where life happens

2016 ANNUAL REPORT

HALIFAX INTERNATIONAL AIRPORT AUTHORITY

Ask anyone what an airport is, and the likely response will be: "it's a place where airplanes arrive and depart."

Over the past decade, Halifax Stanfield has aspired to redefine what an airport can be. Halifax Stanfield has evolved into a vibrant stimulus for economic, social and community growth. It's a place where people, goods and ideas connect.

Our 2016 annual report focuses on the notion of place and experience. The "Where" theme positions the airport as a distinct location. It's a stage where people's lives and stories are played out daily. It's a setting for wonder, appetite, adventure and the extraordinary.

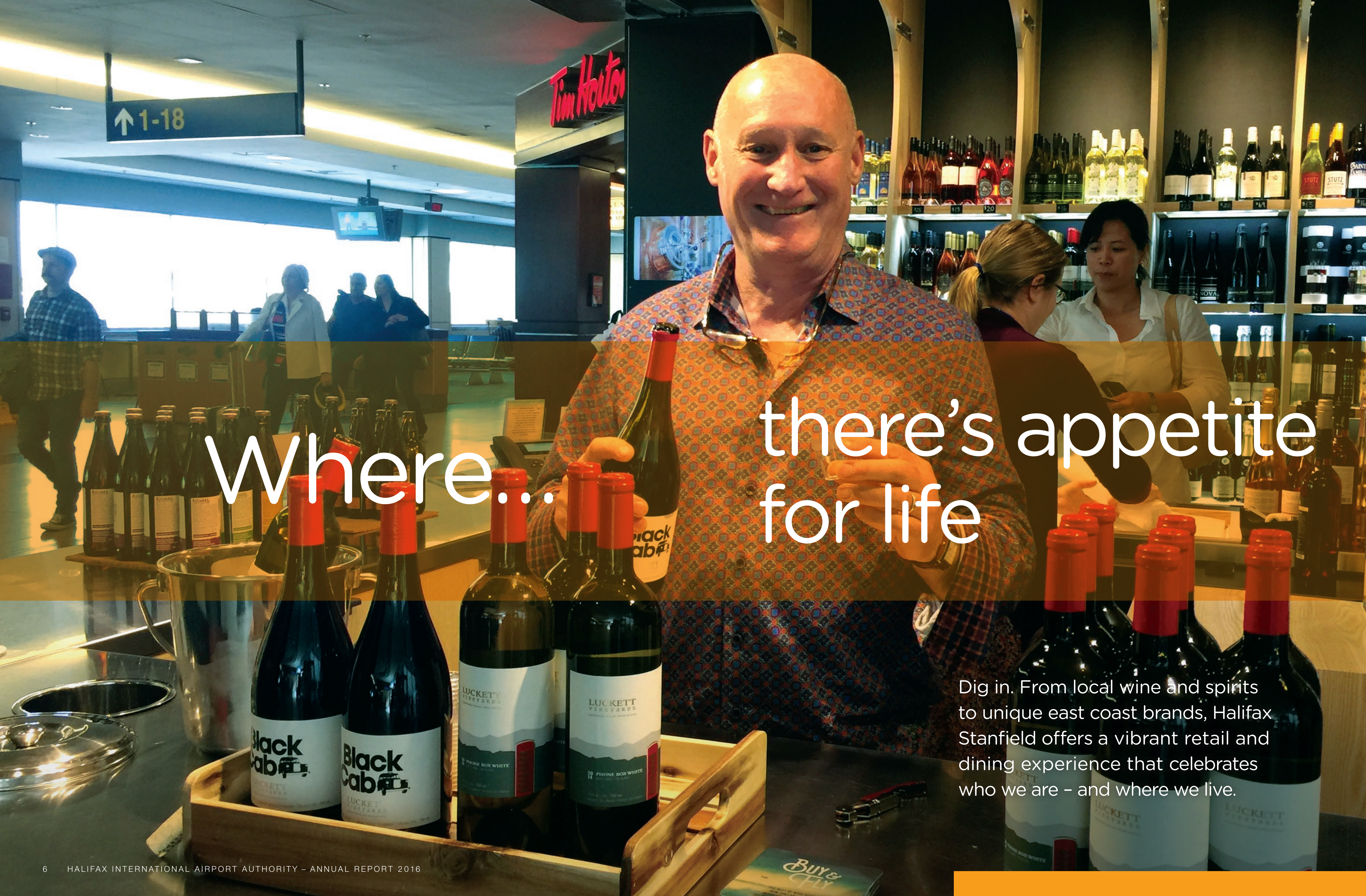
It's where... life happens.

Where... every day is a new beginning

Take the plunge. Embark on a grand adventure. Or feel your heart pull you home. Halifax Stanfield is the stage for life's wonderful departures and arrivals.

Be here. There's always something exceptional waiting at Halifax Stanfield. Come be a part of it.

Where... ordinary becomes extraordinary



Where… there's appetite for life

Dig in. From local wine and spirits to unique east coast brands, Halifax Stanfield offers a vibrant retail and dining experience that celebrates who we are – and where we live.

Embrace the unexpected at Halifax Stanfield. Where surprise and wonder are just steps away.

Where... wonders never cease

"Working together, we make Halifax Stanfield much more than a place where airplanes arrive and depart, it's a place where anything is possible and just about everything is doable! "

Joyce Carter
President & CEO

Where... we welcome what's next

"A successful airport is the backbone of business, the heart of a community, and the lifeblood of prosperity."

Wadih Fares
Chair of the Board of Directors

Message from the Chair

Wadih Fares
Chair of the Board of Directors

Where you are makes all the difference in the world.

Take Halifax Stanfield International Airport, for example: strategically located as one of North America's closest links to Europe. It is well positioned as an integral part of our region's landscape.

A successful airport is the backbone of business, the heart of a community, and the lifeblood of prosperity. With our ability to operate 24/7, the airport creates jobs, connects people, goods and ideas, and is one of the most critical pieces of transportation infrastructure in Atlantic Canada.

Just how valuable is Halifax Stanfield? Our economy thrives on it – to the tune of $2.7 billion (in 2015). Our citizens rely on it – with a record number of 3.9 million passengers (in 2016). Our shippers count on it – air exports from our province were over 33,000 metric tonnes in 2016. Our tourism industry depends on it – almost one-third of the province's tourists enter Nova Scotia through Halifax Stanfield (in 2015).

And our airport is that special place where many newcomers have landed to begin a new chapter of their life. We've come to think of Halifax Stanfield as the modern day Pier 21 – where over one million immigrants first set foot in Canada.

Where you're going shapes your future.

That's why having a solid plan is vital.

Our integrated four-tier planning process – 20-year master plan, 10-year capital and financial plan, five-year strategic plan, and annual business plan – serves as a platform from which we draw strength through strategy.

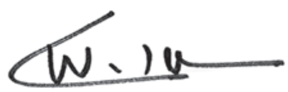
In 2016, the Airport Authority updated both its five-year strategic plan and 10-year capital and financial plan. These critical planning documents will offer direction and guidance as we further develop Halifax Stanfield in the coming years.

Then, of course, you need a strong team to implement and carry out these plans.

We are so very fortunate to have an exceptionally skilled workforce who excel at their duties, day in and day out. Through their dedication and expertise, Halifax Stanfield is consistently recognized as among the best airports in the world.

And standing with them is the Board of Directors – a distinguished group of business and community leaders. We welcomed Doug Bastow as a new member in 2016, and we bid farewell to Tom Traves – we thank him sincerely for his service.

Working together in 2016, we celebrated many achievements – even making a little history along the way. And together, we look forward to 2017 and beyond – to a future where we continue to connect and succeed.



Message from the President & CEO

Joyce Carter
President & CEO

Where do you work? A common question. However, when you ask me that, you might be surprised by my uncommon answer. Not because I work at an airport. It's because working at the largest airport in Atlantic Canada is a multi-faceted, no-two-days-alike, long-term-planning-immediate-reaction kind of place. It's where the unexpected happens – and we embrace that, as you will see throughout this report.

I know my colleagues agree. In our 2016 engagement survey, 82 per cent of our employees indicated they are proud to work for Halifax International Airport Authority. It's through their steadfast efforts and dedication that we continue to exceed expectations, transform possibilities, and deliver results. I want to thank each of them for their contributions throughout the year.

I'm very pleased to report that in 2016 we reached two noteworthy operational milestones.

We achieved a new record with over 3.9 million passengers served – an impressive 5.6 per cent increase over 2015.

These numbers were fueled by a 7.4 per cent growth in our domestic market, as WestJet and Air Canada expanded service. Although both U.S. transborder and international traffic were down compared to 2015, highlights included the launch of WestJet's daily service to Boston and continued growth on its seasonal route to Glasgow, and expansion of Condor's service to Munich.

On the cargo side, we processed 33,330 metric tonnes of cargo – also a new record – and a 4.1 per cent increase over 2015.

With the growing demand for lobster and other seafood products in Asia and a new bilateral agreement between China and Canada, plus our extended runway and newly constructed apron, we are well positioned for continued cargo growth.

In 2016, we completed a new comprehensive strategic plan that will guide our activities over the next five years. The new plan provides a blueprint for continued strategic growth and development at the airport. As well, we updated our 10-year capital and financial plan which provides us with guidance on key infrastructure requirements and financial impacts.

In 2016, we invested over $34 million to improve the passenger experience and facilitate airport operations. For example, we installed automated passport control kiosks to enhance service for passengers travelling directly to the United States, created additional post-security space in the terminal for new amenities, made improvements to our airside infrastructure and electrical power supply, and implemented new technology.

We applauded Halifax Regional Council's approval of regulations limiting residential and non-compatible developments near the airport. This will help maintain Halifax Stanfield's 24/7 operations, a competitive advantage that benefits the entire region.

Our prudent fiscal management was acknowledged, once again, as Standard & Poor's affirmed our A+ corporate and bond credit ratings, and also upgraded its outlook from stable to positive.

We were delighted to receive some wonderful recognition in 2016. Halifax Stanfield was rated by passengers as one of the best airports in the world, and was regarded by respondents as having the best reputation among the 43 large and mostly private sector organizations from around our region in a Corporate Research Associates poll. Receiving this vote of confidence from our passengers and our community is marvelous.

Through my presidency of both the Airport Authority and the Atlantic Canada Airports Association, and as a member of the Airports Council International World Governing Board, I've learned that success doesn't just happen. It comes about through strong leadership and dedicated teamwork. I am grateful for the expert guidance from our Board, the tireless efforts of our dedicated employees and volunteers, and the strong support we receive from our stakeholders and partners.

Working together, we make Halifax Stanfield much more than a place where airplanes arrive and depart, it's a place where anything is possible and just about everything is doable!

Where... People Come First

Airports are emotional places. That's why we've embraced a culture of superior service and work hard to make Halifax Stanfield a place where everyone feels welcome, relaxed and safe, every day.

The foundation of this approach is The Stanfield Way, our distinctive airport service culture program. In 2016, we shared the virtues of being happy, helpful, courteous, caring, and kind with almost 150 members of our airport community – and a total of 930 since the program began – encouraging them to pay it forward. We also introduced refresher workshops for former graduates, helping them keep The Stanfield Way's virtues top of mind.

Our distinguished Tartan Team embodies these virtues – a group of over 100 dedicated volunteers – who provide a friendly smile, warm welcome, and assistance to anyone in need.

In 2016, our St. John Ambulance therapy dog program celebrated its first anniversary, and our furry friends and their handlers are so popular that plans are underway to expand the program.

We staged performances in the terminal building to enhance the travel experience, while showcasing local vocalists, musicians, and entertainers.

Service efforts reach beyond our walls, too. On-line we connect with more than 36,000 followers through social media and millions more through our web site.

Our Community Outreach Program donated over $300,000 in cash and in-kind support to more than 200 charities, business and community groups, local sports teams, and our signature partner, Dartmouth North Community Food Centre.

As well, seven organizations received donations to meet basic community needs through our union-management sponsored Humanities Fund, and by waiving our usual fees, we assisted Air Canada's Dreams Take Flight initiative, which offers financially challenged children a chance to visit Walt Disney World Resort for a day.

Over and above this, our people selflessly stepped up to make a difference. From hitting the links in our annual golf tournament and corporate giving program for the United Way and paddling to a gold medal win in the Manulife Dragon Boat Festival for Sport Nova Scotia, to volunteering with Habitat for Humanity and helping out the Lung Association of Nova Scotia through the annual runway run.

We launched a special story book called Emily and Jett's Adventure to share a behind-the-scenes look at airport operations with young travellers; signed an expanded sister airport agreement with the Incheon International Airport signifying our commitment to work together to foster partnerships and collaboration; and produced a video aimed at helping airport workers meet our official language obligations.

While these achievements are satisfaction enough, we were delighted to receive some wonderful recognition in 2016.

Our airport was rated by passengers as one of the world's best. In the Skytrax World Airport Awards, Halifax Stanfield made the top ten in five categories, including best airport in the world for its size. And the 2016 global Airport Service Quality ratings placed Halifax Stanfield as tied for third best airport in North America for overall passenger satisfaction.

We were honoured to receive a Priory Vote of Thanks award from St. John Ambulance for the introduction of our therapy dog program and a Certificate of Appreciation from Autism Nova Scotia for our support of individuals and families living with autism.

And, Halifax Stanfield was regarded as having the best reputation among the 43 large and mostly private sector organizations from around our region in a Corporate Research Associates survey.

Where… Connecting Means the World

In 2016, we reached a new record, with 3,908,799 passengers served. That's up 5.6 per cent over 2015.

Halifax Stanfield accounts for 40 per cent of all seat capacity in Atlantic Canada and based on departing seats per capita, as a community we are number one in the country (based on latest data).

Looking at the three air service sectors, domestic traffic was up 7.4 per cent compared to 2015. Domestic is the largest segment of air service representing 84 per cent of our total traffic. Contributing to this strong increase were WestJet Encore's full year of operation with six additional daily flights, Air Canada's addition of seat capacity to Montréal and Toronto, WestJet's four times weekly summer service to Winnipeg and Vancouver, Air Canada rouge™ returning seasonal service to Calgary, Porter re-offering service to Stephenville, and the launch of New Leaf service to Hamilton.

Representing eight per cent of all traffic, U.S. transborder activity was down over 2015 by 1.9 per cent. Positives in 2016 were WestJet's new daily service to Boston, additional seat capacity to Florida in the winter season by Air Canada and WestJet, and the addition of WestJet's weekly year-round service to Orlando. However, these gains were offset by reductions in both seat capacity and frequency by U.S.-based carriers.

The international sector, which also accounts for eight per cent of all traffic, was down over 2015 by 4.2 per cent. This was mainly because of lost summer service by Air Transat to Punta Cana. On a positive note, WestJet's seasonal service to Glasgow, Scotland continues to be successful, Condor added service to Munich, and ASL Airlines France returned with service to Dublin and Paris.

It was also a record-setting year for cargo, with 33,330 metric tonnes processed, representing a 4.1 per cent increase over 2015. New service included Qatar Airways Cargo weekly flight to Doha (via Zaragoza), and a second weekly flight by Korean Air Cargo to Seoul (via Anchorage).

Much of that cargo was live lobster. In fact, over $167 million in lobster and seafood exports were shipped from Halifax Stanfield in 2016, up more than 14 per cent from 2015. As demand for lobster and other seafood products continues to grow, especially to Asia, we are poised for continued growth in this export sector.

Given the importance of the Chinese market to Nova Scotia, we have developed a targeted strategy to further develop business opportunities supporting tourism, trade and other areas of cooperation.

Just as we work to grow air service, we use an entrepreneurial approach to provide passengers with the best amenities at Halifax Stanfield. In 2016, we welcomed Subway at the Irving Oil service station site. In the terminal building, Liquid Assets and New Scotland Clothing Company opened post-security, and East Coast Lifestyle and Miller's Gourmet Kettle Corn set up shop on the main level. As well, Clearwater and Hudson created bright, fresh new stores with renovations to their main floor locations.

In our efforts to grow non-aeronautical revenue and provide airport workers and visitors with much-needed amenities, we continued our real estate and commercial development activities, working with Colliers International to generate interest and identify potential land development opportunities.

Where... Plans Take Shape

In 2016, we took on one of our most ambitious capital programs – starting, continuing and completing several major infrastructure projects.

We continued to focus on our passenger experience improvement plan aimed at enriching the ambience and cleanliness of the terminal building. The washrooms near gate 18 were renovated and the washrooms at gate 24 were refreshed.

Construction wrapped up on a 460 square metre expansion on the departures level to create room for new retail and food and beverage concessions post-security, and we built a 557 square metre addition to the terminal building to provide more airside space for airline operations.

To help support the growing cargo business at Halifax Stanfield, which in turn has a positive impact on our provincial economy, we built a new 17,000 square metre apron. Open in time for the busy December lobster season, the area serves as a convenient and cost-effective location to park and load large cargo freighters.

We installed seven BorderXpress Automated Passport Control kiosks in the U.S. preclearance area. The new kiosks help U.S. Customs and Border Protection officers process more passengers than traditional clearance methods, reducing congestion and decreasing wait times.

Airside, we replaced the apron at gate 22 and the bridge at gate 26, which was nearing the end of its serviceable life. Upgrades were done to the lighting on two of the airport's runway approaches (05 and 32) to enhance availability of airport operations. Now, all four runway approaches at Halifax Stanfield are equipped with high intensity lighting systems.

In December, we completed construction and opened a new employee parking lot, providing space for over 300 vehicles in a location closer to the terminal than the parking area it replaced. The former lot will be repurposed as part of our commercial development plan.

We completed several major information technology initiatives including replacement of our storage area network and network firewall appliances that had reached end-of-life. These projects required careful planning and both were executed seamlessly, with no impact to passenger processing or daily operations. And we advanced our mobile strategy as we deployed devices, introduced efficiencies, and started working on the introduction of access to documents in our file directories.

Work continued on an initiative to improve the reliability and redundancy of the airport's electrical power supply systems, while expanding back-up power systems for the terminal building and airfield.

Where... Operation Meets Innovation

Safety, security, and the environment are always our top priority.

Under our Safety Management System, we took the necessary corrective actions to address hazards and incidents. And, once again, we earned a certificate of recognition for occupational health and safety after successfully passing all requirements of an external audit based on Workers Compensation Board safety standards.

On November 15, we held our biennial, full-scale emergency training exercise. And for the first time it was held at night. Working in cooperation with airport partner organizations and several public sector emergency response agencies, we host this live exercise every two years.

The exercise also gave us the opportunity to validate our new airport emergency plan and move to the Incident Command System – a standardized all hazard incident management concept widely used across Canada and by many of our partner organizations. By all accounts, the event was well-planned and executed – congratulations to all those involved in this significant accomplishment.

While we were thankful for a moderate winter (compared to the previous year), we were equally thankful for our very dedicated airfield crews, electricians and mechanics who keep our runways and taxiways clear of snow and ice, ensure our airfield lights are operating, and our equipment is in service.

We added two new pieces to our heavy equipment fleet in 2016. Specifically designed for apron clearing, these Swiss-engineered, Hungarian-built Boschung multipurpose machines are able to remove snow and ice and apply sand and de-icing chemicals simultaneously. Their four wheel steering and compact design make them very handy when operating close to aircraft and loading bridges.

On the security side, we made the successful transition on April 1 to Halifax Regional Police providing armed response and explosive dog/handler services at the airport. And all of the groundwork was done in 2016 to make a change in providers for airport security, security operations centre, and parking and curbside service, as G4S Secure Solutions took over on January 1, 2017.

We also formally introduced the Halifax Airport Watch. While this group of aviation enthusiasts enjoy their hobby of watching aircraft and airport activity from a nearby vantage point, they're keeping a look out for any security or safety concerns to report.

On the environment front, we achieved compliance with the goals set out in our environmental management system, including updating our wildlife management plan.

Staying true to our commitment to provide education, training and development for our people, we introduced Halogen, a new talent management program. It's helped us streamline goal setting and career development processes, and facilitate training opportunities.

And in 2016, we conducted an employee engagement survey. Overall, the results were very positive, with 78 per cent of our organization participating and 82 per cent of respondents indicating that they are proud to work for the Airport Authority.

Where... It All Comes Together

2016 Highlights and Accomplishments

- Served 3,908,799 passengers – a new record.
- Processed 33,330 metric tonnes of air cargo – also a new record.
- Contributed over $2.7 billion to the Nova Scotia economy in 2015, and provided 5,505 full-time equivalent on-site jobs.
- Added new routes including WestJet to Boston, Winnipeg, and Vancouver; NewLeaf to Hamilton; and Condor to Munich.
- Expanded routes including WestJet to Glasgow, Orlando, and Ottawa; and additional seat capacity by Air Canada to Montréal, Toronto, and Florida.
- Welcomed the return of seasonal service by Air Canada rouge™ to Calgary, ASL Airlines France to Dublin and Paris, and Porter to Stephenville.

- Landed new cargo services as Qatar Airways Cargo launched a weekly flight to Doha (via Zaragoza) and Korean Air Cargo added a second weekly flight to Seoul (via Anchorage).
- Signed an expanded sister airport agreement with the Incheon International Airport signifying our commitment to work together to foster partnerships and collaboration.
- Expanded two areas of the terminal to create room for new shops and restaurants, and to provide more airside space for airline operations.

- Added two new Boschung multipurpose snow and ice removal machines to our fleet of heavy equipment.
- Formally introduced the Halifax Airport Watch – a group of aircraft watchers who will also keep a look out for any security or safety concerns to report.
- Successfully transitioned to Halifax Regional Police for provision of armed response and explosive dog/handler services at the airport.
- Laid the groundwork to change providers for airport security, security operations centre, and parking and curbside service to G4S Secure Solutions on January 1, 2017.
- Hosted a full-scale emergency training exercise to meet Transport Canada requirements and in the process, validated our new airport emergency plan and moved to the Incident Command System.

Where... It All Comes Together

2016 Highlights and Accomplishments

- Earned a certificate of recognition after successfully passing all requirements of an external audit that meets Workers Compensation Board safety standards.
- Replaced the apron at gate 22 and the bridge at gate 26.
- Replaced an employee parking area with a new 300-space lot closer to the terminal.
- Continued a project to improve the reliability and redundancy of the airport's electrical power supply and back-up systems.
- Upgraded the lighting on two runway approaches (05 and 32) to enhance availability of airport operations.
- Installed automated passport kiosks in the U.S. preclearance area to reduce congestion and decrease wait times.
- Invested in several information technology initiatives to replace equipment that had reached the end of its life-cycle.
- Constructed a new 17,000 square metre apron to park and load large cargo freighters.

- Welcomed new shops and services to the airport, including Liquid Assets, New Scotland Clothing Company, Miller's Gourmet Kettle Corn, as well as second locations for Subway and East Coast Lifestyle.

- Ended the year with a solid bottom line and maintained our A+ corporate and bond credit ratings from Standard & Poor's for the eleventh straight year.
- Rolled out Halogen, a new talent management program to provide education, training and development for our people.
- Conducted an employee engagement survey with a 78 per cent participation rate and 82 per cent of respondents proud to work for the Airport Authority.

Where… It All Comes Together

2016 Highlights and Accomplishments

- Continued to advance The Stanfield Way – our airport service culture program – and introduced refresher sessions.
- Regarded as having the best reputation among the 43 large and mostly private sector organizations from around our region in a Corporate Research Associates survey.
- Rated by passengers one of the world's best airports, placing in the top 10 of five categories in the Skytrax World Airport Awards, and finishing tied for third in North America for overall passenger satisfaction in the global Airport Service Quality ratings.

- Acknowledged by St. John Ambulance with a Priory Vote of Thanks for introduction of our therapy dog program and a certificate of appreciation from Autism Nova Scotia for our support of individuals and families living with autism.
- Connected with more than 36,000 followers on Facebook and Twitter, and millions more through our web site.

- Provided over $300,000 in donations and in-kind support to more than 200 charities, business and community groups, local sports teams, and our signature partner, Dartmouth North Community Food Centre through our Community Outreach Program.
- Proudly supported employee-led charitable activities helping organizations such as the Lung Association of Nova Scotia, Habitat for Humanity, Sport Nova Scotia, Air Canada's Dreams Take Flight, and the United Way.
- Launched a story book called Emily and Jett's Adventure to share a behind-the-scenes look at airport operations with young travellers.
- Produced a video aimed at helping airport workers meet our official language obligations.

Air Service Summary 2016

Scheduled and Charter Passenger Services

19 Domestic Destinations	8 Transborder (USA) Destinations	18 International Destinations
Calgary, AB	Boston, Massachusetts	Bahamas – Freeport
Charlottetown, PE	Fort Lauderdale, Florida	Cuba – Cayo Coco, Holguin, Santa Clara, Varadero
Deer Lake, NL	Orlando, Florida	Dominican Republic – Puerto Plata, Punta Cana, Samana
Edmonton, AB	New York (JFK), New York	France – Paris (one-stop via Dublin)
Fredericton, NB	Newark, New Jersey	Ireland – Dublin
Gander, NL	Tampa, Florida	Germany – Frankfurt, Munich
Goose Bay, NL	Philadelphia, Pennsylvania	Iceland – Reykjavik
Hamilton, ON	St. Petersburg, Florida	Jamaica – Montego Bay
Moncton, NB		Mexico – Cancun
Montréal, QC		Scotland – Glasgow
Ottawa, ON		St. Pierre et Miquelon – St. Pierre
Saint John, NB		England – London (Heathrow)
St. John's, NL		
Stephenville, NL		
Sydney, NS		
Toronto, ON		
Toronto City Centre, ON		
Vancouver, BC		
Winnipeg, MB		

Scheduled and Charter Air Carriers

18 Passenger Carriers		11 Cargo Carriers
Air Canada	EVAS	Air Canada
Air Canada Jazz	Icelandair	Air St. Pierre
Air St. Pierre	NewLeaf	Air Transat
Air Transat	Nolinor Aviation	CAL Cargo
American Airlines (formerly US Airways)	Porter Airlines	Cargojet
ASL Airlines France	Provincial Airlines	Condor Flugdienst
Condor Flugdienst	Sunwing Airlines	Federal Express (FedEx)
Delta Air Lines	United Airlines	Icelandair
	WestJet	Korean Air Cargo
	WestJet Encore	Qatar Airways Cargo
		WestJet

Plans and Performance

The information and performance assessment below relates to the mission, vision and targets established in Halifax International Airport Authority's 2013-2017 strategic plan. In early 2016, the Airport Authority began development of a new five-year strategic plan, covering the period from 2017-2021 and incorporating marketplace changes and an assessment of industry trends. Commencing with our 2017 annual report, we will report on the 2017-2021 strategic plan performance.

Business Strategies

Through its 2013-2017 five-year strategic plan, Halifax International Airport Authority identified six business strategies that support its mission and vision, and serve as a roadmap to guide airport activities and initiatives. From that over-arching plan, an annual business plan is developed for each calendar year.

The 2013-2017 strategic plan identified the following priorities and associated long-term targets to be used to direct and measure performance over the plan period. The end targets and performance through to 2016 are as follows:

Total annual revenues of $100 million
Annual revenues have grown steadily over the past several years, with $97.4 million earned in 2016. We forecast that trend to continue and come within one per cent of the 2017 target.

Total annual operating revenue of $68.5 million, of which $32.5 million will be non-aeronautical
Operating revenue has increased each year of the current plan period. However, to better reflect our anticipated revenue growth we adjusted these targets to $63.6 million of total annual operating revenue, of which $31.5 million would be non-aeronautical. In 2016, we progressed on both targets, and looking forward to 2017, we expect to fall just short of the total revenue target, however non-aeronautical revenues will exceed the objective.

To achieve these financial goals, in 2016, we:

- Continued to pursue commercial development opportunities, working closely with real estate experts Colliers International
- Introduced new concessions in the terminal building as per our master concessions plan
- Completed a construction project that has created an additional 460 square metres of terminal space for new concessions

Total annual passengers of 4.2 million
In the early part of the plan period, passenger growth had not progressed as anticipated. To address this, we adjusted the total annual passenger goal down to 4.0 million. In 2016, we reported record passenger numbers, and in 2017, we expect to reach the 4.0 million target, with 2.7 per cent anticipated growth over the 3,908,799 passengers served in 2016.

Total annual cargo of 38,000 metric tonnes
Air cargo has grown year over year, although not as rapidly as originally forecast. In 2016, increased cargo flights by Qatar Airways Cargo and Korean Air Cargo helped contribute to 33,330 metric tonnes processed, the most in a single year, and a 4.1 per cent increase over 2015.

Annual economic impact on the Province of Nova Scotia of $1.45 billion
In 2016, the methodology used to calculate the economic impact of the airport was updated from past studies. The new methodology applies the Input Output Tables of Statistics Canada's System of National Accounts to determine various impacts on Nova Scotia, including airport and tenant operations, airport and tenant construction (capital) projects, Nova Scotia exporters using airport cargo services, and tourists entering Nova Scotia at the airport. By calculating these impacts in one economic model, a broader range of direct and spinoff impacts related to economic activity, employment, household income and government revenues can be determined. The result is a comprehensive assessment of the airport's many positive benefits in 2015 to the Halifax Regional Municipality and the Province of Nova Scotia.

As a result, Halifax Stanfield contributed a total of $2.7 billion to Nova Scotia's economy in 2015 (latest data available). The new methodology will carry forward into the new five-year targets.

ASQ score of 4.55
Customer service is extremely important at Halifax Stanfield International Airport. To measure customer satisfaction, we have participated in the Airport Service Quality (ASQ) survey for over a decade. The survey measures 34 separate elements of passenger airport experience and how well each element satisfies passenger expectations. To pursue achievement of this target, in 2016, we continued implementation of a cross-departmental Passenger Experience Improvement (PEI) plan, which includes both human and financial resources, designed to improve the passenger experience, and in turn, improve ASQ key driver scores through enhanced terminal building cleanliness and ambiance. The overall satisfaction score in 2016 improved to 4.37 out of 5 compared to 4.32 in 2015, and we believe there will be further improvements in 2017.

Averaged over the five years, training and development expenditures of 2 per cent of annual gross salaries and wages
While we continue to provide education, training and development opportunities for all our people, this goal has been a challenge to track and therefore meet. To this end, in 2016, we introduced Halogen, a new talent management program. It has helped us streamline goal setting and career development processes, and facilitate training opportunities.

Five-Year Forecast

	ACTUAL			FIVE-YEAR FORECAST*				
YEAR	2014	2015	2016	2017	2018	2019	2020	2021
Passenger Volume	3,663,039	3,702,705	3,908,799	4,014,336	4,125,097	4,238,930	4,361,399	4,447,676
Per cent Change	2.2 %	1.1 %	5.6 %	2.7 %	2.7 %	2.7 %	2.0 %	2.0 %
Total Aircraft Movements	81,030	78,324	80,278	81,241	82,216	83,203	83,619	84,037
Per cent Change	-2.8 %	-3.3 %	2.5%	1.2 %	1.2 %	1.2 %	0.5 %	0.5 %
Expenditures on Capital Assets, net of Government Contributions ($000's)	$ 36,613	$ 23,196	$ 34,057	$ 44,785	$ 43,845	$ 38,136	$ 42,094	$ 54,196
Rent Payable to Transport Canada ($000's)	$ 6,229	$ 6,284	$ 6,709	$ 6,600	$ 7,300	$ 7,600	$ 8,000	$ 8,300

* The forecast figures indicated are subject to change.

Where... Numbers Add Up

Record passenger and cargo activity. Sound fiscal management. Measured capital investment. Careful strategic planning. It all adds up to a solid year financially.

In 2016, total revenues rose to $97.4 million, up from $91.7 million in 2015. Several factors account for this increase – a 5.6 per cent in traffic to a record 3,908,799 passengers, an increase in aeronautical revenue, continued growth in parking revenue, and an increase in concession revenue. The record passenger numbers also contributed to higher revenues from the airport improvement fee – a total of $35.6 million in 2016 up from $34.3 million in 2015.

Expenses increased in 2016 to $92.3 million compared to $89.1 million in 2015. While a milder winter and service contract costs for items such as materials, services and supplies, and general and administrative expenses were lower in 2016, there were increases in amortization costs and expenses for salaries, wages and benefits.

Overall, revenues exceeded expenses in 2016 by $5.1 million, up from $2.6 million in 2015. This result is before accounting for the non-cash impact of our defined benefit pension plan. Even after taking this into consideration, the excess of revenue over expenses was a solid $3.0 million, reflective of the modest surplus we target each year. Under the Airport Authority's mandate, this surplus will be re-invested in airport operations and development to improve our facilities and services.

In 2016, Standard & Poor's once again affirmed our A+ corporate and bond credit ratings for the eleventh straight year and upgraded its outlook from stable to positive. This annual assessment reflects the continued stability and strong business risk profile of our organization, and is an important measure in the marketplace ensuring continued access to capital.

The most recent economic impact study confirmed that Halifax Stanfield is a major economic, fiscal and employment generator for the economy of Nova Scotia. As well, it functions as the most important passenger and cargo gateway airport for Atlantic Canada. In 2015, Halifax Stanfield contributed $2.7 billion to the provincial economy. This is composed of over $1 billion in impacts from airport operations, $470 million from cargo exporters, and $838 million from tourists entering the province at the airport.

Airport operations create 14,944 full-time equivalent jobs – 5,505 of those on-site – generating over $769 million in wages and salaries. And, with $600 million in construction and renovation invested since 2000, this represents more than 70 per cent of all airport-related capital improvements in Atlantic Canada.

To help keep our economic impact numbers growing, we were very pleased that Halifax Regional Council approved regulations limiting residential and non-compatible developments near the airport, allowing us to maintain 24/7 operations – so critical to our continued growth.

In 2016, we initiated a full consultative exercise with Airport Authority staff and stakeholders to update our five-year strategic plan. The 2017- 2021 strategic plan directs the Airport Authority to seek out growth in air service, cargo service and non-aeronautical revenue, while maximizing airport efficiency by using innovation to drive continuous improvement and cost containment. As well, we updated our 10-year capital and financial plan to ensure we have the resources available to meet the airport's capital growth and maintenance requirements.

Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Directors of
Halifax International Airport Authority

We have audited the accompanying financial statements of **Halifax International Airport Authority** [the "Authority"], which comprise the balance sheet as at December 31, 2016 and the statements of operations and changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Halifax International Airport Authority** as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Grant Thornton LLP

Halifax, Canada
March 27, 2017

Chartered Professional Accountants
Licensed Public Accountants

As at December 31

Balance Sheet

[in thousands of dollars]	2016 $	2015 $
ASSETS		
Current		
Cash and cash equivalents	20,036	26,228
Accounts receivable	5,272	5,198
Prepaid expenses	1,025	1,526
Inventories	1,017	965
Total current assets	27,350	33,917
Capital assets, net *[note 3]*	382,507	370,319
Debt Service Reserve Fund *[note 4]*	7,427	7,427
Accrued benefit asset *[note 7]*	5,781	5,978
	423,065	417,641
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	23,762	22,193
Deferred contributions and revenue	818	615
Total current liabilities	24,580	22,808
Long-term debt *[note 4]*	283,422	283,397
Security deposits	1,375	841
Total liabilities	309,377	307,046
Equity in capital assets *[note 5]*	113,688	110,595
	423,065	417,641

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

See accompanying notes

On behalf of the Board: Director Director

Year ended December 31

Statement of Operations and Changes in Equity

[in thousands of dollars]	2016 $	2015 $
REVENUE		
Terminal and passenger security fees	19,807	18,545
Parking	13,872	12,735
Concessions	12,241	11,251
Landing fees	10,728	10,322
Rental	4,024	3,594
Interest *[note 5]*	302	341
Other	761	635
	61,735	57,423
Airport improvement fees *[note 5]*	35,617	34,257
	97,352	91,680
EXPENSES		
Salaries, wages and benefits	22,154	20,545
Amortization	21,974	20,680
Materials, services and supplies	19,710	19,954
Interest on long-term debt *[note 4] [note 5]*	14,953	14,620
Ground lease rent	6,709	6,284
General and administrative *[note 3]*	5,303	5,581
Property taxes	1,462	1,446
	92,265	89,110
Excess of revenue over expenses before pension plan (loss) gain	5,087	2,570
Defined benefit pension plan (loss) gain *[note 7]*	(2,074)	72
Excess of revenue over expenses for the year	3,013	2,642
Equity in capital assets, beginning of year	110,595	107,873
Equity in capital assets	113,608	110,515
Amortization of deferred financing costs	80	80
Equity in capital assets, end of year *[note 5]*	113,688	110,595

See accompanying notes

Year ended December 31

Statement of Cash Flows

[in thousands of dollars]	2016 $	2015 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	3,013	2,642
Add (deduct) items not affecting cash		
Amortization	21,974	20,680
Accrued benefit asset / liability	197	(2,209)
Net change in non-cash working capital balances related to operations	2,681	(2,448)
Cash provided by operating activities	27,865	18,665
INVESTING ACTIVITIES		
Expenditures on capital assets	(34,057)	(23,196)
Cash used in investing activities	(34,057)	(23,196)
FINANCING ACTIVITIES		
Decrease in deferred rent	–	(80)
Cash used in financing activities	–	(80)
Net decrease in cash during the year	(6,192)	(4,611)
Cash and cash equivalents, beginning of year	26,228	30,839
Cash and cash equivalents, end of year	20,036	26,228

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" or "HSIA"]. In 2014, the Authority was granted an extension of the lease for an additional 20 years, extending the lease to January 31, 2080. The excess of revenue over expenses for the year is retained and reinvested in airport operations and development.

HSIA is a world-class airport creating prosperity for its region by connecting Atlantic Canada to the world through flight. The 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 Government of Canada, 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 taxes, federal large corporation's tax, and Nova Scotia capital tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority's financial statements have been prepared in accordance with Part II of the Chartered Professional Accountants ["CPA"] of Canada Handbook – Accounting Standards for Private Enterprises, which sets out generally accepted accounting principles for non-publicly accountable enterprises in Canada, and include the 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 revenue 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 debt.

Revenue recognition

Landing fees, terminal fees, parking revenue and passenger security fees are recognized as the airport facilities are utilized. Concession revenue is recognized on the accrual basis and calculated using agreed percentages of reported concessionaire sales, with specified minimum guarantees where applicable. Rental revenue is 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.

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. Defined contribution component amounts are expensed as incurred.

Actuarial gains and losses are recognized in full in the period in which they occur. Current service cost and the interest cost on the accrued benefit obligation are included in the results of the Statements of Operations and Changes in Equity. The change in the long-term pension benefit obligation in the year is recognized in the Statements of Operations and Changes in Equity.

Financial instruments

The Authority's financial instruments consist of cash and cash equivalents, accounts receivable, Debt Service Reserve Fund, accounts payable and accrued liabilities and long-term debt. Accounts receivable are accounted for at amortized cost. Cash and Cash Equivalents and the Debt Service Reserve Fund 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 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.

[Tabular amounts are in thousands of dollars]

3. CAPITAL ASSETS

Capital assets consist of the following:

	2016			2015
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Computer hardware and software	14,776	11,223	3,553	3,612
Leasehold improvements	486,363	137,945	348,418	344,650
Machinery, equipment, furniture and fixtures	14,604	10,792	3,812	3,472
Vehicles	16,929	8,069	8,860	8,972
Construction in progress	17,864	–	17,864	9,613
	550,536	168,029	382,507	370,319

During the year, $34,668 in government contributions were received [2015 – $6,154,000] and was applied to capital assets. The contributions relate to capital development.

During the year, a loss of $0.5 million [2015 – nil] was recognized in general and administrative expenses that related to the disposal of capital assets.

4. LONG-TERM DEBT

Long-term debt consists of the following:

	2016 $	2015 $
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
	285,000	285,000
Less transaction costs, net of accumulated amortization	1,578	1,603
	283,422	283,397

[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 a $78.5 million Capex facility and a $16.0 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, 2016, an amount of $13.6 million of the operating and letter of credit facility had been committed, with $2.1 million designated to pension plan funding regulations and $11.5 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, 2016, the Debt Service Reserve Fund included $7.4 million [2015 – $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 $11.8 million will be required to fund the Operating and Maintenance Reserve Fund in 2017. 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 $34,000 [2015 – $370,000] was capitalized as part of construction in progress during the year.

5. AIRPORT IMPROVEMENT FEES

The AIF revenue is 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 of revenue over expenses before depreciation and interest. The AIF rate at December 31, 2016 was $25 [2015 – $25] 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 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 Airport.

[Tabular amounts are in thousands of dollars]

5. AIRPORT IMPROVEMENT FEES (CONTINUED)

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

	2016 $	2015 $
AIF revenue (net):		
AIF revenue	37,932	36,478
AIF collection costs	(2,315)	(2,221)
	35,617	34,257
Interest on surplus funds	302	341
Net funds received	35,919	34,598
Capital expenditures funded by AIF	33,989	18,247
Interest expense funded by AIF	14,953	14,620
	48,942	32,867
Excess of expenditures over AIF revenue	(13,023)	1,731
Excess of expenditures over AIF revenue, beginning of year	(325,180)	(326,911)
Excess of expenditures over AIF revenue, end of year	(338,203)	(325,180)

From January 1, 2001 to December 31, 2016, the cumulative capital expenditures funded by AIF totaled $666,776,000 [2015 – $617,834,000] and exceeded the cumulative AIF revenue by $338,203,000 [2015 – $325,180,000].

Equity in capital assets of the Authority is as follows:

	2016 $	2015 $
Equity in capital assets provided by AIF	39,784	40,792
Equity in capital assets provided by other operations	73,904	69,803
Equity in capital assets, end of year	113,688	110,595

The opening adjustment to equity in capital 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 equity in capital 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 [2015 – $80,000] and cumulative amortization to date amounts to $800,000.

[Tabular amounts are in thousands of dollars]

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 Airport. A 20-year extension was granted in 2014, extending the lease to January 31, 2080. Unless otherwise extended, the Authority is obligated to return control of the Airport to Transport Canada. Lease payments are based on a percentage of gross revenue on a progressive scale.

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

	$
2017	6,600
2018	7,300
2019	7,600
2020	8,000
2021	8,300

Long-term debt – bond issues
The interest payable over the next five years on the Authority's Series A and Series C Revenue Bonds is as follows:

	$
2017	14,854
2018	14,854
2019	14,854
2020	14,854
2021	14,854

Construction in progress
As at December 31, 2016, the Authority had outstanding contractual construction commitments amounting to approximately $7.5 million [2015 – $2.6 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. An actuarial valuation has been prepared as at January 1, 2016 for the purposes of funding the Plan. A measurement date of December 31, 2016 has been used for the purposes of the financial statements.

The Authority has adopted various policies in respect to the Plan:

a. Plan assets are valued at fair value for the purpose of calculating the expected return on the Plan assets.

b. At December 31, 2016, the plan assets were invested in various pooled funds.

c. Due to the nature of the benefit promise, the Authority's defined benefit obligation cannot be accurately predicted. Gains and losses arise because of changes in assumptions and from experience differing from what has been assumed. Under CPA Handbook section 3462, these gains and losses are recognized immediately in the Statements of Operations and Equity.

d. Differences in the actual investment return on plan assets and the return using the discount rate are recognized immediately in the Statements of Operations and Changes in Equity.

e. The last actuarial valuation for funding purposes was prepared as at January 1, 2016. The next scheduled actuarial valuation for funding purposes will be performed as at January 1, 2017.

f. The Authority uses a December 31 measurement date.

[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 pension assets of the Plan as at December 31:

	2016 $	2015 $
Plan assets	52,450	49,569
Accrued benefit obligation	(46,669)	(43,591)
	5,781	5,978

The following table provides information concerning the components of the pension gain (loss):

	2016 $	2015 $
Employers' current service cost	(719)	(721)
Interest cost on accrued benefit obligation	(1,842)	(1,991)
Expected return on the assets	2,121	2,204
	(440)	(508)
Actuarial (loss) gain on accrued benefit obligation	(1,743)	149
Difference between expected and actual return on assets	109	431
Pension (loss) gain	(2,074)	72

The significant actuarial assumptions adopted in measuring the Authority's accrued pension benefits, using the funding valuation basis, are as follows:

	2016 %	2015 %
Discount rate – year end benefit obligation	4.00	4.25
Discount rate – net benefit expense	4.25	4.75
Rate of compensation increase	3.25	3.25

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

	2016 $	2015 $
Employer's contribution	1,887	2,137
Employees' contributions	142	154
Benefits paid	1,368	1,222

	2016 %	2015 %
Equity securities	43	42
Fixed income securities	49	50
Real estate securities	8	8
	100	100

Pension expense amounted to $870,000 [2015 – $757,000] for the defined contribution component for which the pension expense is equal to the contributions made by the Authority to the Plan during the year.

The pension (loss) gain for the defined benefit component in 2016 was ($2,074,000) [2015 – $72,000].

[Tabular amounts are in thousands of dollars]

8. CAPITAL RISK MANAGEMENT

The Authority is a corporation without share capital and, accordingly, is funded through operating revenue, 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 revenue. 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, 2016, the balance outstanding, excluding any current portion, amounts to $285,000,000 [2015 – $285,000,000].

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 revenue for that specific year must be at least 1.25 times the total interest and principal payments for that year. As at December 31, 2016, 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, 2016, the Authority satisfies the requirements for both of these reserve funds.

9. FINANCIAL INSTRUMENTS

Fair value

The Authority's financial instruments consist of cash and cash equivalents, accounts receivable, Debt Service Reserve Fund, accounts payable and accrued liabilities and long-term debt. 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 approximates the carrying value.

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.

[Tabular amounts are in thousands of dollars]

9. FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 revenue, and resulting receivable balances, are derived from air carriers. The Authority derives approximately 48% [2015 – 51%] 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 and may enter into agreements that provide contingent support for new business. The Authority believes any liabilities arising from these matters would not reasonably be expected to have a material adverse effect on its financial position.

Corporate Governance

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

Government of Canada	2
Province of Nova Scotia	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. However, at any given time, by a vote of the Board, one director's term can be extended for three years, to a maximum total of 12 years. 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 has overall responsibility for the stewardship of the Airport Authority, overseeing governance and strategic direction. The Board also oversees management, who are responsible for the day-to-day conduct of the business, with the fundamental objective of ensuring that the Airport Authority meets its obligations and operates in a safe, efficient and responsible manner. The Board meets as often as is required to carry out its responsibilities and maintains four standing committees, which are accountable to the Board: the Executive Committee, chaired by Wadih Fares; the Audit Committee, chaired by Marie Mullally; the Capital Projects Committee, chaired by Stephen Dempsey; and the Governance Committee, chaired by Rob Batherson. The purpose of each Committee is as follows.

Executive Committee

The Executive Committee assists the Board by (i) within the limits of its delegated authority, addressing matters that arise between regular Board meetings that require immediate attention/action; (ii) carrying out functions as delegated to the Executive Committee by the Board and in particular those functions pertaining to the President and Chief Executive Officer (CEO) position; and (iii) acting in an advisory capacity to the President and CEO on matters that will be brought to the full Board for future consideration.

Audit Committee

The Audit Committee assists the Board by (i) approving the Airport Authority's quarterly unaudited financial statements and reviewing the annual audited financial statements; (ii) monitoring the integrity of the Airport Authority's financial reporting process and internal control system regarding financial reporting; and (iii) monitoring the independence and performance of the Airport Authority's external auditors. The Audit Committee acts in an advisory capacity to the Board except for approving the quarterly unaudited financial statements and the annual audit plan.

Capital Projects Committee

The Capital Projects Committee assists the Board in (i) approving and reviewing the 10-Year Capital and Financial Plan and all proposed major capital projects; and (ii) monitoring the progress and results of approved projects against pre-established measures and targets.

Governance Committee

The Governance Committee assists the Board by providing a focus on governance that is intended to enhance the Board's performance as well as to add value and support to the Airport Authority in achieving its corporate objectives. As part of this mandate, the Governance Committee leads the Board nomination process and receives reports and makes recommendations on a variety of governance matters including (i) the Board Governance Framework, consisting of the Board Governance Policy and accompanying plans/programs; (ii) Board composition and effectiveness; and (iii) the terms of reference for each Board committee.

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.

Corporate Governance (continued)

During 2016, 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.

Board of Directors Compensation

Chair: W. Fares	$ 72,400
Vice Chair: M. Mullally	$ 40,300
Secretary: J. S. Cowan	$ 28,000

Directors:

D. Bastow (joined the Board September 23, 2016)	$ 217
R. Batherson	$ 26,750
B. Buckles	$ 20,200
S. Dempsey	$ 24,650
J. Fitzpatrick	$ 20,500
A. MacGregor	$ 18,700
A. MacKenzie	$ 17,200
A. MacLean	$ 17,200
S. Porter	$ 17,500
T. Traves (resigned from the Board June 28, 2016)	$ 12,900

Notes: Amounts represent payments made in 2016

Executive Compensation

The salary range for the President & CEO and for the Vice Presidents of the Airport Authority during 2016 was $150,000 to $320,000. In addition to base salaries, annual performance incentive payments totalling $346,387 were paid during the year. Performance incentives are contingent upon corporate achievements.

Contracts in excess of $111,600

In accordance with its lease with Transport Canada, Halifax International Airport Authority is required to report all contracts in excess of $111,600 ($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. In 2016, the Airport Authority entered into three sole source contracts.

A sole source contract was awarded to Nova Communications Ltd. to provide two-way land mobile radio communications equipment to be used to access the Provincial Trunked Mobile Radio (TMR) System. The value of the contract is not to exceed $250,000 for equipment and implementation. The Province of Nova Scotia has contracted Bell Aliant to build and operate the TMR network. Bell requires that only approved radios can be used on the network, and Nova Communications is a Bell approved re-seller of this equipment. The Airport Authority had previously entered into a contract with Nova Communications following a competitive tender process, to provide the Airport Authority with its mobile radio communications system, and their knowledge of the existing equipment and systems is an advantage to the Airport Authority.

The Airport Authority awarded a sole source contract valued at $134,697 USD to Atlas IED (IED) for hardware, software and services to update the Airport Authority's Public Address System. In 2006, IED was the successful proponent from a competitive bidding process to supply the Airport Authority with a PA system. This system had reached the end of its life, and this update will extend the system's useful life by five years, and leverages the Airport Authority's original investment in this technology.

The Airport Authority awarded a sole source contract to Embross North America Ltd. for additional and replacement Common Use Self Serve (CUSS) kiosks. The value of the contract is expected to be $300,000. The Airport Authority had previously entered into a contract with IBM for supply of CUSS equipment, following a competitive tender in 2004. In 2015, IBM sold their kiosk business to Embross North America. The Airport Authority, having an equipment standardization program in place for this equipment, will purchase up to 15 additional kiosks over two years.

Board of Directors

Wadih M. Fares

CHAIR

C.M., P. Eng., FEC, D.Comm.
President & CEO,
WM Fares Group

Nominator and Date Appointed:
Halifax Chamber of Commerce March 2006

Meeting Attendance*:

Board (Chair)	7/8
Executive Committee (Chair)	4/4

Doug Bastow

DIRECTOR

Retired Airline Executive
Retired Airline Pilot

Nominator and Date Appointed:
Airport Authority September 2016

Meeting Attendance*:

Board	2/2
Capital Projects Committee	1/1

Mr. Bastow was appointed to the Board on September 23, 2016.

Marie Mullally

VICE CHAIR

FCPA, FCA, ICD.D
President & CEO,
Credit Union Atlantic

Nominator and Date Appointed:
Halifax Chamber of Commerce April 2009

Meeting Attendance*:

Board (Vice Chair)	8/8
Executive Committee	4/4
Audit Committee (Chair)	4/4

Robert Batherson

DIRECTOR

President, Colour PR

Nominator and Date Appointed:
Halifax Regional Municipality July 2013

Meeting Attendance*:

Board	8/8
Executive Committee	4/4
Governance Committee (Chair)	6/6

* Ratio equals number of meetings attended / number of meetings eligible to attend. Excludes Annual Public Meeting. As Chair and Vice Chair, Mr. Fares' and Ms. Mullally's attendance at these committee meetings (other than the Executive Committee for Mr. Fares and the Audit Committee for Ms. Mullally) is discretionary and therefore, the above table does not reflect their attendance at other Committee meetings.

Board of Directors (continued)

Brian Buckles

DIRECTOR

Retired Scotiabank Executive

Nominator and Date Appointed:
Government of Canada May 2011

Meeting Attendance*:

Board	8/8
Audit Committee	4/4
Capital Projects Committee	4/4

John Fitzpatrick

DIRECTOR

QC, Partner,
BOYNECLARKE LLP

Nominator and Date Appointed:
Halifax Regional Municipality July 2014

Meeting Attendance*:

Board	8/8
Capital Projects Committee	4/4
Governance Committee	6/6

Stephen Dempsey

DIRECTOR

Executive Director,
Offshore Energy Research Association of Nova Scotia

Nominator and Date Appointed:
Halifax Regional Municipality May 2011

Meeting Attendance*:

Board	8/8
Executive Committee	3/4
Capital Projects Committee (Chair)	4/4

Ann MacGregor

DIRECTOR

Radio Host and Promotions Director,
Hector Broadcasting

Nominator and Date Appointed:
Government of Canada March 2015

Meeting Attendance*:

Board	8/8
Governance Committee	6/6

* Ratio equals number of meetings attended / number of meetings eligible to attend. Excludes Annual Public Meeting.

Board of Directors (continued)

Ann MacKenzie
DIRECTOR

CPA, CA, MEC, ICD.D
Chief Executive Officer, ACENET

Nominator and Date Appointed:
Airport Authority March 2015

Meeting Attendance*:

Board	8/8
Audit Committee	4/4

Sherry Porter
DIRECTOR

Retired Corporate Executive

Nominator and Date Appointed:
Halifax Chamber of Commerce March 2015

Meeting Attendance*:

Board	7/8
Governance Committee	6/6

Ann MacLean
DIRECTOR

Former Mayor of New Glasgow
Retired Senior Administrator

Nominator and Date Appointed:
Province of Nova Scotia February 2015

Meeting Attendance*:

Board	7/8
Audit Committee	4/4

Tom Traves
DIRECTOR

Professor of Management, Dalhousie University

Nominator and Date Appointed:
Halifax Regional Municipality July 2014

Meeting Attendance*:

Board	4/5
Capital Projects Committee	1/2

Mr. Traves resigned from the Board effective June 28, 2016.

James S. Cowan
SECRETARY

QC, Senator
Partner, Stewart McKelvey

* Ratio equals number of meetings attended / number of meetings eligible to attend. Excludes Annual Public Meeting.

Our People

Derek Fraser, Dean Bouchard, Chris Collier, Tom Murray, Alex Skinner, Doug Meek, Shane Boutilier, Jason Howie, Bert van der Stege, Mike Rantala, Burton Wright, Erika Triff, Melissa Lee, Mike Walker, Brian Gillette, Bug Turple, Patrick Oster, Tony McMillen, Jaime Cayaoyao, Mark Urquhart, Joey MacPherson, David Brown, Paula Cannon, Paul Chisholm, Larry Naugle, Darin Clarke, Nicole Burchell-Isenor, Danny Chaplin, Taras Chemerys, Steven Hilchie, William Cowan, Glen Boone, Cathy Paget, Scott Robertson, Stephen Fudge, Arnold Wood, Reg Beeler, Howard Rose, Sean Dempsey, Peter Khattar, Dustin Drew, Gregory Shackleton, Art Nowen, Tara Mombourquette, Todd Hickey, Roxanne Hilchie, Jamie Dwyer, Kris Stevens, Delbert Geddry, Betsy McCully, Sally Inglis, Tom Antonio, Dean Letto, Mark Fletcher, Rick Wyatt, Ruth Stoddard, Tim Leeman, Donald Myers, Paul Brigley, Jim Tanswell, Anita Chisholm, Jonathon Heffernan, Scott Singer, Bill Wellwood, Richard Garson, Carol Mackie, Malcolm Phippen, Jamie Wilkins, Carl Brown, Kyle Mohler, Chris Waugh, Troy Appleby, Daniel Chandler, Jo-Anne McLean, Kelly Corbett, Jim Moulton, Robert Hewitt, Kim Porter, Paul Baxter, Zack Zunic, Clayton Maynard, Bill Crosman, Melissa Upton, Alex Lyall, Wayne DeCoste, Steven Clarke, Ian Arthur, Rhonda Brassard, Shawn DeLong, Jaan Soosaar, Kevin Mosher, Laurie Brown, Steve Bezanson, Darrell Corkum, Joel Christie, Danny Kennedy, Tom Winsor, Blair Christian, David Rowe, Drake Clarke, Tonya McLellan, Brodie MacNevin, Keith Gurschick, Terry Hilchey, Paul Hood, Rachael Robinson, Twila Grosse, Chris Cartwright, Mindy Li, Myles Swain, Leigh Robinson, Janet Young, Robert Miller, Shawn Hicks, Kellie Hannam, Paula Fisher, Joey Young, Leah Sutherland, Robert Silver, Tim Fisher, David Dawe, Peter Sworin, Marcel Laforest, Sandi Nicholson, Marlene More, Brian Thomas, Joshua Kolstee, Milly Walker, Donna Anderson, Craig Paul, Deborah Newcombe, Ashley Gallant, Michael Healy, Reg Verge, Glenda Gillam, Valerie Seager, Todd Ball, Derek Forrest, Stephanie Gorman, Todd D'Arcy, Jeff MacMillan, Scott Baines, Tim Bull, Jack Weir, Rick Gooding, Matthew Flynn, Mike Christie, Ron Conway, Corey Teed, Jung-Joo Maeng, Ken Bayers, Nicole Scaplen, Jennifer Delorey Lyon, Peter Hilton, Donald Mattinson, Alan Carragher, Brian LeBlanc, Jane Scott, Jennifer Starratt, Nadine Allen, Matt McDonald, Scott Roberts, Dan Pride, Dave St. Laurent, Peter Spurway, Bill Turple, Laila Nargis, Kim Oakley, Cathy Towers, Chris Altass, Paul McLaughlin, Joyce Carter, John Melbourne, Rachel Griffiths, Rick Boutilier, Jeff Hauser, Doug Eisan, Lee Nolter, Claude Cunningham, Daniel Archibald, Michael Samson, Paul Dalrymple, Mel Thomas, Robert Clarke, Kevin Boutilier, Sherrie Clow, Kathryn Langridge, Craig Singer, Karen Murphy, Norman Ross, Nancy Fong, Shelia Williams, Andy Lyall, Kelly Martin, Joyce Hoskin, Tim Zinck, Catherine Huddleston, Jennifer Best-White, Gordon Brooks, Edward Dempsey, Karen Sinclair (during 2016).

Our People

Derek Fraser, Dean Bouchard, Chris Collier, Tom Murray, Alex Skinner, Doug Meek, Shane Boutilier, Jason Howie, Bert van der Stege, Mike Rantala, Burton Wright, Erika Triff, Melissa Lee, Mike Walker, Brian Gillette, Bug Turple, Patrick Oster, Tony McMillen, Jaime Cayaoyao, Mark Urquhart, Joey MacPherson, David Brown, Paula Cannon, Paul Chisholm, Larry Naugle, Darin Clarke, Nicole Burchell-Isenor, Danny Chaplin, Taras Chemerys, Steven Hilchie, William Cowan, Glen Boone, Cathy Paget, Scott Robertson, Stephen Fudge, Arnold Wood, Reg Beeler, Howard Rose, Sean Dempsey, Peter Khattar, Dustin Drew, Gregory Shackleton, Art Nowen, Tara Mombourquette, Todd Hickey, Roxanne Hilchie, Jamie Dwyer, Kris Stevens, Delbert Geddry, Betsy McCully, Sally Inglis, Tom Antonio, Dean Letto, Mark Fletcher, Rick Wyatt, Ruth Stoddard, Tim Leeman, Donald Myers, Paul Brigley, Jim Tanswell, Anita Chisholm, Jonathon Heffernan, Scott Singer, Bill Wellwood, Richard Garson, Carol Mackie, Malcolm Phippen, Jamie Wilkins, Carl Brown, Kyle Mohler, Chris Waugh, Troy Appleby, Daniel Chandler, Jo-Anne McLean, Kelly Corbett, Jim Moulton, Robert Hewitt, Kim Porter, Paul Baxter, Zack Zunic, Clayton Maynard, Bill Crosman, Melissa Upton, Alex Lyall, Wayne DeCoste, Steven Clarke, Ian Arthur, Rhonda Brassard, Shawn DeLong, Jaan Soosaar, Kevin Mosher, Laurie Brown, Steve Bezanson, Darrell Corkum, Joel Christie, Danny Kennedy, Tom Winsor, Blair Christian, David Rowe, Drake Clarke, Tonya McLellan, Brodie MacNevin, Keith Gurschick, Terry Hilchey, Paul Hood, Rachael Robinson, Twila Grosse, Chris Cartwright, Mindy Li, Myles Swain, Leigh Robinson, Janet Young, Robert Miller, Shawn Hicks, Kellie Hannam, Paula Fisher, Joey Young, Leah Sutherland, Robert Silver, Tim Fisher, David Dawe, Peter Sworin, Marcel Laforest, Sandi Nicholson, Marlene More, Brian Thomas, Joshua Kolstee, Milly Walker, Donna Anderson, Craig Paul, Deborah Newcombe, Ashley Gallant, Michael Healy, Reg Verge, Glenda Gillam, Valerie Seager, Todd Ball, Derek Forrest, Stephanie Gorman, Todd D'Arcy, Jeff MacMillan, Scott Baines, Tim Bull, Jack Weir, Rick Gooding, Matthew Flynn, Mike Christie, Ron Conway, Corey Teed, Jung-Joo Maeng, Ken Bayers, Nicole Scaplen, Jennifer Delorey Lyon, Peter Hilton, Donald Mattinson, Alan Carragher, Brian LeBlanc, Jane Scott, Jennifer Starratt, Nadine Allen, Matt McDonald, Scott Roberts, Dan Pride, Dave St. Laurent, Peter Spurway, Bill Turple, Laila Nargis, Kim Oakley, Cathy Towers, Chris Altass, Paul McLaughlin, Joyce Carter, John Melbourne, Rachel Griffiths, Rick Boutilier, Jeff Hauser, Doug Eisan, Lee Nolter, Claude Cunningham, Daniel Archibald, Michael Samson, Paul Dalrymple, Mel Thomas, Robert Clarke, Kevin Boutilier, Sherrie Clow, Kathryn Langridge, Craig Singer, Karen Murphy, Norman Ross, Nancy Fong, Shelia Williams, Andy Lyall, Kelly Martin, Joyce Hoskin, Tim Zinck, Catherine Huddleston, Jennifer Best-White, Gordon Brooks, Edward Dempsey, Karen Sinclair (during 2016).

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