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MESSAGE FROM THE BOARD CHAIR AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Message from the Board Chair

2016 was both an exciting and a challenging year for Victoria Airport Authority. In light of 38 consecutive months of record increases in passenger numbers, culminating in double-digit growth in the last half of the year, the airport has been a busy place.

We broke records, with more than 1.85 million passengers in 2016. This number of travellers is well ahead of the projections we made only two years ago.

High traffic volumes have necessitated additional procedures to safely handle an ever-increasing number of aircraft on the terminal ramp area and accelerated development plans for our terminal building. Many who have used the airport recently have noted the expansion of our parking areas, which allowed us to accommodate all customers over the peak Christmas period.

Victoria Airport Authority generates about two-thirds of its revenues from non-aviation sources. These revenues support our operations and the growth of our infrastructure, including the provision of improvements at minimal cost to the customer. We take pride in having one of Canada’s lowest airport improvement fees for passengers and low landing and terminal fees for the airlines while, at the same time, providing an internationally recognized level of customer service. Victoria Airport Authority remains committed to maintaining those accomplishments in 2017 and into the future.

The Victoria Airport Authority Board of Directors oversees the governance of the airport in accordance with its policies and by-laws, in compliance with the 2012 Canada Not-for-profits Corporation Act, under which it operates. We are also responsible for approving all major expenditures and ensuring the overall financial health of the corporation.

We are pleased to report that Victoria Airport Authority retired all of its long-term debt in January of this year, entering 2017 debt free. By finishing 2016 in a very strong financial position, Victoria Airport Authority is well placed to manage future expansion, for which planning is now underway.

Victoria Airport Authority is a major economic generator on southern Vancouver Island. The Board is committed to overseeing the growth and economic health of the airport for the overall benefit of the region and providing customers with low user costs and the highest levels of customer service.

– James Crowley

Geoff Dickson
President and
Chief Executive Officer

Message from the President and Chief Executive Officer

I would characterize 2016 as a year of phenomenal growth. Although it was Victoria International Airport’s third consecutive year of record passenger traffic, this year in particular was remarkable.

In my 30 years in the transportation industry, I have never seen growth like we experienced in the last six months of the year. To put it into perspective, while passenger traffic increased 8.5% over the course of the entire year, increases ranged from 8.7% to 14.1% per month over the last six months alone.

Many factors combined with the strength of the local Victoria economy to drive unprecedented increases in passenger traffic:

• Favourable US exchange rates
• Tourism Victoria’s efforts to attract priority markets
• Air Canada’s continued growth to their Vancouver hub
• WestJet’s Encore service expansion
• Delta’s new service connections to their Seattle hub
• New Leaf Travel Company’s new Kamloops, Edmonton, Winnipeg and Halifax service
• Expansion of US, international and domestic flights at Vancouver International Airport

Our challenge now is to make prudent and timely infrastructure investments to support these increases and facilitate future growth – while maintaining our position as a low-cost, high-quality airport. We made good strides in that direction in 2016.

Phase II of a multi-phase terminal and apron expansion program was completed. Long-term vehicle parking capacity was increased 15% and overall parking capacity has been increased by 30% over the past two years. Replacement of the outbound baggage system was substantially completed, without disrupting customer service. A new non-passenger vehicle screening facility was constructed and began operating in June.
Victoria Airport Authority continued its focus on diversifying its revenue base to keep aviation costs low. The Town of Sidney approved new commercial zoning for a ten-acre parcel of airport land, creating opportunity for a developer to build a 9,290 square-metre retail centre that will produce land rent for Victoria Airport Authority. A new advertising agreement with the Pattison Group essentially tripled advertising revenues.

We are positioned well for the future: the airport’s debt was fully retired in January 2017, costs for the airlines operating at Victoria International Airport (YYJ) are among the lowest in the country, and the Air Transport Research Society named YYJ and Vancouver International Airport (YVR) the most financially efficient airports in Canada. These are especially notable accomplishments considering that our airport continues to be recognized as one of the top regional airports in North America for service quality.

We were also pleased to have completed a number of significant environmental initiatives. We take great pride in being responsible stewards of the environment and, to that end, have implemented many measures to conserve natural resources, improve water quality and reduce pollution.

We are particularly pleased about a significant project on TenTen Creek that was completed in partnership with Shore Keepers, Tseycum First Nation, Peninsula Streams Society, Watershed Ecological, SLR, Rodd Excavating, Kerr Wood Leidal and Transport Canada. This stream reclamation project included the re-profiling of two large banks to reduce further erosion, construction of two large sediment traps to minimize sediment flow into Patricia Bay, new creek plantings to encourage aquatic habitat and modification of the current water flow of the creek.

Victoria Airport Authority released our Environmental Management Plan in Spring 2016. This essential document facilitates the delivery of world class environmental leadership and guides our activities. I encourage you to read it: www.victoriaairport.com.

As a not-for-profit community-based regional asset, we will continue to fulfill our mandate as stewards of one of the region’s most important assets.

Previous forecasts projected that we would welcome 2 million passengers through the airport in 2020. However, having served more than 1.85 million passengers in 2016, it looks like we will meet our 2020 projection by 2018. We will be ready.

From all of us at Victoria International Airport, we look forward to serving you.

– Geoff Dickson

2016 HIGHLIGHTS AND ACCOMPLISHMENTS

2016 was an exceptional year for Victoria International Airport. With another year of record passenger volumes, solid financial results, major infrastructure investments, and environmental and community initiatives, Victoria Airport Authority continues its balanced approach to managing the airport lands.

- Welcomed 1,856,421 passengers – a new record for YYJ
- Launched new air services from Delta Air Lines and NewLeaf Travel
- Expanded air services with WestJet Encore
- Recognized as the most financially efficient major airport in Canada by the Air Transport Research Society
- Fully retired its debt, effective January 3, 2017
- Established a four-year collective agreement with members of the Public Service Alliance of Canada (PSAC) / Union of Canadian Transportation Employees (UCTE) Local 20209
- Completed phase II of a multi-phase apron and terminal expansion plan that created more aircraft parking capacity and space for future expansion of the lower passenger departures area
- Substantially completed a 18-month project to replace the checked baggage system
- Received rezoning approval from the Town of Sidney to allow a commercial development at Highway 17 and Beacon Avenue
- Achieved the highest score in five years on the annual Employee Satisfaction Survey
- Recognized by Excellence Canada for the fifth consecutive year for providing a healthy workplace
Victoria International Airport (Airport Code: YYJ) is the 10th busiest airport in Canada, with more than 1.856 million passengers per year and over 120 daily flights throughout North America. Serving the Greater Victoria region and surrounding area, it acts as an economic catalyst by facilitating the movement of people, goods and ideas through flight.

YYJ is operated, managed and developed by Victoria Airport Authority (VAA). This non-share capital corporation receives no operating subsidies from the government and is financially self-sufficient. Revenue is generated from three different sources: the Airport Improvement Fee (AIF); aeronautical revenue; and non-aeronautical revenue. As a not-for-profit organization, Victoria Airport Authority reinvests all surplus income in the airport.

Victoria Airport Authority’s focus will always be on ease and function combined with friendly service.

**VISION**
To be the best airport anywhere.

**MISSION**
To provide a safe, secure and efficient airport that enhances economic and social benefits for our region.

**GOALS**
- Provide and operate a safe and secure airport
- Retain and attract a talented and motivated team of employees
- Be a leader in environmental protection
- Provide exceptional airport facilities and customer service
- Attract and maintain air service
- Operate in a financially responsible manner

**GUIDING PRINCIPLES**

**Security, Safety and the Environment**
Safety, security and the environment are paramount in everything we do.

**Customer Service**
Deliver exceptional levels of service and value.

**Partnership and Accountability**
Work openly and constructively with our stakeholders and community.

**Employer of Choice**
Treat all employees with fairness, dignity and respect.

**Responsible Stewardship of Assets**
Manage our finances and infrastructure prudently.

**Economic Development**
Promote sustainable economic development and tourism of the region.

**Leadership and Innovation**
Foster leadership and innovation.
A SAFE AND SECURE AIRPORT

HIGH LEVEL INCIDENT STATS

- 323 Airport Fire Services responses
- 129 Apron IV incidents
- 24 Environmental responses
- 81 Medical responses
- 182 Security responses
- 21 Aircraft responses
- 20 Aircraft incursions
- 15 Vehicle accidents
- 47 Security screening responses
- 34 Wildlife incidents
- 1 Employee time-loss injury

Safety and security are the highest priorities for Victoria International Airport. In 2016, Victoria Airport Authority conducted several significant initiatives to improve safety and security at the airport:

- Replaced the entire checked baggage system and upgraded screening capabilities to international standards through a $10.4 million program funded by the Canadian Air Transport Security Authority (CATSA)
- Built and began operating a facility to screen non-passengers and their vehicles, providing increased security on the main commercial aircraft parking apron
- Established a new ramp safety and security position, which is staffed 16 hours a day to monitor and report safety violations on the main commercial aircraft parking apron
- Educated general aviation pilots, flight training companies and military personnel on safety-related matters at the airport through a workshop hosted, for the second year in a row, in partnership with NAV Canada
- Significantly reduced the number of wildlife strikes and strike rate per aircraft movement over previous years with enhancements to the wildlife program
- Reduced traffic violations by 85% in the second half of 2016 over the first half through the Apron IV Safety Enforcement program
- Trained Airport Fire Services personnel to administer Naloxone to people suspected to have overdosed on opiates

Photo credit: Melinda Orlowski
EMERGENCY PREPAREDNESS

Multi-Agency Emergency Response Exercise

On September 29, 2016, Victoria Airport Authority simulated an aircraft accident at Victoria International Airport as part of a full-scale emergency training exercise. Transport Canada regulations require that training exercises like this be conducted every four years to review various aspects of a coordinated response. It ensures that all involved organizations are prepared to respond quickly and effectively to an emergency.

Participating airport personnel included staff from Victoria Airport Authority Administration, Fire Services and Security, as well as NAV Canada, WestJet, other local airlines and terminal building tenants. The following local agencies were also involved: BC Ambulance Service, Vancouver Island Health Authority, RCMP, BC Coroners Service, and fire departments from North Saanich, Central Saanich and the Town of Sidney. Many other volunteers, who fulfilled the roles of injured airplane passengers, provided emergency personnel with an important element of the training exercise.

Victoria Airport Authority regularly tests emergency response plans, upgrades safety procedures and responses as necessary, and provides training opportunities for local response agencies as part of its emergency preparedness efforts.

ENVIRONMENTAL PROTECTION AND MANAGEMENT

Environmental sustainability is integral to the operations at Victoria International Airport. Victoria Airport Authority has committed to environmental protection and management – aiming beyond merely meeting regulatory minimums to taking a true leadership role. By working with the local community and stakeholders to protect and enhance fragile ecosystems and local water quality, it mitigates industrial impacts on the environment and works towards a better future.
ENVIRONMENTAL MANAGEMENT PLAN

In 2016, Victoria Airport Authority published its current Environmental Management Plan, which outlines the many ways it will manage its environmental footprint as Victoria International Airport continues to grow to meet the demands of our region.

Victoria International Airport has been involved in environmental sustainability since it took over the management of the 1,198 acres of airport lands in 1997. It has been recognized on an international scale for environmental mitigation projects and was the third airport in North America to achieve Airports Council International’s Carbon Accreditation Level I.

The following components are integral to Victoria Airport Authority’s Environmental Management Plan:

**Water**
- Storm Water Quality Program
- Potable Water Quality Program
- Sanitary Source Control

**Reay Creek Remediation**
- Diversion Channels
- Monitoring Program
- Restoration Projects

**TenTen Creek Channel Renewal**
- Constructed Wetlands Complex Project

**Habitat and Wildlife Management**
- Wildlife Management Program

**Environmental Protection**
- Spill Response
- Oili-Water Separators
- De-Icing Chemicals
- Glycol Collection and Recycling

**Facilities and Waste Management**
- Green House Gas Tracking
- BC Hydro’s Continuous Optimization Program
- Energy-Use Reduction Improvements
- Waste Management Program
- Carbon Accreditation Program
- Alternative Energy Infrastructure
- Solar Hot Water
- Electric Vehicle Charging Stations
- Geo-Thermal Heating and Cooling

**Environmental Assessment Program**
- Environmental Screening
- Soil Testing
- Construction Surveillance
- First Nations Archaeological Monitoring

**Tenant Sustainability Support**
- Electric Vehicle Program (Air Canada)
- Tenant Facility Inspections

Visit the Victoria Airport Authority website at [www.victoriaairport.com](http://www.victoriaairport.com) for the 2016 Environmental Management Plan.
ENVIRONMENTAL STEWARDSHIP

Victoria International Airport maintained its leadership position with respect to environmental stewardship. Victoria Airport Authority undertook the following environmental management projects in 2016:

- Addressed TenTen Creek bank stabilization and sediment flows by re-profiling two of the creek’s steepest banks to reduce erosion, creating sediment traps to reduce downstream impacts, and adding plantings and rocks in the riparian area to attract fish
- Participated in the Reay Creek Pond Technical Advisory Group, which has a mandate to assess the pollution contained within the pond downstream of airport lands
- Worked with Transport Canada to have the Reay Creek site incorporated into Transport Canada’s portfolio of contaminated sites, where it will be prioritized to determine its eligibility for any available funding
- Created a new glycol treatment area where glycol, a de-icing compound, can be captured in two 25,000-litre tanks before being either discharged to the sanitary system or placed in a newly constructed 125,000-litre detention pond to be treated on site
- Installed Sun Country Level 2 electric vehicle charging stations in the daily and short-term parking lots
- Worked with Transport Canada to study air quality at the airport – a full report is forthcoming in 2017
- Converted metal halide light fixtures in the air terminal building to use LED lightbulbs
- Installed a heat exchanger with controls to divert excess capacity from the solar hot water systems to supply the main heating water system during heating loads

LAND DEVELOPMENT

Victoria Airport Authority, our tenants and our community stakeholders took action towards developing airport lands in 2016:

- In anticipation of the return of the old 443 Squadron Department of National Defence hangar to the airport lands, Victoria Airport Authority completed a site plan for future aviation development in the West Camp
- Victoria Airport Authority completed a block planning exercise to guide future use of the Pat Bay seaplane base
- Seastar Chemicals completed construction of a new building in the east industrial area
- Scott Plastics completed a building addition in the east industrial area
- The Town of Sidney approved zoning changes and provided an amendment to its Official Community Plan in relation to a proposed commercial development on Beacon Avenue and Highway 17
OUR PEOPLE

Customer service excellence is the cornerstone of Victoria Airport Authority’s approach to providing an exceptional facility. Many talented people work at Victoria International Airport – and their wide variety of talents contribute towards travellers’ exceptional experiences.

Typically, 40 full time staff and 3 term employees fulfill the administration, operations, technology and first responder duties at Victoria International Airport.

Many noteworthy people, with unique skills and personal traits, contribute towards making YYJ a remarkable place. They also give back to our community in their own special ways – through volunteerism, sporting achievements, personal generosity and, very often, a combination of all three.

Honouring a Good Friend – Mike Walsh

Mike Walsh, a respected equipment operator at the airport, passed away in January after battling a rare form of Acute Lymphoblastic Leukemia.

On October 15, 2016, a large group of Mike’s friends and family gathered to share fond memories of their beloved co-worker. A ceremony was held to dedicate a memorial garden in his honour. The garden, installed at the Airside Operations Centre, provides a quiet place of contemplation for staff to remember their friend.

A plaque installed in the garden includes the following passage, which meant a lot to Mike:

“ I am free, I am loving, I am an immortal being whose sole purpose in life is to love, and love unconditionally.”

Red Coat Volunteers

YYJ’s Red Coat volunteers – a group of more than 25 locals – provide a warm smile and a friendly welcome to visitors. They have the experience and familiarity with the region to help anyone in need.

Named after their bright red blazers, which make them easy to find in times of need, Red Coats offer courteous front-line assistance to anyone looking for directions, asking travel questions or requiring assistance to resolve problems. Red Coats can be found at the information desk near the arrivals rotunda, seven days a week.

Staff Events

Several employees reached milestone anniversaries at the airport in 2016. Their contributions to the airport were recognized during a Long-Service Award ceremony that included a special luncheon and a small gift of appreciation.

Two long-serving Victoria Airport Authority staff members, Electrical Supervisor Bob Nalleweg and Fire Captain Jim Wood, were honoured with retirement parties to recognize their accomplishments and celebrate their important milestone.

Once again, Victoria Airport Authority staff were challenged to improve their overall mental and physical health, and strengthen their family relationships as part of Healthy Workplace Month. This fun campaign gives everyone opportunities to learn about good physical and mental health, and find new ways to incorporate positive habits into their lives.
AIR SERVICES

The past year will be remembered as one of remarkable growth. Passenger traffic increased 8.5% over the course of the entire year as a result of a strong local economy combined with several other factors, including favourable US exchange rates, successful local tourism efforts, as well as new air services and service expansions.

- Delta Air Lines began three daily non-stop flights between Victoria and Seattle in April 2016, facilitating connections from Delta’s Seattle hub to its worldwide network of destinations
- WestJet’s subsidiary Encore continued to add services at Victoria International Airport with new Vancouver and Kelowna flights – Encore now operates 14 flights a day in addition to WestJet’s mainline service
- Pacific Coastal Airlines was the fastest growing carrier at YYJ, with traffic increases of 44% driven primarily by the Prince George and Kelowna routes
- NewLeaf Travel commenced operations in July 2016, with new services to Kamloops, Edmonton, Winnipeg and Hamilton
- Meetings with senior management of other potential ultra-low cost airlines took place throughout the year

PASSENGER TRAFFIC FOR 2016

- Domestic 1,547,108
- Transborder 282,742
- Charter/Seasonal 26,571

1,856,421 Record # of passengers in 2016
Up 8.5% from 2015

ANNUAL PASSENGER TRAFFIC
AIRPORT OPERATIONS

The Operations team keeps the runways clear, inspects and repairs equipment, maintains the airport grounds and terminal buildings, maintains Victoria Airport Authority’s fleet and ensures compliance with Transport Canada’s safety requirements.

Here are a few interesting milestones that Victoria Airport Authority reached in 2016:

- Completed a year-long bird survey that assessed bird types and weights to determine potential hazards and develop mitigation strategies for each variety of bird
- Completed three regulatory audits of the Safety Management System (SMS)
- Trained on new Aerodromes Standards and Recommended Practices (TP-312 5th Edition) airport operating standards that will come into effect in 2019
- Participated on federal and provincial airport councils to advance policies and procedures concerning airport operations
COMMUNITY RELATIONS AND ENGAGEMENT

Victoria Airport Authority participated in numerous speaking engagements in which it provided information about upcoming projects, initiatives and events. It also hosted committee meetings to facilitate the collection of community feedback about airport-related issues.

Victoria Airport Authority remains accountable to the public and shares news about its accomplishments through the following platforms:

- Annual Public General Meeting
- Public Meetings
- Airport Consultative Committee
- Noise Management Committee
- Airline Consultative Committee
- Report to Nominators
- Victoria Airport Authority website

- Publications:
  - Annual Report
  - Environmental Management Plan
  - Master Plan
  - Strategic Plan
  - Safety Plan
  - On Approach newsletter
  - Media Releases
  - YYJ Airmail

- Social media:
  - Twitter: @Fly_YYJ
  - Facebook: Victoria.International.Airport
  - Instagram: yyjairport
  - Google+: Victoria International Airport

All of Victoria Airport Authority’s publications are available online, at www.victoriaairport.com.

Victoria Airport Authority gives back to the community in many ways:

- ‘Lost Airmen of the Empire’ commemorative monument at Hospital Hill, which will honour those who perished while stationed or working at the Patricia Bay Air Station during World War II, or who were on board aircraft based there during this period
- The Flight Path, a 9.3 km multi-use bike and walking trail
- Provision of land for Jubilee Park and the Rotary Park Field of Dreams in North Saanich
- New pedestrian walkways connecting the air terminal parking lot to The Flight Path
- Donations to local community benefit organizations
- Sponsorship of community-focused events
DONATIONS AND SPONSORSHIPS

In 2016, Victoria Airport Authority donated $42,790.34 for charitable causes and events and an additional $30,764.00 towards sponsorships and in-kind donations, for a total of $73,554.34.

<table>
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<tr>
<th>Organization</th>
<th>Donation Amount</th>
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<tr>
<td>BC Aviation Council</td>
<td>$2,250.00</td>
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<td>BC Aviation Museum</td>
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<td>BC Cancer Foundation – Ride to Conquer Cancer</td>
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<tr>
<td>BC Childrens Hospital Foundation</td>
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<td>BC Hospital Foundation</td>
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<td>Blue Bridge Repertory Theatre</td>
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<td>BOMA – Victoria Golf Tournament Sponsorship</td>
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<td>CACSP – Sidney Fine Art Show</td>
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<tr>
<td>Canadian Cancer Society</td>
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<td>Canadian Airport Electrical Association</td>
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<td>Greater Victoria Chamber of Commerce (Various Events)</td>
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<tr>
<td>Geronimo Canoe Club</td>
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<td>Help Fill A Dream Foundation</td>
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<td>Leadership Victoria</td>
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<td>The Mustard Seed</td>
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<td>Peninsula Celebrations Society</td>
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<td>Peninsula Panthers Program</td>
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<td>Peninsula Streams Education Program</td>
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<td>Royal BC Museum – Newcomb Theatre Upgrade</td>
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<td>Saanich Peninsula Chamber of Commerce (Various Events)</td>
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<td>Saanich Peninsula Hospital Foundation (Various Events)</td>
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<td>Sidney Anglers Association</td>
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<td>Sidney Lions Food Bank</td>
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<td>Sidney Museum and Archives</td>
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<td>Team4hope – Neuroblastoma Research (Touch A Truck)</td>
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<td>Tourism Industry Association of BC (BC Tourism)</td>
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<td>Tourism Victoria – Maple Leaf Partnership Event</td>
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<td>Tseycum First Nation – Elders Gathering</td>
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<td>Tseycum First Nation – Shorekeepers Program</td>
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<td>Tseycum First Nation – Arts and Sports Program</td>
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<td>United Way of Greater Victoria includes Board Match of Employee Donations</td>
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<td>Vancouver Island Shakespeare Arts</td>
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<td>Vancouver Island South Film and Media Commission</td>
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<td>Victoria Open Golf Society in Support of Children’s Health Foundation of Vancouver Island</td>
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<td>Victoria Radio Control Modelers Society – CFX Santas Anonymous and Saanich Peninsula Hospital Foundation</td>
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<tr>
<td>WSANEĆ Pulling Together Canoe Journey</td>
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TOTAL $42,790.00
CORPORATE GOVERNANCE

Victoria Airport Authority is governed by a Board that comprises 12 directors from the following nominating entities within the Capital Regional District and various levels of government.

<table>
<thead>
<tr>
<th>Nominating Entity</th>
<th>Number of Board Positions</th>
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<tbody>
<tr>
<td>Government of Canada</td>
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<tr>
<td>Province of British Columbia</td>
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<tr>
<td>Town of Sidney</td>
<td>2</td>
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<tr>
<td>District of North Saanich</td>
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<tr>
<td>District of Central Saanich</td>
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<tr>
<td>District of Saanich</td>
<td>1</td>
</tr>
<tr>
<td>City of Victoria</td>
<td>1</td>
</tr>
<tr>
<td>Capital Regional District</td>
<td>1</td>
</tr>
<tr>
<td>Greater Victoria Chamber of Commerce</td>
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</tr>
</tbody>
</table>

Victoria Airport Authority has the option to appoint up to three additional directors, at the discretion of the Board. Each director may serve no more than eight years in total.

All directors are expected to possess a high level of knowledge to advance governance best practices and fiscal management of Victoria Airport Authority.

SKILLS AND EXPERIENCE OF BOARD MEMBERS

In order to carry out its work effectively and fulfill its fiduciary responsibilities, the Board utilizes a skills matrix composed of diverse qualifications to ensure that the Board has the necessary experience and skillset.

Victoria Airport Authority’s by-laws require that the Board of Directors shall have experience and have shown capacity in such disciplines as air transportation, industry, aviation, business, commerce, finance, administration, law, government, engineering, organized labour, air carriers and the representation of consumer interests.

The following represents the skills and experience of the Victoria Airport Authority Board of Directors:

- Tourism: 67%
- Corporate Human Resource and Organizational Management: 78%
- Engineering: 35%
- Air Transportation and Aviation: 48%
- Industry, Commerce and Technology: 64%
- Communications and Marketing: 76%
- Accounting: 52%
- Business: 92%
- Professional: 62%
- Finance: 68%
- Senior/Executive Administration/Management: 92%
- Law: 47%
- Government: 75%
- Consumer Interests: 47%
- Organized Labour: 53%

The skills matrix is based on a scale of 1 to 5 that is used to rank each Board member’s skills and experience in each discipline.
BOARD OF DIRECTORS

In accordance with Public Accountability Principles for Canadian Airport Authorities, the Board provides oversight to Victoria Airport Authority to ensure its purposes and objectives are realized, and that Victoria International Airport operates in a safe, efficient and reliable manner for the general benefit of the region.

Victoria Airport Authority has adopted a Code of Conduct and conflict of interest guidelines to govern the actions of all officers and directors, with an annual disclosure requirement to avoid potential conflicts of interest.

Officers of the Corporation and Committee Chairs

James Crowley, Board Chair, Chair – Steering Committee District of North Saanich

Eric Donald, Board Vice-Chair, Chair – Airport Consultative Committee City of Victoria

Marilyn Loveless, Board Secretary, Chair – Governance Committee Government of Canada

Lynne Henderson, Chair – Planning and Development Committee Province of British Columbia

Gordon Safarik, Chair – Audit and Finance Committee District of North Saanich

Marilyn Loveless, Board Secretary, Chair – Governance Committee Government of Canada

Lynne Henderson, Chair – Planning and Development Committee Province of British Columbia

Gordon Safarik, Chair – Audit and Finance Committee District of North Saanich

Directors

Rod Dewar, Greater Victoria Chamber of Commerce

Wendy Everson, Town of Sidney

Cathie Ounsted, District of Central Saanich (*term commenced June 1, 2016)

Frank Leonard, Government of Canada

Mel Rinald, Town of Sidney

Graeme Roberts, District of Central Saanich (*term ended May 31, 2016)

Colin Smith, Capital Regional District

Sharlene Smith, District of Saanich

Visit the Victoria Airport Authority website at www.victoriaairport.com for biographies of all current directors.
COMMITTEES

The following Board Committees meet regularly throughout the year:

**Steering Committee**
The Steering Committee carries out the functions pertaining to the President and Chief Executive Officer, and acts in an advisory capacity on matters that will be brought to the full board for consideration.

**Governance Committee**
The Governance Committee carries out the long-term plan for the composition of the Board, develops and implements communication criteria for the nominating entities, reviews and makes recommendations to the Board for the ongoing development of directors, overseeing all governance and policy issues, and recommending a Directors’ compensation plan for the Board.

**Planning and Development Committee**
The Planning and Development Committee oversees the land use plan, strategic marketing initiatives, capital plan, future business opportunities and growth.

**Audit and Finance Committee**
The Audit and Finance Committee oversees the appointment of external auditors, the annual budget and financial forecasts, changes in user fees, financial policies, financing proposals and the annual audited statement.

The Committee reviews the draft Annual Report before it is presented to the Board, ensuring that Victoria Airport Authority meets its statutory obligations and conducts its affairs in accordance with legal and regulatory requirements and approved Board policies.

The Committee monitors the financial plan and condition of Victoria Airport Authority, compensation and benefits, asset protection, environmental protection and emergency CEO succession. The Committee ensures the CEO is in compliance with the General Operating Bylaws and ground lease with Transport Canada. The Committee also provides oversight on environmental activities and due diligence matters.

**Airport Consultative Committee**
The Airport Consultative Committee is a forum to provide effective dialogue on matters relating to Victoria Airport Authority. The Committee, which comprises representative members from local business groups and the community, meets twice a year within the Capital Regional District to exchange information and discuss airport matters and plans, operational matters and municipal concerns.

In 2016, there were no breaches of the conflict of interest guidelines by any officer or director of Victoria International Airport.

**Board Attendance**
In 2016, there were 13 Board, Committee and public meetings. Overall participation by the Board members was 94% for Committee meetings and 97% for Board meetings.

**Board of Directors Total Compensation**
Compensation of Victoria Airport Authority directors is reviewed annually. In 2016, the officers of the Corporation and directors were compensated as follows:

<table>
<thead>
<tr>
<th>Officer/Director</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>James Crowley</td>
<td>$50,000</td>
</tr>
<tr>
<td>Rod Dewar</td>
<td>$15,500</td>
</tr>
<tr>
<td>Eric Donald</td>
<td>$23,000</td>
</tr>
<tr>
<td>Wendy Everson</td>
<td>$17,500</td>
</tr>
<tr>
<td>Lynne Henderson</td>
<td>$22,500</td>
</tr>
<tr>
<td>Frank Leonard</td>
<td>$15,500</td>
</tr>
<tr>
<td>Marilyn Loveless</td>
<td>$23,000</td>
</tr>
<tr>
<td>Cathie Ounsted**</td>
<td>$9,333</td>
</tr>
<tr>
<td>Mel Rinald</td>
<td>$16,500</td>
</tr>
<tr>
<td>Graeme Roberts*</td>
<td>$7,667</td>
</tr>
<tr>
<td>Gordon Safarik</td>
<td>$22,500</td>
</tr>
<tr>
<td>Colin Smith</td>
<td>$17,000</td>
</tr>
<tr>
<td>Sharlene Smith</td>
<td>$18,000</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$258,000</strong></td>
</tr>
</tbody>
</table>

* Graeme Roberts: Term ended May 31, 2016
** Cathie Ounsted: Term commenced June 1, 2016
DEPARTING BOARD MEMBER

Victoria Airport Authority said farewell to Graeme Roberts, nominee of the District of Central Saanich, whose eight-year term on the Board ended on May 31, 2016.

Graeme joined Victoria Airport Authority on June 1, 2008 and served as Board Vice-Chair and Chair of the Airport Consultative Committee for two terms. He was an engaging and active member, participating on all of the Board’s committees during his eight years. His sage and insightful advice was always coupled with good humour.

Graeme’s generosity and entertaining spirit brought thoughtful contributions and levity to the boardroom. A regular fixture at the airport, Graeme will be missed. The Board, Management and staff wish Graeme well with his future endeavours.

EXECUTIVE COMPENSATION

Victoria Airport Authority’s Senior Management team, comprised of the President and Chief Executive Officer and five senior managers, received $844,047 in salary for the financial year ended December 31, 2016.
FINANCIAL PERFORMANCE

SOLE SOURCE CONTRACTS OVER $100,000

In accordance with Board Policy #205: Financial Conditions and Activities, as a general practice contracts for more than $100,000 are awarded through a competitive process to the lowest bidder or to the proposal offering the best overall value, except in specified circumstances.

Sole source contracts are entered into only when there is justification. The normal competitive process may be precluded in response to unique circumstances, such as the need for a specified proprietary product, technology or licensing monopoly; the availability of only one qualified firm when all factors are taken into account; the availability of specialized services; or the need to address an emergency.

In 2016, no sole source contracts in excess of $100,000 were awarded outside of the competitive tendering process.

CAPITAL INITIATIVES

More than $157.2 million has been invested in capital improvements to the facility since Victoria Airport Authority assumed operations of Victoria International Airport in 1997. During 2016, Victoria Airport Authority undertook capital projects totalling in excess of $23.7 million.

The following significant capital projects were completed in 2016:

<table>
<thead>
<tr>
<th>Thousands $</th>
<th>Hold Bag Screening (CATSA funded) (2016 portion)</th>
<th>Apron IV Expansion</th>
<th>Long Term Parking Lot Expansion</th>
<th>Non-Passenger Screening - Vehicles</th>
<th>Municipal Infrastructure</th>
<th>TenTen Creek Remediation</th>
<th>Baggage Make-up Area Sloped Plate Carousels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7,412.0</td>
<td>7,293.0</td>
<td>3,572.0</td>
<td>1,817.0</td>
<td>636.0</td>
<td>493.0</td>
<td>346.0</td>
</tr>
</tbody>
</table>

FINANCIAL HIGHLIGHTS

- The Air Transport Research Society identified Victoria International Airport as the most financially efficient airport in Canada (tied at first place with Vancouver International Airport)
- Total revenue for 2016 is 18.1% higher than for 2015
- Excess revenue over expenses before amortization improved 24.4%
- Year-end long-term debt fully retired as at January 3, 2017
- Victoria Airport Authority paid $914,969 in property taxes, the vast majority of which was paid to the District of North Saanich
- Non-aeronautical revenue was 66% of total operations revenue, which represents the highest percentage of the major airports in the country
- The $15 Airport Improvement Fee (AIF) remains among the lowest of all of the National Airport System airports

RENT TO THE FEDERAL GOVERNMENT

In 2016, Victoria Airport Authority paid approximately $1.5 million to the federal government for rent on the airport grounds. The formula is a progressive scale that increases as revenue increases.

<table>
<thead>
<tr>
<th>Actual</th>
<th>Plan</th>
<th>Difference</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$34,454.7</td>
<td>$32,305.0</td>
<td>$2,149.7</td>
</tr>
<tr>
<td>Expenses (note 1)</td>
<td>$15,939.8</td>
<td>$15,497.0</td>
<td>$(442.8)</td>
</tr>
<tr>
<td>Capital</td>
<td>$23,706.8</td>
<td>$26,838.0</td>
<td>$3,131.2</td>
</tr>
</tbody>
</table>

Business Plan Forecast 2017 - 2021

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$35,753.7</td>
<td>$37,605.5</td>
<td>$38,806.4</td>
<td>$40,422.9</td>
<td>$41,716.2</td>
</tr>
<tr>
<td>Expenses (note 1)</td>
<td>$16,916.8</td>
<td>$17,774.3</td>
<td>$18,450.5</td>
<td>$19,172.5</td>
<td>$19,881.5</td>
</tr>
<tr>
<td>Capital</td>
<td>$26,838.0</td>
<td>$22,475.0</td>
<td>$18,290.0</td>
<td>$12,625.0</td>
<td>$15,265.2</td>
</tr>
</tbody>
</table>

Notes:
1. Expenses do not include non-cash items such as amortization.
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The most significant of these are set out in Note 2 to the statements.

Victoria Airport Authority’s accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. These financial statements include some amounts based upon management’s best estimates and judgments. Recognizing that Victoria Airport Authority is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared within reasonable limits of materiality.

The Board of Directors has appointed an Audit and Finance Committee consisting of eight Board Directors. The Committee meets periodically throughout the year to review with management and the auditors any significant accounting, internal control and auditing matters. They also review and finalize Victoria Airport Authority’s annual financial statements together with the independent auditor’s report before they are submitted to the Board of Directors for final approval.

The financial information throughout the text of the Annual Report is consistent with the information presented in the financial statements.

On behalf of Victoria Airport Authority

Geoff Dickson
President and Chief Executive Officer
April 10, 2017

INDEPENDENT AUDITORS’ REPORT

To the Members of Victoria Airport Authority

We have audited the accompanying financial statements of Victoria Airport Authority (“the Authority”), which comprise the statement of financial position as at December 31, 2016, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 not-for-profit organizations, 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 an 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 our 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, we consider internal control relevant to the Authority’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 Authority’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 Victoria Airport Authority as at December 31, 2016, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants
April 10, 2017
Victoria, Canada
### VAA STATEMENT OF FINANCIAL POSITION

**December 31, 2016, with comparative information for 2015**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$10,379,472</td>
<td>$10,828,009</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4,448,547</td>
<td>2,562,741</td>
</tr>
<tr>
<td>Inventory</td>
<td>325,891</td>
<td>301,023</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>265,346</td>
<td>223,639</td>
</tr>
<tr>
<td><strong>15,419,256</strong></td>
<td><strong>13,915,412</strong></td>
<td></td>
</tr>
<tr>
<td>Tangible capital assets (note 3)</td>
<td>$102,002,320</td>
<td>$85,359,885</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>50,458</td>
<td>53,527</td>
</tr>
<tr>
<td><strong>117,472,034</strong></td>
<td><strong>99,328,824</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities (note 10)</td>
<td>$4,246,418</td>
<td>$3,568,396</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>450,000</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Current portion of retirement allowance liability</td>
<td>160,623</td>
<td>165,943</td>
</tr>
<tr>
<td><strong>5,559,627</strong></td>
<td><strong>5,952,442</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term debt (note 4(a))</td>
<td>-</td>
<td>450,000</td>
</tr>
<tr>
<td>Retirement allowance liability (note 5)</td>
<td>489,984</td>
<td>527,252</td>
</tr>
<tr>
<td>Deferred capital contribution (note 7)</td>
<td>8,970,597</td>
<td>1,997,941</td>
</tr>
<tr>
<td><strong>15,628,883</strong></td>
<td><strong>9,136,160</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in tangible capital assets</td>
<td>91,981,724</td>
<td>81,111,944</td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>9,661,427</td>
<td>9,060,720</td>
</tr>
<tr>
<td><strong>117,472,034</strong></td>
<td><strong>99,328,824</strong></td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

On behalf of the Board:

Director

---

### VAA STATEMENT OF OPERATIONS

**Year ended December 31, 2016, with comparative information for 2015**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concessions</td>
<td>$9,951,064</td>
<td>$9,179,501</td>
</tr>
<tr>
<td>Aeronautical</td>
<td>7,104,823</td>
<td>6,321,818</td>
</tr>
<tr>
<td>Rent rentals</td>
<td>3,013,265</td>
<td>2,996,897</td>
</tr>
<tr>
<td><strong>20,864,457</strong></td>
<td><strong>18,873,241</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>4,801,669</td>
<td>4,453,669</td>
</tr>
<tr>
<td>Services, supplies and administration</td>
<td>4,141,687</td>
<td>3,817,660</td>
</tr>
<tr>
<td>Security and terminal services</td>
<td>2,865,394</td>
<td>2,499,024</td>
</tr>
<tr>
<td>Rent (note 6(a))</td>
<td>1,539,084</td>
<td>1,118,783</td>
</tr>
<tr>
<td>Property taxes</td>
<td>914,969</td>
<td>890,546</td>
</tr>
<tr>
<td>AIF administration and handling fees</td>
<td>965,971</td>
<td>737,309</td>
</tr>
<tr>
<td>Amortization</td>
<td>7,064,386</td>
<td>6,459,259</td>
</tr>
<tr>
<td>Utilities</td>
<td>658,836</td>
<td>640,304</td>
</tr>
<tr>
<td><strong>23,004,220</strong></td>
<td><strong>20,742,604</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses</strong></td>
<td><strong>$11,450,487</strong></td>
<td><strong>$8,422,787</strong></td>
</tr>
</tbody>
</table>

### VAA STATEMENT OF CHANGES IN NET ASSETS

**Year ended December 31, 2016, with comparative information for 2015**

<table>
<thead>
<tr>
<th></th>
<th>Invested in tangible capital assets</th>
<th>Unrestricted</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$81,111,944</td>
<td>$9,060,720</td>
<td>$90,192,664</td>
<td>$81,769,877</td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>-11,450,487</td>
<td>-</td>
<td>11,450,487</td>
<td>8,422,787</td>
</tr>
<tr>
<td>Net change in invested in tangible capital assets</td>
<td>$10,869,780</td>
<td>($10,869,780)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$91,981,724</td>
<td>$9,661,427</td>
<td>$101,843,151</td>
<td>$90,192,664</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
VAA STATEMENT OF CASH FLOWS

Year ended December 31, 2016, with comparative information for 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash provided by (used in):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>$ 11,450,487</td>
<td>$ 8,422,787</td>
</tr>
<tr>
<td>Amortization, which does not involve cash</td>
<td>7,064,386</td>
<td>6,459,259</td>
</tr>
<tr>
<td>Gain on the disposal of tangible capital assets</td>
<td>-</td>
<td>(76,986)</td>
</tr>
<tr>
<td>Changes in non-cash operating working capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(1,885,806)</td>
<td>(561,377)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(24,668)</td>
<td>(6,100)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(41,707)</td>
<td>1,152</td>
</tr>
<tr>
<td>Long term deposits</td>
<td>3,069</td>
<td>(53,527)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>678,023</td>
<td>1,280,564</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>284,483</td>
<td>306,118</td>
</tr>
<tr>
<td>Retirement allowance liability</td>
<td>(42,588)</td>
<td>(91,857)</td>
</tr>
<tr>
<td>Future rent payments</td>
<td>-</td>
<td>(22,481)</td>
</tr>
<tr>
<td>Security deposits</td>
<td>150</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>17,485,629</td>
<td>15,657,602</td>
</tr>
<tr>
<td><strong>Investing:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of tangible capital assets</td>
<td>(23,706,822)</td>
<td>(10,068,861)</td>
</tr>
<tr>
<td>Proceeds from the sale of tangible capital assets</td>
<td>-</td>
<td>76,986</td>
</tr>
<tr>
<td></td>
<td>(23,706,822)</td>
<td>(9,991,875)</td>
</tr>
<tr>
<td><strong>Financing:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(1,800,000)</td>
<td>(1,800,000)</td>
</tr>
<tr>
<td>Deferred capital contribution</td>
<td>7,572,656</td>
<td>1,543,148</td>
</tr>
<tr>
<td></td>
<td>5,722,656</td>
<td>256,852</td>
</tr>
<tr>
<td>Increase (decrease) in cash</td>
<td>(448,537)</td>
<td>5,408,875</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>10,828,009</td>
<td>5,419,134</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>10,379,472</td>
<td>$ 10,828,009</td>
</tr>
</tbody>
</table>

Cash and cash equivalents include cash operating accounts and high interest savings.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>3,597,102</td>
<td>3,773,806</td>
</tr>
<tr>
<td>High interest savings</td>
<td>6,782,370</td>
<td>7,054,201</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 10,379,472</td>
<td>$ 10,828,009</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

1. Nature of operations:

Victoria Airport Authority (the “VAA” or “Authority”) is incorporated under Part II of the Canada Corporations Act as a non-share capital, not-for-profit corporation and all earnings from operations are reinvested in airport development. The VAA has operated the Victoria International Airport since April 1, 1997 under a lease from Transport Canada (“ground lease”).

2. Significant accounting policies:

(a) Basis of accounting:

The financial statements of the VAA are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

(b) Cash and cash equivalents:

Cash and cash equivalents are defined as cash, high interest savings and highly liquid investments consisting of term deposits with original maturities at the date of purchase of three months or less.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value and all changes in the fair value are recognized in excess of revenue over expenses in the period incurred. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Authority has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Authority determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Authority expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Hedge accounting:

The Authority accounts for a qualifying hedge of an interest-bearing asset or liability as follows:

(i) Interest on the hedged item is recognized using the instrument’s stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs.

(ii) Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to interest on the hedged item in the period in which they accrue.

(e) Inventory:

The inventory of consumable supplies is recorded at the lower of cost, determined on a first-in first-out basis, and net realizable value.
(f) Transport Canada Lease:
The Transport Canada Lease (see note 6(a)) is accounted for as an operating lease.

(g) Tangible capital assets:
Tangible capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal building</td>
<td>4%-33%</td>
</tr>
<tr>
<td>Airfield and roadways</td>
<td>1.6%-33%</td>
</tr>
<tr>
<td>Other buildings and structures</td>
<td>4%-20%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5%-20%</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>10%-33%</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>6.6%-20%</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>20%</td>
</tr>
</tbody>
</table>

The interest cost of debt attributable to the construction of capital assets is capitalized during the construction period. No interest was capitalized in 2016 or 2015. Capital work-in-progress is not amortized until the asset is available for use.

When a capital asset no longer contributes to the VAA’s ability to provide services, its carrying amount is written down to its residual value with no reversals of such write downs in subsequent periods.

(h) Revenue recognition:
The VAA follows the deferral method of accounting for contributions whereby unrestricted revenue is recognized when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured. When a portion of the contributions relates to a future period, it is deferred and recognized in that subsequent period.

Government reimbursements of specific operating costs are offset against the costs incurred.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets.

Revenue is recognized as follows:
- Landing and general terminal fees are recognized as revenue when airport facilities are utilized.
- Concession revenue is recognized based on the greater of agreed percentages of reported concessionaire sales and specified minimum guaranteed amounts over the terms of the respective leases. Car parking revenue is recognized when car parking facilities are utilized.
- Rental revenue is recognized over the terms of the respective leases.
- Airport Improvement Fees (“AIF”) (note 8), are recorded when passengers subject to the fee depart.

(i) Employee future benefits:
VAA and its employees make contributions to the Municipal Pension Plan. These contributions are expensed as incurred.

An unfunded retirement allowance benefit is also available to VAA’s employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligation under this benefit plan is accrued based on projected benefits as the employees render services necessary to earn the future benefits. Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. All actuarial gains (losses) are recorded in net assets.

(j) Use of estimates:
The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Areas requiring the use of management estimates include the determination of the retirement allowance, useful lives for amortization and provisions for contingencies. Actual results could differ from these estimates.

3. Tangible capital assets:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal building</td>
<td>$ 49,202,289</td>
<td>$ 21,908,249</td>
<td>$ 27,294,040</td>
<td>$ 29,325,802</td>
</tr>
<tr>
<td>Airfield and roadways</td>
<td>70,633,636</td>
<td>20,164,524</td>
<td>50,469,112</td>
<td>34,002,267</td>
</tr>
<tr>
<td>Other buildings and structures</td>
<td>13,623,466</td>
<td>4,261,778</td>
<td>9,361,688</td>
<td>9,635,440</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5,163,236</td>
<td>3,263,475</td>
<td>1,899,761</td>
<td>2,183,026</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>2,658,363</td>
<td>1,570,773</td>
<td>987,590</td>
<td>1,062,475</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>1,104,933</td>
<td>827,884</td>
<td>277,049</td>
<td>333,901</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>494,642</td>
<td>282,801</td>
<td>239,503</td>
<td></td>
</tr>
<tr>
<td>Capital work in progress</td>
<td>11,330,279</td>
<td>-</td>
<td>11,330,279</td>
<td>8,577,471</td>
</tr>
</tbody>
</table>

Total: $ 154,210,844 $ 52,208,524 $ 102,002,320 $ 85,359,885

During the year, the Authority disposed of assets with a net book value totaling nil (2015 - nil) for proceeds totaling nil (2015 - $76,986) resulting in no gain or loss on sale (2015 - gain of $76,986).
4. Long-term debt:

(a) Long-term debt:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>$450,000</td>
<td>$2,250,000</td>
</tr>
<tr>
<td>Less current portion of long-term debt</td>
<td>450,000</td>
<td>1,800,000</td>
</tr>
<tr>
<td><strong>$</strong></td>
<td><strong>-</strong></td>
<td><strong>$450,000</strong></td>
</tr>
</tbody>
</table>

The VAA has a $20,000,000 credit facility with the Canadian Imperial Bank of Commerce (“CIBC”) to finance the Air Terminal Building (“ATB”) expansion secured by way of a mortgage of the VAA’s leasehold interest and assignment of the Airport Improvement Fee. The loan was capped at $18,000,000 as of the Construction Term out Date of December 31, 2006. Under the terms of the credit facility, the VAA borrows by way of banker’s acceptance at market rate or at CIBC prime. The loan is repayable over 10 years in quarterly installments of $450,000 which began April 1, 2007. Interest rate swap financial contracts (note 12(b)) are used to reduce cash flow risk on 100% of the outstanding loan balance. Accordingly, the effective interest rate on the VAA’s long-term debt was 4.15% in 2016 (2015 - 4.15%). Interest expense related to long-term debt was $47,224 in 2016 (2015 - $121,059).

The minimum scheduled principal repayments over the next five years are as follows:

2017 $ 450,000

The above amount was repaid on January 3, 2017.

(b) Other credit facilities:

The VAA has a $2,000,000 operating line of credit with CIBC bearing interest at the CIBC prime lending rate. The operating line of credit is secured by a demand collateral first mortgage of the VAA’s leasehold interest and assignment of rents for an unlimited amount.

The VAA has access to a $5,000,000 demand revolving capital asset expenditure facility. This facility bears interest at the CIBC prime lending rate and is secured by way of a mortgage of the VAA’s leasehold interest and assignment of the Airport Improvement Fee.

The VAA’s credit facility requires it to maintain a fixed charge coverage ratio of 1.2 to 1.0. The VAA has never failed to meet that ratio and as of December 31, 2016 the fixed charge ratio was 6.68 to 1.0. These two credit facilities were undrawn at December 31, 2016 and 2015.

5. Retirement allowance liability:

Under the terms of the transfer agreement with Transport Canada, the VAA assumed the Government of Canada’s obligation to pay its former employees compensation upon retirement or termination in accordance with the collective agreements. The retirement benefit is based on years of completed service. The VAA received from the Government of Canada an amount equivalent to the actuarially adjusted liability at the time of transfer.

The VAA has recorded additional liabilities for compensation upon retirement or termination in accordance with collective and other agreements negotiated subsequent to transfer. The VAA accrues the cost of these future benefits, as employees render their services, based on actuarial valuations of the obligations. It is the VAA policy to perform actuarial valuations of a component of the plan a minimum of every three years. An actuarial valuation over a component of the plans was completed as of December 31, 2014. The next actuarial valuation of the plans is scheduled for December 31, 2017.

The significant economic assumptions used by the VAA’s actuaries in measuring the accrued retirement allowance liability as at December 31, 2016 are as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rates</td>
<td>3.6%</td>
</tr>
<tr>
<td>Rate of compensation increases</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2015</td>
<td>$785,052</td>
<td></td>
</tr>
<tr>
<td>Annual accrual, net of benefits paid</td>
<td>(118,677)</td>
<td>27,020</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2015</td>
<td>693,195</td>
<td></td>
</tr>
<tr>
<td>Annual accrual, net of benefits paid</td>
<td>(70,743)</td>
<td>28,155</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2016</td>
<td>$650,607</td>
<td></td>
</tr>
</tbody>
</table>

Financial statement presentation:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion</td>
<td>$160,623</td>
<td>$165,943</td>
</tr>
<tr>
<td>Long-term</td>
<td>489,984</td>
<td>527,252</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$650,607</strong></td>
<td><strong>$693,195</strong></td>
</tr>
</tbody>
</table>

In 2016, the net retirement benefit plan expense totaled $65,413 (2015 - $62,815).
6. Commitments:

(a) Ground lease with Transport Canada:
The ground lease governs both the economic and day-to-day relations between the VAA and Transport Canada. The Authority signed a 60 year ground lease with Transport Canada effective April 1, 1997, the lease provided an option to extend the term for a further 20 years. On January 28, 2015 the Minister of Transport signed an amendment to the ground lease extending the term for 20 years ending on March 31, 2077. The ground lease contains specific conditions for compliance with a series of requirements, including environmental standards, minimum insurance coverage, specific accounting and reporting requirements and various other matters that have a significant effect on the day-to-day operation of the Authority. The Authority believes that it has complied with all requirements under the ground lease.

(i) Effective January 1, 2010 rent payable to Transport Canada is calculated based on a percentage of gross revenue on a progressive scale. The projected rent expense for 2017 - 2021 based on the VAA’s long-range financial forecast is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$1,582,100</td>
</tr>
<tr>
<td>2018</td>
<td>$1,728,700</td>
</tr>
<tr>
<td>2019</td>
<td>$1,823,200</td>
</tr>
<tr>
<td>2020</td>
<td>$1,950,900</td>
</tr>
<tr>
<td>2021</td>
<td>$2,052,700</td>
</tr>
</tbody>
</table>

(b) Capital commitments:
In connection with the construction of certain capital projects and purchase of certain capital items, the VAA has capital commitments outstanding as at December 31, 2016 of approximately $3,271,200 (2015 - $434,500).

(c) Beacon Avenue extension:
The VAA entered into an agreement with the Town of Sidney (the “Town”) to participate in the extension of Beacon Avenue in 2001. The benefit of the extension to the VAA is street access to land that will be developed at a later date. When the VAA develops the land, the VAA is committed to reimburse the Town one third of the Town’s costs for the extension. This reimbursement is estimated to be approximately $70,000.

(d) Beacon Avenue pedestrian overpass:
The VAA has made a commitment to the Town of Sidney to contribute $100,000 to the construction of a pedestrian overpass at Beacon Avenue and Highway 17. The agreement is contingent upon the Town securing sufficient funds to complete the project. Should the project proceed the Town of Sidney has agreed to release the VAA from its obligation related to the Beacon Avenue extension.

7. Deferred capital contribution:
VAA receives funding from Canadian Air Transport Security Authority ("CATSA") towards specific security infrastructure upgrades. The funds received are deferred and brought into revenue as contributions at a rate or amount consistent with the amortization of the related capital assets once amortization of the asset begins.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$1,997,941</td>
</tr>
<tr>
<td>Contributions:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>6,677,031</td>
</tr>
<tr>
<td>Receivable</td>
<td>1,083,469</td>
</tr>
<tr>
<td>Less: Amounts amortized to revenue</td>
<td>(187,844)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$9,570,597</td>
</tr>
</tbody>
</table>

The balance of unamortized contributions related to capital assets consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unamortized contributions used to purchase capital assets</td>
<td>$9,401,411</td>
</tr>
<tr>
<td>Unspent contributions</td>
<td>169,186</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$9,570,597</td>
</tr>
</tbody>
</table>

8. Airport Improvement Fee ("AIF"):
On May 31, 1999, the VAA entered into an agreement (the “AIF Agreement”) with the Air Transport Association of Canada and air carriers serving the Victoria International Airport. The AIF Agreement provides for a consultation process with the air carriers on airport development as well as the collection of an AIF by air carriers. AIF revenue is collected by the airlines on behalf of the VAA which entitles them to withhold a 7% handling fee. AIF revenues are used solely to fund capital expenditures related to the construction or improvement of airport infrastructure and related financing costs. The AIF charge is $15 (effective July 1, 2015 this increased from $10) per local boarded passenger.

To December 31, 2016 cumulative expenditures exceeded cumulative AIF revenue as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIF sector revenue</td>
<td>$115,099,407</td>
</tr>
<tr>
<td>Airline/ATAC administration fees</td>
<td>(8,392,419)</td>
</tr>
<tr>
<td>AIF program expenditures</td>
<td>(114,441,340)</td>
</tr>
<tr>
<td>Financing costs</td>
<td>(8,856,327)</td>
</tr>
<tr>
<td>Excess of AIF expenditures over AIF revenue</td>
<td>$115,690,679</td>
</tr>
</tbody>
</table>

The excess of AIF expenditures over AIF revenue has been funded through a combination of surpluses from operations and debt.
9. Pension contributions:
The VAA and its employees contribute to the Municipal Pension Plan (the “Plan”), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The plan has about 180,000 active contributors and approximately 85,000 retired members. Active members include approximately 37 contributors from the Victoria Airport Authority.

The most recent actuarial valuation as at December 31, 2015 indicated a $1,927 million funding surplus for basic pension benefits. The next valuation will be as at December 31, 2018 with the results available in 2019.

Employers participating in the Plan record their pension expense as the amount of the employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

The VAA paid $356,003 (2015 - $348,483) for employer contributions while employees contributed $281,308 (2015 - $274,168) to the plan in fiscal 2016.

10. Accounts payable and accrued liabilities:
Included in accounts payable and accrued liabilities are government remittances payable of $40,330 (2015 - $21,703), which includes amounts payable for GST remittances and workers compensation board premiums.

11. Risk management:
Exposure to credit risk, liquidity risk, and interest rate risk, arises in the normal course of the VAA’s business. The VAA manages interest rate risk arising from interest rate fluctuations through the use of derivative financial instruments. The financial instruments are not used for trading or speculative purposes.

(a) Credit risk:
Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents and accounts receivable the VAA’s credit risk is limited to the carrying value on the balance sheet. The VAA has a concentration of credit risk with two airlines. The VAA manages the risk associated with the concentration of credit risk through its policy of actively monitoring the aging of receivables.

Credit risk is further reduced by letters of credit, deposits and customer credit evaluations. The VAA limits its exposure to credit risk on cash and cash equivalents by investing in instruments issued by high credit quality financial institutions. The VAA enters into financial contracts such as interest rate swaps only with high credit quality financial institutions.

(b) Liquidity risk:
Liquidity risk is the risk that the VAA will not be able to meet its obligations associated with financial liabilities. Funds generated through operations provide the VAA’s cash requirements. These funds are used to support operations and finance the capital program and repayment of the VAA’s long term debt. The VAA also has access to an undrawn operating line of credit which assists to mitigate liquidity risk.

(c) Interest rate risk:
The VAA’s exposure to interest rate risk relates to its current and future anticipated borrowings. Cash flow risk related to these borrowings is reduced by interest rate financial contracts (note 12(b)).

12. Financial instruments:

(a) Interest income and interest expense:

(b) Interest rate financial contracts:
The VAA has two interest rate financial contracts with its bank, CIBC, to reduce the cash flow risk of any potential increase in interest rates related to VAA’s long-term debt. The VAA applies hedge accounting to these contracts. The following contracts hedge 100% of the outstanding debt at a blended interest rate of 4.15% and are projected to match the VAA’s loan repayment term:

(i) Declining balance interest rate contract effective January 2, 2007, which fixes the interest rate at 4.83%. The initial contract balance was for a notional amount of $7,000,000; which declined by $315,625 on a quarterly basis until the end of the contract on January 3, 2017. As at December 31, 2016 the notional amount of the contract is $315,625.

(ii) Declining balance interest rate contract effective March 2, 2009, which fixes the interest rate at 2.55%. The initial contract balance is for a notional amount of $4,300,000 which declines by $134,375 on a quarterly basis until January 3, 2017. As at December 31, 2016 the notional amount of the contract is $134,375.

The fair value of the interest rate contracts at December 31, 2016 is a liability of $3,246 (2016 - $50,247). Due to the relative fluctuation of interest rates, if the VAA had wished to terminate the contracts as at December 31, 2016 a payment to CIBC of $3,246 would have been required.
(c) Foreign exchange forward contracts:
The VAA has entered into two foreign exchange forward rate contracts to exchange a total of
$700,000 US dollars with its bank for $940,590 Canadian dollars in 2017. The contracts are designed
to manage potential foreign exchange risk that could impact the cost of specific capital projects.
The fair value of the foreign exchange forward contracts provided by CIBC as at December 31, 2016 is a
liability of $1,620. Due to the relative fluctuations in exchange rates, if the VAA had wished to terminate
the contracts at December 31, 2016, a payment to CIBC of $1,620 would have been required.

13. Other information:
(a) The VAA income generated from airport-related operations is exempt from federal and provincial
income taxes.
(b) During the year ended December 31, 2016, the fees paid to the Board of the VAA for their services
as directors totaled $258,000 (2015 - $256,500).

14. Contingent liabilities:
The Authority, in conducting its usual business activities, is involved in various legal proceedings
and litigation, the outcome of which is indeterminable. It is the Authority’s policy to carry adequate
insurance to minimize the financial risk associated with such matters.
Management is of the opinion that the aggregate net liability, if any, of these proceedings and litigation
would not have a material impact to the Authority’s financial position.
Victoria Airport Authority
Corporate Office
201 – 1640 Electra Boulevard
Sidney, British Columbia  V8L 5V4  Canada
Tel:  250 953 7500
Fax:  250 953 7509
www.victoriaairport.com

Banker:  CIBC
External Auditor:  KPMG LLP Victoria
Legal Firm:  Cox Taylor