growth and development over the coming decade.

In 2011, total revenue rose to $77.9 million, up from $67.0 million in 2010. Several factors account for this increase. The 2.5 per cent rise in traffic to a record 3,594,164 passengers, an increase in concession revenues – driven in part by new service offerings, and continued growth in parking income, generated operating revenues of $50.3 million in 2011 ($47.2 million in 2010).

The record passenger traffic contributed to higher revenues from the Airport Improvement Fee (AIF) ($26.8 million in 2011, up from $19.7 million in 2010). The AIF* rate rose from $15 to $20 on January 1, 2011.

Total expenses increased in 2011 to $74.4 million (compared to $65.4 million in 2010). This rise in expenses is attributed to an increase in our ground lease rent to Transport Canada from $4.3 million in 2010 to $5.2 million, higher salary and amortization costs, and higher interest costs related to borrowings in support of our capital program.

Overall, HIAA met and surpassed its 2011 financial plan, with revenues exceeding expenses by $3.4 million, compared to $1.6 million in 2010 – a significant accomplishment given the uncertain global economic climate in 2011. Under HIAA's mandate, this entire surplus will be re-invested in airport operations and development.

Early in 2011, we welcomed the federal and Nova Scotia governments as funding partners on the $28-million project to extend our main runway from 8,800 to 10,500 feet. Under the cost-sharing arrangement, the province is investing $5 million and the federal government is investing up to $9 million, with the remaining $14 million provided by HIAA. The initiative, which will help establish Halifax Stanfield as a premier Atlantic Canadian air gateway for passengers and cargo, is expected to generate significant and long-term economic impact throughout the province and region.

For Halifax and the Atlantic Region, the Halifax Stanfield community itself generates powerful economic, fiscal and employment benefits. In 2010, Halifax Stanfield was worth $1.25 billion to the Nova Scotia economy, responsible for $488.7 million in wages and salaries, and 5,400 direct jobs – 2.7 per cent of employment in Nova Scotia. Our Halifax Stanfield family of airlines, air freight firms, retailers and companies supporting the air industry generated $1.25 billion in gross output, while our $425 million in construction and renovation since 2000 represents more than 70 per cent of all airport-related capital improvements in Atlantic Canada.

From 2000 through 2010, since HIAA took over responsibility for the airport, Halifax Stanfield International Airport has contributed almost $12 billion to the Nova Scotia economy.

* Like 50 other Canadian airports, HIAA uses the revenue from the AIF to help fund its airport improvement program. Projects at Halifax Stanfield to be funded by the AIF are determined through a consultation process with the airlines that serve Halifax. The AIF, which is added to the price of each originating airline ticket, is collected by the airlines.

Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Directors of the
Halifax International Airport Authority

We have audited the accompanying financial statements of **Halifax International Airport Authority** [the "Authority"], which comprise the balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the statements of operations and changes in net assets and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits 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 **Halifax International Airport Authority** as at December 31, 2011 and 2010, and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in accordance with Canadian accounting standards for private enterprises.

Ernst & Young LLP

Halifax, Canada
March 23, 2012

Chartered Accountants

Balance Sheet

As at December 31

[in thousands of dollars]	2011 $	2010 $	January 1, 2010 $
ASSETS			
Current			
Cash	66,937	67,268	3,130
Accounts receivable	4,921	4,417	5,650
Inventories	950	831	716
Prepaid expenses	809	850	781
	73,617	73,366	10,277
Capital assets, net *[note 3]*	319,606	313,336	305,089
Debt Service Reserve Fund *[note 4]*	7,427	7,427	4,127
Accrued benefit asset *[note 7]*	3,936	2,630	1,406
	404,586	396,759	320,899
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities	16,237	16,078	20,014
Deferred contributions related to capital assets	5,616	1,413	1,546
Current portion of long-term debt *[note 4]*	80	80	56,080
	21,933	17,571	77,640
Long-term debt *[note 4]*	283,549	283,610	149,357
Security deposits	1,428	1,425	1,439
	306,910	302,606	228,436
Net assets			
Equity in capital assets *[note 5]*	97,676	94,153	92,463
	404,586	396,759	320,899

Commitments *[note 6]*
Contingencies *[note 10]*

See accompanying notes

On behalf of the Board:

Director Director

Statement of Operations and Changes in Net Assets

Year ended December 31

[in thousands of dollars]	2011 $	2010 $
REVENUES		
Terminal and passenger security fees	17,039	15,860
Parking	10,539	9,934
Concessions	10,445	9,774
Landing fees	9,590	9,429
Rental	2,260	2,110
Interest	870	169
Other	394	59
	51,137	47,335
Airport improvement fees *[note 5]*	26,753	19,656
	77,890	66,991
EXPENSES		
Salaries, wages and benefits	17,427	16,407
Materials, services and supplies	15,752	14,742
Amortization	15,612	14,513
Interest on long-term debt *[note 4]*	15,008	10,000
Ground lease rent	5,192	4,346
General and administrative	4,070	4,010
Property taxes	1,386	1,363
	74,447	65,381
Excess of revenues over expenses for the year	3,443	1,610
Net assets, beginning of year	94,153	92,463
Net assets	97,596	94,073
Amortization of deferred financing costs	80	80
Net assets, end of year *[note 5]*	97,676	94,153

See accompanying notes

Statement of Cash Flows

Year ended December 31

[in thousands of dollars]	2011 $	2010 $
OPERATING ACTIVITIES		
Excess of revenues over expenses for the year	3,443	1,610
Items not affecting cash		
Amortization	15,612	14,513
Accrued benefit asset	(1,306)	(1,224)
Net change in non-cash working capital balances related to operations	(653)	(3,034)
Cash provided by operating activities	17,096	11,865
INVESTING ACTIVITY		
Expenditures on capital assets	(21,782)	(22,667)
Cash used in investing activity	(21,782)	(22,667)
FINANCING ACTIVITIES		
Proceeds of term credit facility	–	12,000
Repayment of term credit facility	–	(68,000)
Proceeds of bond issue	–	135,000
Deferred financing costs	–	(680)
Debt Service Reserve Fund	–	(3,300)
Deferred contribution related to capital assets	4,435	–
Decrease in deferred rent	(80)	(80)
Cash provided by financing activities	4,355	74,940
Net change in cash during the year	(331)	64,138
Cash, beginning of year	67,268	3,130
Cash, end of year	66,937	67,268

See accompanying notes

[Tabular amounts are in thousands of dollars]

1. General

Halifax International Airport Authority [the "Authority" or "HIAA"] was incorporated on November 23, 1995 as a corporation without share capital under Part II of the *Canada Corporations Act*. On February 1, 2000, the Authority signed a 60-year ground lease with Transport Canada and assumed responsibility for the management, operation and development of the Halifax Robert L. Stanfield International Airport [the "Airport"]. Excess revenues over expenses are retained and reinvested in airport operations and development.

The Authority is a dynamic and multi-faceted aviation enterprise connecting Nova Scotia to the world through flight. The Halifax Robert L. Stanfield International Airport is the largest airport in Atlantic Canada, and the region's gateway to the world.

The Authority is governed by a Board of Directors whose members are nominated by the Halifax Regional Municipality, the Province of Nova Scotia and the Federal Government, as well as the Halifax Chamber of Commerce. The nominated members can also appoint additional members who represent the interests of the community.

The Authority is exempt from federal and provincial income tax, federal large corporation's tax, and Nova Scotia capital tax.

2. Summary of Significant Accounting Policies and First-time Adoption of Accounting Standards for Private Enterprises

The Authority's financial statements have been prepared in accordance with Part II of the Canadian Institute of Chartered Accountants ["CICA"] Accounting *Handbook – Accounting Standards for Private Enterprises*, which sets out generally accepted accounting principles ["GAAP"] for non-publicly accountable enterprises in Canada and include significant accounting policies described hereafter.

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

Bank balances, including bank overdrafts with balances that fluctuate from positive to overdrawn, are presented under cash and cash equivalents. Cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. An investment normally qualifies as a cash equivalent when it has a short maturity of approximately three months or less from the date of acquisition.

[Tabular amounts are in thousands of dollars]

2. Summary of Significant Accounting Policies and First-time Adoption of Accounting Standards for Private Enterprises (continued)

Government assistance
Amounts received or receivable resulting from government programs for capital development are reflected as reductions of the cost of the assets to which they relate when the Authority becomes eligible to accrue them, provided there is reasonable assurance the benefits will be realized.

Inventories
Inventories consist of materials, parts and supplies and are stated at the lower of cost, determined on an average cost basis, and net realizable value.

Ground lease
The ground lease with Transport Canada is accounted for as an operating lease.

Capital assets
Capital assets are recorded at cost, including interest on funds borrowed for capital purposes, net of contributions and government assistance, and are amortized over their estimated useful lives on a straight-line basis at the following rates:

Computer hardware and software	20% - 33%
Leasehold improvements	2.5% - 10%
Machinery, equipment, furniture and fixtures	5% - 20%
Vehicles	5% - 17%

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

Long-term debt
Long-term debt is initially measured at fair value, net of transaction costs and financing fees. It is subsequently measured at amortized cost. Transaction costs and financing fees are amortized over the term of the loan.

Revenue recognition
Landing fees, terminal fees, parking revenues and passenger security fees are recognized as the airport facilities are utilized. Concession revenues are recognized on the accrual basis and calculated using agreed percentages of reported concessionaire sales, with specified minimum guarantees where applicable. Rental revenues are recognized over the terms of the respective leases, licenses and permits. Airport improvement fees ["AIF"] are recognized when originating departing passengers board their aircraft as reported by the airlines.

Deferred contributions
Deferred contributions relate to funds for future capital acquisitions. These contributions are applied as the related capital expenditures are realized.

[Tabular amounts are in thousands of dollars]

2. Summary of Significant Accounting Policies and First-time Adoption of Accounting Standards for Private Enterprises (continued)

Employee benefit plans

The Authority sponsors a pension plan on behalf of its employees, which has defined benefit and defined contribution components. In valuing pension obligations for its defined benefit component, the Authority uses the accrued benefit actuarial method prorated on services and best estimate assumptions. Pension plan assets are valued at current market values. The excess of the accumulated net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over the average remaining service life of employees. Defined contribution component amounts are expensed as incurred.

Financial instruments

The Authority's financial instruments consist of cash, accounts receivable, Debt Service Reserve Fund, accounts payable and accrued liabilities and long-term debt. Accounts receivable are classified as loans and receivables and are accounted for at amortized cost. Cash and the Debt Service Reserve Fund are classified as held-for-trading and are recorded at fair value with realized and unrealized gains and losses reported in earnings in the period during which they arise. Accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are accounted for at amortized cost with gains and losses reported in earnings in the period during which they arise. The Authority has no held-to-maturity or available-for-sale financial assets.

Transaction costs are capitalized and added to the cost of financial assets and liabilities not classified as held-for-trading.

First-time adoption of accounting standards for private enterprises

These financial statements are the first financial statements which the Authority has prepared in accordance with Part II of the *CICA Handbook – Accounting*, which constitutes generally accepted accounting principles for non-publicly accountable enterprises in Canada. In preparing its opening balance sheet as at January 1, 2010 [the "Transition Date"], the Authority has applied Section 1500, *First-time adoption*, retrospectively using the following four principles such that it has:

- Recognized all assets and liabilities whose recognition is required by GAAP;
- Not recognized items as assets or liabilities if GAAP does not permit such recognition;
- Reclassified items recognized previously as one type of asset, liability or component of equity, but are now recognized as a different type of asset, liability or component of equity;
- Applied GAAP in measuring all recognized assets and liabilities.

[Tabular amounts are in thousands of dollars]

2. Summary of Significant Accounting Policies and First-time Adoption of Accounting Standards for Private Enterprises (continued)

The accounting policies that the Authority has used in the preparation of its opening balance sheet through the application of these principles has not resulted in any adjustments to balances which were presented in the balance sheet prepared in accordance with Part V of the *CICA Handbook* – Accounting ["Previous GAAP"].

Exemptions elected upon transition

Section 1500 provides a number of elective exemptions from the retrospective adoption of GAAP. The Authority has elected not to use any exemptions.

3. Capital Assets

Capital assets consist of the following:

	2011			2010
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Computer hardware and software	6,702	6,408	294	412
Leasehold improvements	362,965	62,197	300,768	298,979
Machinery, equipment, furniture and fixtures	11,358	6,457	4,901	5,005
Vehicles	14,842	6,137	8,705	4,827
Construction in progress	4,938	–	4,938	4,113
	400,805	81,199	319,606	313,336

[Tabular amounts are in thousands of dollars]

3. Capital Assets (continued)

During the year, $6,018,000 in government contributions was received or is owing to the Authority, of which $1,583,000 was applied to capital assets and $4,435,000 was applied to deferred contributions related to capital assets. The contributions relate to capital development.

4. Long-term Debt

Long-term debt consists of the following:

	2011 $	2010 $
5.503%, non-amortizing Series A Revenue Bonds due July 19, 2041. Interest payable semi-annually in arrears on January 19 and July 19 of each year until maturity, which commenced on January 19, 2007.	150,000	150,000
4.888%, non-amortizing Series C Revenue Bonds due November 15, 2050. Interest payable semi-annually in arrears on May 15 and November 15 of each year until maturity, which commenced on May 15, 2011.	135,000	135,000
Transport Canada deferred rent, non-interest-bearing, repayable in monthly installments of $6,700, which commenced in 2006.	322	402
	285,322	285,402
Less: current portion	80	80
Less: transaction costs net of accumulated amortization	1,693	1,712
	283,549	283,610

[Tabular amounts are in thousands of dollars]

4. Long-term Debt (continued)

Bond issues

In July 2006, the Authority completed its inaugural $150 million Revenue Bond issue. The $150 million 5.503% Series A Revenue Bonds are due on July 19, 2041. In November 2010, the Authority completed a $135 million Revenue Bond issue. The $135 million 4.888% Series C Revenue Bonds are due on November 15, 2050.

The net proceeds from these offerings were used to finance the Capital Plan and for general corporate purposes. These purposes included 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.

Credit facilities

The Authority has authorized credit facilities with the Canadian Imperial Bank of Commerce, which provide the Authority with a combined availability of $94.5 million, comprised of an $80 million Capex facility and a $14.5 million revolving operating and letter of credit facility. These facilities are secured under the Master Trust Indenture and are available by way of overdraft, prime rates loans, or bankers' acceptances.

As at December 31, 2011, an amount of $10.5 million of the operating and letter of credit facility had been committed, with $2.1 million designated to pension plan funding regulations and $8.8 million designated to the Operating and Maintenance Reserve Fund.

Reserve funds

Pursuant to the terms of the Master Trust Indenture, the Authority is required to establish and maintain with a trustee a Debt Service Reserve Fund. The balance within this fund must be equal to at least 50% of annual bond debt service costs. As at December 31, 2011, the Debt Service Reserve Fund included $7.4 million [2010 – $7.4 million] 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.

The Authority is also required to maintain an Operating and Maintenance Reserve Fund. The balance in the Operating and Maintenance Reserve Fund must be equal to at least 25% of certain defined operating and maintenance expenses for the previous fiscal year. Approximately $9.3 million will be required to fund the Operating and Maintenance Reserve Fund in 2012. The Operating and Maintenance Reserve Fund may be satisfied by cash, letters of credit, or the undrawn availability under a committed credit facility.

Capitalized interest

Interest on long-term debt amounting to $12,000 [2010 – $111,000] was capitalized as part of construction in progress during the year.

[Tabular amounts are in thousands of dollars]

5. Airport Improvement Fees

The AIF are used to fund the cost of the Authority's capital program and related financing costs, along with debt and operational surpluses. Operational surpluses consist of excess revenue over expenses before depreciation and interest. The AIF rate at December 31, 2011 was $20 (December 31, 2010 – $15) and applies to each departing enplaned passenger. The AIF are collected by the air carriers for a fee of 6% under an agreement between the Authority, the Air Transport Association of Canada, and the air carriers serving the Halifax Robert L. Stanfield International Airport. Under the agreement, AIF revenue may only be used to pay for the capital and related financing costs as jointly agreed with air carriers operating at the Halifax Robert L. Stanfield International Airport.

A summary of the AIF collected and capital and related financing expenditures are as follows:

	2011 $	2010 $
AIF revenue (net):		
AIF revenue	28,487	20,948
AIF collection costs	(1,734)	(1,292)
	26,753	19,656
Interest on surplus funds	870	169
Net funds received	27,623	19,825
Capital expenditures funded by AIF	21,782	22,667
Interest expense funded by AIF	15,008	10,000
	36,790	32,667
Excess of expenditures over AIF revenue	(9,167)	(12,842)
Excess of expenditures over AIF revenue, beginning of year	(269,975)	(257,133)
Excess of expenditures over AIF revenue, end of year	(279,142)	(269,975)

From January 1, 2001 to December 31, 2011, the cumulative capital expenditures funded by AIF totaled $440,660,000 [2010 – $403,870,000] and exceeded the cumulative AIF revenue by $279,142,000 [2010 – $269,975,000].

[Tabular amounts are in thousands of dollars]

5. Airport Improvement Fees (continued)

Net assets of the Authority as at December 31 are as follows:

	2011 $	2010 $
Net assets provided by AIF	42,266	45,263
Net assets provided by other operations	57,771	51,331
Opening adjustment to net assets	(2,361)	(2,441)
Net assets, end of year	97,676	94,153

The opening adjustment to net assets represents deferred financing costs amounting to $2.761 million related to a cash flow hedge, which was discontinued before the end of the original hedge term. The balance of these costs was allocated to net assets on January 1, 2007, the date at which the hedge was discontinued.

The deferred costs are amortized over the remaining term of the previously hedged instruments. The amortization related to the current year amounts to $80,000 [2010 – $80,000] and cumulative amortization to date amounts to $400,000.

6. Commitments

Transfer agreement

Effective February 1, 2000, the Authority signed a 60-year ground lease with Transport Canada which provides for the Authority to lease the Halifax Robert L. Stanfield International Airport. A 20-year renewal option may be exercised, but at the end of the term, unless otherwise extended, the Authority is obligated to return control of the Halifax Robert L. Stanfield International Airport to Transport Canada. Lease payments are based on a percentage of gross revenues on a progressive scale.

On May 9, 2005, the Government of Canada announced the adoption of a new rent policy which resulted in reduced rent over the long-term for Canadian airport authorities, including the Authority. In 2006, this new rent policy began to be phased in. The new formula achieved its full impact in 2010.

The estimated lease obligations over the next five years are approximately as follows:

	$
2012	5,500
2013	5,700
2014	6,000
2015	6,400
2016	6,600

[Tabular amounts are in thousands of dollars]

6. Commitments (continued)

Long-term debt – bond issues

The interest payable over the next five years on the Authority's Series A and Series C bonds is as follows:

	$
2012	14,854
2013	14,854
2014	14,854
2015	14,854
2016	14,854

Construction in progress

At December 31, 2011, the Authority had outstanding contractual construction commitments amounting to approximately $1.8 million [2010 – $1.3 million].

7. Pension Plan

The Authority sponsors a pension plan [the "Plan"] on behalf of its employees, which has defined benefit and defined contribution components. The defined benefit component is for former Transport Canada continuing full-time employees who were employed by the Authority on February 1, 2000 and previously participated under the *Public Service Superannuation Act* ["PSSA"] Plan. These employees had the option to elect to become members of the defined contribution component in lieu of the defined benefit component. All other employees became members of the defined contribution component. An actuarial valuation has been prepared as of January 1, 2011 for purposes of funding the Plan. A measurement date of December 31, 2011 has been used for the purposes of the financial statements.

The existing Government of Canada pension plan assets and accrued benefit obligations for certain employees have been transferred to the Authority. The pension transfer agreement between Transport Canada and the Authority was finalized during 2004 and the total pension liability has been transferred, fully funded, to the Authority.

[Tabular amounts are in thousands of dollars]

7. Pension Plan (continued)

The following table provides information concerning the assets, accrued benefit obligation, funded status and prepaid (accrued) pension costs of the Plan as at December 31:

	2011 $	2010 $
Plan assets	30,288	27,457
Accrued benefit obligation	(34,413)	(29,613)
Funded status – plan deficit	(4,125)	(2,156)
Unamortized net actuarial gain	8,061	4,786
Accrued benefit asset	3,936	2,630

The significant actuarial assumptions adopted in measuring the Authority's accrued pension benefits are as follows:

	2011 %	2010 %
Discount rate	5.00	5.50
Expected long-term rate of return on plan assets	6.50	6.50
Rate of compensation increase	3.75	3.75

Other information related to the Authority's defined benefit component is as follows:

	2011 $	2010 $
Employer's contribution	1,938	1,732
Employees' contributions	165	178
Benefits paid	939	730

	2011 %	2010 %
Equity securities	46	50
Fixed income securities	44	40
Real estate securities	10	10
	100	100

[Tabular amounts are in thousands of dollars]

7. Pension Plan (continued)

Pension expense amounted to $459,000 [2010 – $420,000] for the defined contribution component and $644,000 [2010 – $508,000] for the defined benefit component.

8. Capital Risk Management

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

The Authority's objective for managing capital is to acquire and maintain sufficient capital to safely and effectively manage the Airport's operations. The Authority aims to manage capital to deliver world-class facilities and services to the travelling public. The capital managed by the Authority is composed of long-term debt. As at December 31, 2011, the balance outstanding, excluding any current portion, amounts to $283,549,000 [2010 – $283,610,000].

The Authority's indebtedness is secured under the Master Trust Indenture, and supplemented from time to time with established common security and a set of common covenants by the Authority for the benefit of its lenders. The covenants that the Authority must meet include two specific coverage tests for operating expenses and debt service payments. The gross debt service covenant states that the total revenue, including the revenue account balance at the beginning of the year, must at least cover operating expenses, including interest and principal payments. The debt service covenant states that the net revenues for that specific year must be at least 1.25 times the total interest and principal payments for that year. As at December 31, 2011, the Authority is in compliance with all covenants outlined in the Master Trust Indenture.

In accordance with the Master Trust Indenture, two reserve funds must also be maintained: a Debt Service Reserve Fund and an Operating and Maintenance Reserve Fund. As at December 31, 2011, the Authority satisfies the requirements for both of these reserve funds.

[Tabular amounts are in thousands of dollars]

9. Financial Instruments

Fair value

The Authority's financial instruments consist of cash, accounts receivable, Debt Service Reserve Fund, accounts payable and accrued liabilities and long-term debt. The difference between the carrying values and the fair market values of the financial instruments, excluding long-term debt, are not material due to their short-term maturities. The carrying amount of the current portion of long-term debt approximates its fair value given its short-term nature. The fair value of the bonds was calculated to be $283,307,000.

Risk management

The Authority is exposed to a number of risks as a result of the financial instruments on its balance sheet that can affect its operating performance. These risks include interest rate risk, liquidity risk, credit risk, and concentration risk. The Authority's financial instruments are not subject to foreign exchange risk or other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority is subject to interest rate risk relating to its Debt Service Reserve Fund and credit facilities. The Authority manages its interest rate risk through the use of fixed-rate financing where applicable.

The Authority has entered into fixed-rate long-term debt and, accordingly, the impact of interest rate fluctuations has no effect on interest payments until such time as this debt is to be refinanced. However, changes in prevailing benchmark interest rates and credit spreads may impact the fair value of this debt.

The Authority's most significant exposure to interest rate risk relates to its credit facilities. The Authority's Capex facility, which is in place for the financing of near-term construction costs related to the Authority's Capital Program, is subject to floating interest rates. Management believes that the impact of interest rate fluctuations on construction costs is not material.

The Authority's Debt Service Reserve Fund is subject to changes in interest rates. Management believes that the impact of interest rate fluctuations on the Debt Service Reserve Fund is not representative of the Authority's exposure to interest rate risk as interest income is not essential to the Authority's operations. These funds are intended for reinvestment in airport operations and development, and not for purposes of generating interest income.

[Tabular amounts are in thousands of dollars]

9. Financial Instruments (continued)

If interest rates had been 50 basis points [0.50%] higher or lower and all other variables were held constant, including timing of expenditures related to the Authority's capital expenditure programs, the Authority's earnings for the year would not have been significantly impacted.

Liquidity risk

The Authority manages its liquidity risk by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis, and by matching its long-term financing arrangements with its cash flow needs. The Authority has ready access to sufficient financing as well as committed lines of credit through credit facilities with a major Canadian bank.

The future annual payment requirements of the Authority's obligations under its long-term debt are described in note 6.

Credit and concentration risks

The Authority is subject to credit risk through its accounts receivable, which consist primarily of current aeronautical fees and AIF owing from air carriers. The Authority performs ongoing credit valuations of receivable balances and maintains an allowance for potential credit losses. The Authority's right under the *Airport Transfer (Miscellaneous Matters) Act* to seize and detain aircraft until outstanding aeronautical fees are paid mitigates the risk of credit losses. The majority of the Authority's accounts receivable are paid when they are due.

A significant portion of the Authority's revenues, and resulting receivable balances, are derived from air carriers. The Authority derives approximately 51% [2010 – 52%] of its landing fee and terminal fee revenue from Air Canada and its affiliates. Management believes, however, that the Authority's long-term exposure to any single airline is mitigated by the fact that approximately 80% of the passenger traffic through the airport is origin and destination traffic and therefore other carriers are likely to absorb the traffic of any carrier that ceases operations. In addition, the Authority's unfettered ability to increase its rates and charges mitigates the impact of these risks.

10. Contingencies

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 its financial position.

Corporate Governance

Halifax International Airport Authority (the "Airport Authority") is governed by a Board consisting of a maximum of 14 directors nominated by the following entities:

Federal Government	2
Provincial Government	1
Halifax Regional Municipality	4
Halifax Chamber of Commerce	3
Airport Authority Board of Directors	4

Generally, a director may serve no more than a total of nine years from the date of transfer, February 1, 2000. Collectively, directors are expected to possess knowledge relating to the aviation industry, air transportation, business, finance, administration, law, government, engineering, labour organizations, and the interests of consumers.

The Board oversees the conduct and operation of the Airport Authority; reviews and approves corporate strategies, plans and financial objectives; appoints the Chief Executive Officer; assesses the performance of the Board and the Chief Executive Officer; ensures effective communication with the nominators and the community; and ensures the effectiveness of the Airport Authority's internal controls and systems in preserving and enhancing the Airport Authority's assets and pursuing its mission. The Board meets as often as is required to carry out its responsibilities and maintains three standing committees that make recommendations to the Board with respect to matters within their jurisdiction: the Governance Committee, chaired by Michele Wood-Tweel; the Audit Committee, chaired by Marie Mullally; and the Capital Projects Committee, chaired by Wadih Fares.

The Airport Authority has adopted conflict of interest guidelines to govern the conduct of, and the disclosure and avoidance of conflicts of interest for, all officers and directors. These disclosures are updated as required.

During 2011, the Governance Committee of the Board reported that there were no breaches of the conflict of interest guidelines by any officer or director of Halifax International Airport Authority.

Compensation of the senior officers and directors of the Airport Authority is reviewed annually. Amounts paid to Airport Authority officers and directors during 2011 follow.

Corporate Governance

Board of Directors Total Compensation

Chair: J.R. Winters	$ 60,000
Vice Chair: P. McDonough	$ 31,300
Secretary: J.S. Cowan	$ 26,800

DIRECTORS:	
B. Buckles*	$ 3,200
S. Dempsey*	$ 3,200
W. Fares	$ 21,800
J. Hunt	$ 15,200
M. Mullally	$ 21,400
C. Newcombe	$ 16,000
R. Scott**	$ 6,400
K. Streatch**	$ 9,700
R. Wilber	$ 12,800
M. Wood-Tweel	$ 13,600

* B. Buckles and S. Dempsey joined the Board effective July 22, 2011

** R. Scott and K. Streatch completed their terms effective April 1, 2011

Executive Compensation

The salary range for the President & CEO and for the Vice Presidents of the Airport Authority during 2011 was $122,000 to $275,000. In addition to base salaries, annual bonus payments totalling $337,446 were paid during the year. Bonus payments are contingent on individual and corporate achievements.

Contracts in excess of $103,650

The Airport Authority, in accordance with its lease with Transport Canada, is required to report all contracts in excess of $103,650 ($75,000 in 1994 dollars adjusted by the Consumer Price Index) that were entered into during the year and that were not awarded on the basis of a public competitive tendering process.

During 2011, the Airport Authority entered into a five year service contract with Siemens Canada Ltd. for a total of $620,000. This contract was awarded without a public competitive tendering process as Siemens Canada had satisfactorily provided these services to the Airport Authority since they were awarded the Building Controls contract in 2005. The Airport Authority's Building Controls Systems are proprietary to Siemens and switching to an alternative would entail significant additional expenditures.

The Airport Authority also entered into a sole source contract with NAV CANADA for engineering services, approach procedure design, and physical relocation of the localizer antennae for runways 05 and 23. The work was begun in 2011 and will be completed in 2012. Competitive bids were not possible because only NAV CANADA can complete this work as it relates to navigational aids. The total amount of the work is $2,019,000.

Board of Directors

J. Robert Winters, QC – Chair
Robert is currently counsel to Burchell MacDougall of Truro, a member of the Advisory Board of the Bragg Group of companies and formerly Chairman of the Board of Regents of Mount Allison University.

Peter McDonough, QC – Vice Chair
Peter is Counsel at McInnes Cooper and has been practicing corporate, property development and real property law for over 40 years. He has served on the Board of Governors of Dalhousie University, Nova Scotia College of Art & Design, Nova Scotia Special Olympics, and the YMCA. As well, he has been the Vice Chair of the Halifax Industrial Commission and President of the Dalhousie Alumni Association, and is the founding President of the Dalhousie Black & Gold Club.

James S. Cowan, QC – Secretary to the Board
Jim is a member of the Senate of Canada where he serves as the Leader of the Opposition. He is also a partner of the law firm Stewart McKelvey. He was the Chair of the Board of Governors of Dalhousie University from 2000 to 2008 and past Chair of the Atlantic Provinces Transportation Commission. Upon his appointment to the Senate in March of 2005, Jim resigned from the Board but continues as Secretary, a position that he has held since 1995.

Board of Directors

Brian Buckles – Director
Brian had over 40 years experience with Scotiabank prior to retiring in 2004. He is a Fellow of the Institute of Canadian Bankers and held various Management positions in both Nova Scotia and the New Brunswick and Prince Edward Island Regions.

Brian has served as Chair for the Pictou County United Way, New Glasgow Downtown Development, and as a director for the Pictou County Chamber of Commerce.

Stephen Dempsey – Director
Stephen Dempsey is a leading business consultant and commercial real estate practitioner in Halifax, Nova Scotia. A former CEO of the Greater Halifax Partnership, Stephen's contributions have been recognized by being named one of the Top 50 CEO's in Atlantic Canada.

Stephen also serves on the boards of the United Way of Halifax and the Partners for Care Association and is past Chair of the Halifax Gateway Council and the Atlantic Provinces Chambers of Commerce.

Wadih M. Fares, P. Eng., FEC, D. Comm. – Director
Wadih Fares received his Bachelor of Engineering degree from the Technical University of Nova Scotia and a Diploma of Engineering from Dalhousie University. Wadih has over 25 years of experience in every aspect of building design, project management and development. He currently serves as President and CEO of WM Fares Group. The Halifax based firm has been behind the success of major hospitality, multi-unit residential and commercial projects throughout the Maritime Provinces, Ontario and Alberta. He has also shared his expertise with others in the industry, through his membership with Engineers Nova Scotia, and past membership in New Brunswick, Prince Edward Island, Alberta and Ontario.

Board of Directors

Wadih M. Fares, P. Eng., FEC, D. Comm. – Director (continued)

Wadih has an impressive record of community involvement. He has held, over the years, a long list of positions and has continued his tradition of giving back to the community through a wide range of roles, including: Honourary Consul of Lebanon for the Maritime Provinces for the past 14 years, Honourary member on the Board of the Canadian Lebanese Chamber of Commerce and Industry. He also sits on the Board of Directors for Waterfront Development Corporation Limited (Chairman of the Planning and Development committee), Minister's Immigration Advisory Council, Past Chair and Director on the Board of Pier 21 Society, and recently joined the QEII Board of Trustees.

Wadih has received a number of honours, including: The Salvation Army Great Stocking Stuffer Champion 2009, Family SOS Ambassador 2010, Atlantic Business Magazine's Top 50 CEO Award recipient in 2008, 2009, 2010 and 2011, Business to Consumer Ernst & Young's Entrepreneur of the Year Award 2008, Big Brothers/Big Sisters Community Mentoring Award 2008, the Queen's Golden Jubilee Medal Award, Professional Engineers of Nova Scotia Citizenship Award 2005, and in 2009 Engineers Canada bestowed upon him the designation "Fellow". He was inducted as Laureate of the Junior Achievement Nova Scotia Business Hall of Fame in 2008, and in the spring of 2009, Wadih was awarded an Honourary Doctorate in Commerce from St. Mary's University, and his Excellency Archbishop Youssef Khoury presented him with the Order of St. Gregory, an honour conferred upon him by Pope Benedict XVI.

In 2011 Wadih received the Pillar of the Community Award from Investment Property Owners Association of Nova Scotia, Atlantic Business Magazine's Top CEO of the Year for Atlantic Canada, and was the recipient of Her Honour's Award for Excellence in Engineering.

Board of Directors

Jeffrey R. Hunt – Director
Jeff is a Partner with the Truro office of Patterson Law. He is Chair of the firm's Litigation Group, with a practice in areas of insurance, employment and general litigation. He has been with Patterson Law since 1992 and a Partner since 1997. Jeff is the Past Division Chair of the United Way of Colchester County Campaign Cabinet, Past Member of the Parish Council and Finance Committee for St. John's Anglican Church, Board Member and Past Chair of the Bridges Program for Family Counselling, and a Board Member of the Honourable G. I. Smith Memorial Trust. In 2009, Jeff was appointed to the Election Commission of Nova Scotia.

Marie Mullally, FCA, MBA – Director
Marie Mullally, FCA, MBA is President & CEO of Credit Union Atlantic (CUA). CUA is a customer owned financial institution providing banking services and financial solutions to individuals and businesses in Greater Halifax/Dartmouth, and is one of the largest credit unions in Atlantic Canada.

Ms. Mullally has served as a member of a number of private, not-for-profit and public sector boards, and currently serves on the boards of the QE II Foundation and Clarke Inc. In 2007, she received a Fellow Chartered Accountants designation and in 2008 was named CA of the Year. Ms. Mullally has also been named one of Atlantic Canada's Top 50 CEO's.

Cheryl Newcombe – Director
Cheryl joined the HIAA Board in July 2005. She is Vice President of the Human Resources Association of Nova Scotia, member of the Board of the World Trade and Convention Centre, and is the past Chair of the Halifax Regional Water Commission.

Board of Directors

Robin Wilber – Director
Robin is President of Elmsdale Lumber Company Limited, a position he has held for over 30 years. He is responsible for the management of day to day operations of the sawmill, and provides leadership and direction to upwards of 60 staff. Robin is also Partner in Wilber & Fenton, a housing development company and Corridor Developments, a residential rental development company. He is the current Chairman of the Board for the Maritime Lumber Bureau, President of L&R Property Management Ltd., a member of the East Hants Water Advisory and Protection Committee, and a founding member of the East Hants & District Chamber of Commerce.

Michele A. Wood-Tweel, FCA, CFP, TEP – Director
Michele is CEO and Executive Director of the Institute of Chartered Accountants of Nova Scotia (ICANS). Before joining ICANS, she practiced with KPMG LLP for over 20 years in the areas of personal taxation and financial planning. Michele is Chair of Saint Mary's University Board of Governors and of the University's Executive Committee. She is a member of the Board of Trustees of the IWK Health Centre Foundation and a Director of Efficiency Nova Scotia Corporation. Michele has previously served on the Boards of the Halifax-Dartmouth Bridge Commission, The Royal Nova Scotia International Tattoo Society and the Halifax Chamber of Commerce.

Our People

(During 2011)

Lawrence Mason (In Memoriam), Matthew McDonald, Jane Scott, Jennifer Best-White, Roxanne Hilchie, Malcolm Phippen, Ivan Frame, Sandi Nicholson, Clayton Maynard, Michael Walker, Tom Ruth, Tim Zinck, Drake Clarke, Chris Collier, Alastair Cox, Alan Carragher, Carol Mackie, Joyce Hoskin, Todd Hickey, Donald Mattinson, Rhonda Brassard, Edward Dempsey, Richard Gooding, Arnold Wood, Michael Samson, Richard Boutilier, Burton Wright, Clifford Gillie, Barry Woynar, Judy Snair, Joanne Fabrizi, Mike Maxwell, Anil Mohan, Dean Bouchard, Kelly Zwicker, Mark Bowser, Robert Hewitt, Robert Clarke, Betsy McCully, Karen Harrie, Twila Grosse, Richard Garson, Deborah MacLeod, Kelly Corbett, Troy Appleby, Ruth Stoddard, Tom Antonio, Leonard Brown, Derek Forrest, William A. Turple, Sherrie Clow, Reginald Verge, Anita Chisholm, Peter Khattar, Thomas Maguire, Blair Christian, Nancy Fong, Paul Hood, Joey Young, Karen Murphy, Paul Baxter, Marcel Laforest, Michael MacEwan, David Dawe, Jonathan Heffernan, Kristopher Stevens, Mike Rantala, Scott Baines, Michael Hartlen, Steven Hilchie, Kellie Hannam, Janet Ingraham, Donna Anderson, Bill Crosman, Garry Parsons, Robert Silver, Gerry Rygiel, Alex Skinner, Andy Lyall, Tom Winsor, Robert Miller, Harry McMullen, Rachael Robinson, Paul Tuttle, Shawn Hicks, Marlene More, William Cowan, Alan O'Leary, Wayne DeCoste, Douglas Eisan, Peter Hilton, Scott Singer, Kevin Boutilier, Zack Keeping, Tony McMillen, Daniel Chandler, Reginald Beeler, Jack Weir, Lydia Bowie, Douglas Meek, Catherine Towers, Zack Zunic, Dan Pride, Kim Oakley, Michael Healy, Joey MacPherson, Kevin Mosher, Marcia Connolly, William Wellwood, Tara Mombourquette, William D. Turple, Carl Brown, Catherine Huddleston, James Tanswell, Ashley Gallant, Bruce Gaudet, Donald Myers, Scott Roberts, Tom Murray, Stephen Whalen, Tara Wheaton, Jerry Staples, Terry Hilchey, Corey Teed, Peter Spurway, Kenneth Champion, Robert Ettinger, Richard Wyatt, Janet Menzies, Chris Altass, Steven Nelson, Tonya McLellan, Dean Letto, Vernon Myers, Craig Singer, Nicole Burchell-Isenor, Norman Ross, Milly Shiwak, Kenneth Bayers, Keith Gurschick, Danny Kennedy, Larry Naugle, Danny Chaplin, Gordon Duke, Brian Gillette, James Moulton, Michael Hatfield, Jamie Dwyer, Mark Urquhart, Stephen Fudge, Brian Thomas, Peter Sworin, Paula Cannon, Paul Dalrymple, Dan Tanner, David Brown, Jennifer Delorey Lyon, Joyce Carter, Gregory Shackleton, Stephen Bezanson, Delbert Geddry, Kelly Martin, Timothy Fisher, Shawn DeLong, Lee Nolter, John Melbourne, Kim Porter, Howard Rose, Valerie Seager, Cathy Paget, Darin Clarke, Todd D'Arcy, Gary Porter, Allan Pace, Stephanie Gorman, Leigh Robinson, Timothy Bull, Ron Conway, Todd Ball, Sean Dempsey, Art Nowen, Joseph MacLean, Jeff MacMillan, Tim Leeman, Charles Clow, Jamie Wilkins, Karen Sinclair.

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