Aéroport de Québec inc.

Financial Statements
December 31, 2019

Raymond Chabot Grant Thornton

Independent Auditor's Report

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To the Directors of
Aéroport de Québec inc.

Opinion

We have audited the financial statements of Aéroport de Québec inc. (hereafter the “Organization”), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

– Obtain an understanding of internal control relevant to the audit 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 Organization's internal control;

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern;

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Raymond Chabot Grant Thornton LLP [1]

Québec
February 19, 2020

[1] CPA auditor, CA public accountancy permit no. A119912

Aéroport de Québec inc.
Comprehensive Income
Year ended December 31, 2019

	2019	2018
	$	$
Revenues		
Landing and terminal	**15,130,513**	13,642,714
Airport improvement fees	**26,804,881**	26,835,102
Concessions	**4,308,004**	3,902,714
Rentals	**2,894,787**	2,747,374
Parking	**6,549,157**	6,884,276
Services and recoveries	**7,676,911**	7,071,475
Safety and security	**5,255,264**	4,945,950
Other income	**7,884**	589,272
	68,627,401	66,618,877
Expenses		
Employee benefit expenses (Note 13)	**17,140,626**	15,144,320
Rent	**4,276,662**	4,134,994
Goods and services	**19,485,356**	18,228,818
In lieu of taxes (Note 16)	**5,675,106**	2,820,471
Amortization of property, plant and equipment	**15,217,150**	14,342,347
Amortization of deferred revenues relating to property, plant and equipment	**(3,514,986)**	(3,431,601)
Impairment loss on financial assets (Note 17)	**24,000**	75,012
Other expenses	**12,724**	
	58,316,638	51,314,361
Operating results	**10,310,763**	15,304,516
Finance income (Note 16)	**1,701,980**	1,536,473
Finance costs (Note 16)	**(6,627,092)**	(5,690,790)
Net revenues	**5,385,651**	11,150,199
Other comprehensive income		
Item that will not be reclassified subsequently to profit or loss		
Revaluation of net defined benefit pension plan liability	**25,400**	(57,800)
Comprehensive income	**5,411,051**	11,092,399

The accompanying notes are an integral part of the financial statements.

Aéroport de Québec inc.
Changes in Net Assets
Year ended December 31, 2019

	Accumulated revenues	Accumulated other comprehensive income	Total net assets
	$	**$**	**$**
Balances as at January 1, 2019	**138,999,760**	**(2,487,900)**	**136,511,860**
Net revenues	**5,385,651**		**5,385,651**
Revaluation of net defined benefit pension plan liability		**25,400**	**25,400**
Comprehensive income			**5,411,051**
Balances as at December 31, 2019	**144,385,411**	**(2,462,500)**	**141,922,911**
Balances as at January 1, 2018	127,849,561	(2,430,100)	125,419,461
Net revenues	11,150,199		11,150,199
Revaluation of net defined benefit pension plan liability		(57,800)	(57,800)
Comprehensive income			11,092,399
Balances as at December 31, 2018	138,999,760	(2,487,900)	136,511,860

The accompanying notes are an integral part of the financial statements.

Aéroport de Québec inc.
Cash Flows
Year ended December 31, 2019

	2019	2018
	$	$
OPERATING ACTIVITIES		
Net revenues	**5,385,651**	11,150,199
Non-cash items		
Amortization of property, plant and equipment	**15,217,150**	14,342,347
Amortization of transaction costs	**83,695**	83,695
Amortization of deferred revenues relating to property, plant and equipment	**(3,514,986)**	(3,431,601)
Loss (gain) on disposal of property, plant and equipment	**12,724**	(47,265)
Net defined benefit pension plan liability	**(42,823)**	(55,077)
Net change in working capital items (Note 19)	**(197,297)**	1,333,878
Cash flows from operating activities	**16,944,114**	23,376,176
INVESTING ACTIVITIES		
Term deposits	**(18,612,797)**	(120,272,391)
Receipt of term deposits	**47,477,856**	135,527,117
Acquisition of property, plant and equipment	**(42,883,371)**	(52,327,251)
Disposal of property, plant and equipment	**3,000**	47,265
Notes receivable		(542,452)
Receipt of notes receivable	**175,162**	142,096
Cash flows from investing activities	**(13,840,150)**	(37,425,616)
FINANCING ACTIVITIES		
Repayment of loans	**(2,250,000)**	(2,250,000)
Receipt of grants receivable	**2,701,295**	14,802,662
Repayment of lease liability	**(444,577)**	(421,882)
Cash flows from financing activities	**6,718**	12,130,780
Net increase (decrease) in cash	**3,110,682**	(1,918,660)
Cash, beginning of year	**3,762,911**	5,681,571
Cash, end of year	**6,873,593**	3,762,911

During the year, the Organization paid a total of $12,601,438 ($12,945,290 in 2018) in interest and received a total of $3,291,016 ($4,005,337 in 2018) in interest.

The accompanying notes are an integral part of the financial statements.

Aéroport de Québec inc.
Financial Position
December 31, 2019

	2019	2018
	$	$
ASSETS		
Current		
Cash	**6,873,593**	3,762,911
Term deposits (Note 17)	**38,443,458**	63,008,517
Accounts receivable (Note 6)	**6,245,930**	5,968,258
Grants receivable (Note 7)	**6,926,972**	6,716,066
Notes receivable (Note 17)	**155,592**	153,204
Supplies in inventory	**1,588,803**	1,439,884
Prepaid expenses	**742,590**	1,008,826
	60,976,938	82,057,666
Non-current		
Term deposits (Note 17)	**42,198,359**	46,498,359
Notes receivable (Note 17)	**2,044,602**	2,222,152
Grants receivable (Note 7)	**35,517,673**	42,444,646
Property, plant and equipment (Note 8)	**465,782,783**	443,374,112
	545,543,417	534,539,269
	606,520,355	616,596,935
LIABILITIES		
Current		
Accounts payable (Note 9)	**19,445,821**	25,420,436
Deferred revenues	**1,044,506**	996,190
Customer deposits	**91,579**	283,285
Loans (Note 11)	**6,336,972**	6,252,028
Lease liability	**437,138**	437,138
	27,356,016	33,389,077
Non-current		
Accounts payable (Note 9)	**1,322,613**	415,430
Loans (Note 11)	**318,486,179**	324,739,456
Lease liability	**484,767**	929,344
Deferred revenues relating to property, plant and equipment (Note 12)	**115,845,015**	119,372,745
Customer deposits	**592,614**	660,560
Defined benefit pension plan liability (Note 13)	**510,240**	578,463
	437,241,428	446,695,998
	464,597,444	480,085,075
NET ASSETS		
Accumulated revenues and accumulated other comprehensive income	**141,922,911**	136,511,860
	606,520,355	616,596,935

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,

Jean-Claude L'Abbé
Chair of the Board

Thom Skinner, CPA, CA
Chair of Audit Committee

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

Aéroport de Québec inc. (AQi) is a not-for-profit corporation without share capital, governed by the *Canada Not-for-profit Corporations Act*. AQi is exempted under the *Income Tax Act*. The corporation is in charge of managing, operating, maintaining and developing the Aéroport international Jean-Lesage de Québec (“YQB”) in accordance with a 60-year ground lease signed on October 27, 2000 with the Canadian government, with an option to renew for another 20 years.

AQi's head office is located at 505 Principale Street, Québec, Quebec G2G 0J4.

2 - GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AQi's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements are prepared in Canadian dollars, AQi's functional currency.

The financial statements for the year ended December 31, 2019 were approved on February 19, 2020 by the Board of Directors, which also approved their issuance.

3 - SIGNIFICANT ACCOUNTING POLICIES

General

AQi's financial statements have been prepared in accordance with IFRS in effect as at December 31, 2019. Significant accounting policies used in the preparation of the financial statements are summarized below.

Note 4 presents a summary of the IFRS standards, amendments and interpretations issued but not yet effective and that have not yet been adopted by AQi.

Supplies in inventory

Supplies in inventory are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

Financial instruments

Financial assets and liabilities are recognized when AQi becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all the significant risks and rewards of ownership are transferred. A financial liability is derecognized when it is settled, terminated, cancelled or expired.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

Except for trade receivables that do not contain a significant financing component and that are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value plus transaction costs.

Financial assets are classified into the following categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI).

For the periods considered, all financial assets of AQi are classified into the amortized cost category.

The classification is determined by both the Organization's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

All revenues and expenses relating to financial assets recognized in net revenues are presented in finance income or finance costs, except for impairment loss on trade receivables presented in goods and services.

After initial recognition, these are measured at amortized cost using the effective interest method, minus, if any, an allowance for impairment loss. Discounting is omitted where the effect of discounting is immaterial. Cash, term deposits, trade receivables, accrued interest receivable, grants receivable and the notes receivable fall into this category of financial instruments.

Impairment requirements of IFRS 9, *Financial Instruments*, use more forward-looking information to recognize expected credit losses. Instruments within the scope of the new requirements included trade receivables, accrued interest receivable and the notes receivable. Recognition of credit losses is no longer dependent on AQi first identifying a credit loss event. Instead, AQi considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

AQi uses a simplified method to record trade receivables, accrued interest receivable and notes receivable, and to record the value adjustment for expected credit losses over the life of the asset. These correspond to the expected shortcomings of the contractual cash flows taking into account the potential for default at any time during the life of the financial instrument. AQi uses past experience, external indicators and forward-looking information to calculate expected credit losses using a calculation matrix.

AQi assesses the impairment on trade receivables on a collective basis since they share credit risk characteristics as they have been grouped by the number of days since they were past due. Refer to Note 17 for a detailed analysis of how the impairment provisions of IFRS 9 are applied.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs.

AQi's financial liabilities include trade payables, accrued interest payable, customer deposits and loans. Financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Interest expenses are presented in finance costs.

Leases

As described in Note 4, AQi has applied IFRS 16, *Leases*, using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement Contains a Lease*.

Accounting policy applicable as of January 1, 2019

AQi as a lessee

For any contracts, AQi considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’.

Measurement and recognition of leases as a lessee

At lease commencement date, AQi recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost less depreciation and accumulated impairment losses. The cost is made up of the initial measurement of the lease liability, any initial direct costs incurred by AQi, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). AQi depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, AQi measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or AQi’s incremental borrowing rate. Variable lease payments that are not linked to an index or a rate (such as lease payments based on a percentage of AQi’s revenues) are not taken into account for the initial measurement of the lease liability and the asset.

The lease liability and right-of-use asset are reviewed to take account of any event leading to a revaluation or a change in the lease.

AQi has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and are classified in the same way as property, plant and equipment. Lease liabilities are presented separately as lease liabilities.

AQi as a lessor

AQi's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor AQi classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not. In this last case, rents from office and land leases are recognized on a straight-line basis over the term of the leases.

<u>Accounting policy applicable before January 1, 2019</u>

AQi as a lessee

Direct financing leases

Management exercises judgment when taking into consideration the substance of a lease agreement in order to determine if all the risks and rewards of ownership of the leased asset are transferred. Key factors considered include the lease term in comparison with the economic useful life of the asset, the present value of the minimum lease payments in relation to the asset's fair value and whether AQi will obtain ownership of the asset by the end of the lease term.

Operating leases

All leases for which a significant portion of the risks and benefits is retained by the lessor are recognized as operating leases. Operating lease payments are recognized as expenses on a straight-line basis over the lease term. Related costs, such as maintenance and insurance, are recognized in expenses as they are incurred.

AQi as a lessor

Rents from office and land leases are recognized on a straight-line basis over the term of the leases.

Property, plant and equipment

Property, plant and equipment are recognized at acquisition cost, less depreciation and any subsequent impairment losses. Cost includes expenses directly attributable to the purchase or construction of the item of property, plant and equipment and costs for dismantling or removing the item.

Items of property, plant and equipment in progress are transferred to their respective classes only when they are ready for service, that is the item is in its location, the necessary conditions have been satisfied and management considers that the item is capable of operating in the manner intended.

AQi capitalizes interest on loans and ancillary costs in the cost of property, plant and equipment until management considers that the item of property, plant and equipment is ready for service.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each part of an investment with a cost that is significant in relation to the total cost of the total investment is amortized separately when the useful life of that part differs from the useful life of the overall investment.

The amortization is recognized on a straight-line basis to reduce the cost to the estimated residual value of the property, plant and equipment. Amortization periods are as follows:

	Periods
Buildings	3, 8, 10, 15, 25 and 40 years
Leasehold improvements	5 and 15 years
Runways, roadways and other paved surfaces	3, 8, 15, 25 and 40 years
Machinery and equipment	
Airport terminal	3, 5, 10 and 25 years
Bag room	5, 10 and 25 years
Other	5, 10, 15 and 25 years
Computer equipment	3, 5, 7 and 10 years
Automotive equipment, furniture and fixtures	5, 10 and 20 years

In the case of right-of-use assets, the expected estimated useful life is determined according to that of other similar assets owned or the lease term, if the latter is shorter.

Grants for items of property, plant and equipment are recognized when there is reasonable certainty that AQi has satisfied the requirements of the agreements and that collection is likely. Grants are recognized in liabilities and amortized on the same basis as the related property, plant and equipment.

Significant estimates regarding the residual value and estimated useful life are reviewed as required and at least once a year.

Gains (losses) on the disposal of an item of property, plant and equipment correspond to the difference between the disposal revenue and the carrying amount of the item and are recognized in revenues and expenses as other income and other expenses.

Impairment test of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the property, plant and equipment's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell and its value in use. To determine the value in use, management estimates expected future cash flows and then determines an appropriate interest rate for the calculation of the expected present value of the cash flows.

All property, plant and equipment and right-of-use assets are subsequently remeasured to determine whether there is any indication that an impairment loss recognized in prior periods may no longer exist. An impairment charge is reversed if the recoverable amount of the asset exceeds its carrying amount.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualified asset are recognized in the cost of the asset during the period required to prepare the asset for use.

Other borrowing costs are recognized as expenses in the period during which they are incurred and are presented in financial expenses (refer to Note 16).

Recognition of revenue from ordinary activities

To determine whether to recognize revenue from ordinary activities, AQi follows a five-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations;
5. Recognizing revenue from ordinary activities when/as performance obligations are satisfied.

Revenues are measured at the fair value of the consideration received or receivable for goods sold and services provided, excluding sales taxes, rebates and discounts.

Revenues from airport activities, consisting primarily of landing fees and general terminal charges, are earned primarily from air carriers and recognized according to the landings.

Revenues from airport improvement fees, revenues from services and recoveries and revenues from safety and security are recognized when departing passengers board their aircraft and are based on the number of passengers who board.

Concession rents are recorded on a straight-line basis over the term of the leases and, in some cases, are calculated as a percentage of concession sales, subject to minimum guaranteed rents.

Parking revenues are recognized according to the use of the space.

Interest income is recognized when earned, based on the number of days the investment is held.

Post-employment benefits and short-term employee benefits

Since it was privatized on November 1, 2000, AQi offers a defined contribution pension plan to its employees. Employees in service at the time of privatization participate in a defined benefit pension plan.

Under the terms of the defined contribution plan, AQi pays fixed contributions to an independent entity. AQi has no legal or constructive obligation to pay further contributions. Plan contributions are recognized in expenses in the period during which the corresponding service is provided by the employees.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the terms of the defined benefit plan sponsored by AQi, the pension benefit receivable by an employee is based on years of service and final earnings. AQi has a legal obligation to pay benefits even when the assets to be used to finance the defined benefit plan have been set aside.

AQi recognizes its defined benefit obligations and the related costs, net of plan assets, and has adopted the following methods for this purpose:

- The cost of pension and other retirement benefits earned by employees is calculated by the accrued benefit method pro-rated over years of service, based on management's best estimate assumptions, in particular future salary increases and retirement age;

- The service cost and net interest over the defined benefit pension plan net liability portion of the defined benefit cost for the year is recognized in net revenues and expenses and the remeasurements of the net defined benefit pension plan liability portion is recognized in other comprehensive income. Remeasurements include actuarial variances and any change in the effect of limiting the asset.

Short-term employee benefits, in particular vacation entitlement, are current liabilities included in retirement and other employee benefit obligations and are measured at the undiscounted amount that AQi expects to pay as a result of unused rights.

Provisions and contingent liabilities and assets

Provisions are recognized when present obligations, resulting from a past event, will likely result in an outflow of AQi resources embodying economic benefits and the amounts can be reasonably estimated. The outflow maturity or amount may be uncertain. A present obligation results from legal or constructive obligations from past events, such as litigation or onerous contracts.

The measurement of provisions corresponds to the estimated expenses required to settle the present obligation based on the most reliable evidence available at the reporting date, including the risks and uncertainties related to the present obligation. Provisions are discounted when the time value of money is significant.

A reimbursement that AQi is virtually certain to receive from a third party in respect of the obligation is recognized as a separate asset. However, the asset cannot be greater than the provision.

Provisions are reviewed at each reporting date and adjusted to reflect best estimates at that date.

4 - NEW OR REVISED STANDARDS OR INTERPRETATIONS

New standard adopted as at January 1, 2019

IFRS 16, Leases

IFRS 16 will replace IAS 17 and three related interpretations, what represents the completion of the International Accounting Standards Board (IASB)'s long-term project on the recognition of leases. Leases will be accounted for in the statement of financial situation as a right-of-use asset and a lease liability.

When adopting IFRS 16, AQi applied the new lease definition to all of its contracts in progress at the transition date according to the modified retrospective method, under which no restatement of financial information is required for comparative periods. AQi assessed the impact of this new standard on the lease with Transport Canada. There is no impact on the financial statements regarding the recognition of this lease since lease payments are established according to a percentage of AQi's revenues. Thus, related expenses will continue to be accounted for in the statement of comprehensive income following the accrual accounting method.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets AQi has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. At that date, the net worth of the rights-of-use asset was $1,195,740 and that of the lease liability was $1,366,482. The asset is classified as property, plant and equipment in the grouping of computer equipment. There were no adjustments to opening net assets.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 4.01%.

AQi also assessed the impact of this standard on its sub-leases for land leased from Transport Canada. AQi concluded that there was no impact to be recognized when adopting the standard since the sub-leases remain classified as operating leases.

Future accounting changes

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by AQi.

Management anticipates that all relevant pronouncements will be adopted in AQi's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments that have not been early adopted are not expected to have a material impact on AQi's financial statements.

5 - MANAGEMENT'S SIGNIFICANT JUDGMENTS AND ESTIMATES

Management's significant judgments in applying the accounting policies

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, revenues and expenses. Future results are likely to differ from the estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions is provided below.

Judgment, assumption and estimation uncertainty

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below.

Main sources of uncertainty in estimates

- Useful lives of depreciable assets:

  Management examines the useful life of depreciable assets at each reporting date based on the expected useful lives of the assets. The carrying amounts are detailed in Note 8. Actual results may, however, be different for various reasons, such as early wear, insufficient capacity, regulatory changes, etc.

- Defined benefit pension plan liability:

  Management undertakes an annual assessment of the defined benefit liability with the assistance of independent actuaries. Actual results may differ as a result of estimation uncertainty regarding standard inflation rates, mortality rates and future salary increases.

- Allowance for doubtful accounts:

  Management uses judgment in establishing the allowance for doubtful accounts based on, among others, the age of overdue accounts, debtors' current ability to pay, debtors' payment history and the general condition of the economy or the debtor's industry.

- Provisions and contingent liabilities:

  Judgment is used to determine whether a past event resulted in a liability that should be presented as a contingent liability. The quantification of this liability involves judgments and estimates. Those judgments are based on various factors such as the nature of the claim or conflict, legal procedures and the potential amount payable, legal advice obtained, prior experience and the probability of a loss. Several of these factors are a source of uncertainty regarding estimates.

- In lieu of taxes:

  Management uses judgment in establishing the in lieu of taxes expense based on, among others, independent appraiser reports to determine the estimated property assessment of the new terminal and thus being able to calculate the expense. Actual results may differ as a result of a final property assessment different from the estimate.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

5 - MANAGEMENT'S SIGNIFICANT JUDGMENTS AND ESTIMATES (Continued)

Judgments relating to the accounting policies applied

– Revenue from contracts with customers:

  Management has used its judgment to determine whether the revenue from airport improvement fees presentation should be gross or net of the management fees charged by the airlines. One of the elements that strengthen AQi's position is that the service contract is with airlines and not with passengers, management believes that the amount expected to be received is net from management fees and not the gross amount paid by passengers. The net presentation is therefore the one that is considered the most relevant in these circumstances.

6 - ACCOUNTS RECEIVABLE

	2019	2018
	$	$
Current		
Trade receivables, gross	**5,286,172**	4,950,973
Allowance for doubtful accounts	**(180,294)**	(325,421)
Trade receivables, net	**5,105,878**	4,625,552
Accrued interest receivable	**1,140,052**	1,123,594
Commodity taxes receivable		219,112
	6,245,930	5,968,258

All amounts are receivable in the short term. The net carrying amount of trade receivables and accrued interest receivable is considered to be a reasonable approximation of their fair value.

7 - GRANTS RECEIVABLE

AQi obtained $36,245,589 in grants for the refection of the airport terminal completed in 2008. Of this amount, a $15,000,000 grant is used to repay the series B bonds. As at December 31, 2019, an amount of $12,500,000 ($11,500,000 in 2018) has been used for this purpose. The grant receivable bears interest at a rate of 4.77% and is applicable to debt service in quarterly instalments of $250,000 until April 2022.

AQi also obtained a $50,000,000 grant for the extension and the refection of the airport terminal. This grant is used to repay the series D bonds. As at December 31, 2019, an amount of $12,895,355 ($9,893,327 in 2018) has been used for this purpose. The grant receivable bears interest at a rate of 2.8% and is applicable to debt service in quarterly instalments of $1,023,419 until May 2030.

Furthermore, AQi obtained a total grant $54,329,228 (decrease adjustment of $12,744 in 2019; $3,461,654 in 2018; $16,466,868 in 2017; $8,011,666 in 2016; $5,279,074 in 2015; $10,243,425 in 2014; $10,879,285 in 2013) to finance the construction of some projects. Of this amount, a total of $51,489,228 ($2,701,295 in 2019; $14,802,662 in 2018; $6,591,596 in 2017; $7,953,674 in 2016; $9,586,232 in 2015; $3,637,899 in 2014; $6,215,870 in 2013) was received.

Grants received and receivable are recognized under “Deferred revenues relating to property, plant and equipment”.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

8 - PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improve-ments	Runways, roadways and other paved surfaces	Machinery and equipment	Computer equipment	Automotive equipment	Furniture and fixtures	Projects in progress	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cost								
Balance as at January 1, 2019	**129,779,401**	**127,856,913**	**44,257,501**	**16,934,034**	**15,583,492**	**4,433,107**	**205,793,364**	**544,637,812**
Acquisitions and reclassifications	**148,400,776**	**15,739,624**	**46,696,448**	**11,035,948**	**29,990**	**4,873,429**	**(189,134,670)**	**37,641,545**
Disposals and write-offs						**(38,955)**		**(38,955)**
Balance as at December 31, 2019	**278,180,177**	**143,596,537**	**90,953,949**	**27,969,982**	**15,613,482**	**9,267,581**	**16,658,694**	**582,240,402**
Accumulated amortization								
Balance as at January 1, 2019	**27,033,523**	**27,120,410**	**23,022,766**	**12,269,186**	**8,086,130**	**3,731,685**		**101,263,700**
Amortization	**4,338,919**	**5,134,201**	**2,418,488**	**1,996,375**	**1,120,514**	**208,653**		**15,217,150**
Disposals and write-offs						**(23,231)**		**(23,231)**
Balance as at December 31, 2019	**31,372,442**	**32,254,611**	**25,441,254**	**14,265,561**	**9,206,644**	**3,917,107**		**116,457,619**
Carrying amount as at December 31, 2019	**246,807,735**	**111,341,926**	**65,512,695**	**13,704,421**	**6,406,838**	**5,350,474**	**16,658,694**	**465,782,783**

	Buildings and leasehold improve-ments	Runways, roadways and other paved surfaces	Machinery and equipment	Computer equipment	Automotive equipment	Furniture and fixtures	Projects in progress	Total
	$	$	$	$	$	$	$	$
Cost								
Balance as at January 1, 2018	129,554,801	125,204,300	43,410,303	14,841,120	13,988,259	4,373,051	167,340,415	498,712,249
Acquisitions and reclassifications	224,600	2,652,613	847,198	2,092,914	1,818,131	60,056	38,452,949	46,148,461
Disposals and write-offs					(222,898)			(222,898)
Balance as at December 31, 2018	129,779,401	127,856,913	44,257,501	16,934,034	15,583,492	4,433,107	205,793,364	544,637,812
Accumulated amortization								
Balance as at January 1, 2018	23,209,867	22,050,769	20,734,079	10,567,715	7,225,462	3,356,359		87,144,251
Amortization and reclassifications	3,823,656	5,069,641	2,288,687	1,701,471	1,083,566	375,326		14,342,347
Disposals and write-offs					(222,898)			(222,898)
Balance as at December 31, 2018	27,033,523	27,120,410	23,022,766	12,269,186	8,086,130	3,731,685		101,263,700
Carrying amount as at December 31, 2018	102,745,878	100,736,503	21,234,735	4,664,848	7,497,362	701,422	205,793,364	443,374,112

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

8 - PROPERTY, PLANT AND EQUIPMENT (Continued)

A net amount of $4,416,432 ($5,194,359 in 2018) representing interest on loans in the course of the construction period was charged to property, plant and equipment cost during the year.

The interest rate used to capitalize borrowing costs included in property, plant and equipment was 1.82% (2.11% in 2018).

9 - ACCOUNTS PAYABLE

	2019	2018
	$	$
Current and non-current		
Trade payables	**3,393,848**	3,912,102
Trade payables relating to property, plant and equipment	**14,159,328**	19,401,154
Indirect taxes	**441,680**	
Salaries, vacation and employee benefits	**1,641,620**	1,354,537
Accrued interest payable	**1,131,958**	1,168,073
	20,768,434	25,835,866

The carrying amount of accounts payable is considered to be a reasonable approximation of their fair value.

10 - CONTINGENT AMOUNTS

Contingent liabilities

Some claims or legal actions have been instituted against AQi during the current and prior years. Management estimates that these claims are unwarranted and that there is little likelihood AQi will be required to settle them. This assessment is consistent with that of independent external legal advisors.

11 - LOANS

Loans consist of the following financial liabilities:

	Current		Non-current	
	2019	2018	**2019**	2018
	$	**$**	**$**	$
Series A bonds, 5.12%, interest payable quarterly, principal payable in quarterly instalments of $562,500, maturing in April 2029	**2,250,000**	2,250,000	**19,125,000**	21,375,000
Series B bonds, 4.77%, payable from a grant receivable in quarterly instalments of $250,000, plus interest, maturing in April 2022	**1,000,000**	1,000,000	**1,500,000**	2,500,000

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

11 - LOANS (Continued)

	Current		Non-curent	
	2019	2018	**2019**	2018
	$	$	**$**	$
Series C bonds, 4.36%, net of transaction costs of $868,696, interest payable quarterly, principal payable at the maturity date in May 2045			**174,131,304**	174,095,239
Series D bonds, 2.8%, payable from a grant receivable in quarterly instalments of $1,023,419, principal and interest, maturing in May 2030	**3,086,972**	3,002,028	**34,017,673**	37,104,645
Series E bonds, 3.42%, net of transaction costs of $135,760, interest payable quarterly, principal payable at the maturity date in May 2025			**39,864,240**	39,840,619
Series F bonds, 3.25%, net of transaction costs of $152,038, interest payable quarterly, principal payable at the maturity date in June 2026			**49,847,962**	49,823,953
Total carrying amount	**6,336,972**	6,252,028	**318,486,179**	324,739,456

Under the credit agreements, AQi is subject to certain conditions. As at December 31, 2019 and throughout the year, these conditions were met.

Series A, C, E and F bonds are grafted to a provident fund for debt service and an operation and maintenance reserve fund. This reserve consists of non-current term deposits.

Furthermore, AQi may use a bank loan and term loans with financial institutions, totalling $2,000,000 and $5,000,000 respectively and bearing interest at prime rate (3.95%). These loans are renegotiable annually. Also, AQi has a term loan for an authorized amount of $10,000,000. This term loan could be increased by increments of $10,000,000 up to a maximum of $50,000,000 and it bears interest at the banker’s acceptance rate plus a premium. It is renegotiable in September 2021. As at December 31, 2019, these loans are unused.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

12 - DEFERRED REVENUES RELATING TO PROPERTY, PLANT AND EQUIPMENT

			2019
	Cost	**Accumulated amortization**	**Unamortized cost**
	$	**$**	**$**
Buildings and leasehold improvements, runways, roadways and other paved surfaces, machinery and equipment	**140,574,817**	**24,729,802**	**115,845,015**

			2018
	Cost	Accumulated amortization	Unamortized cost
	$	$	$
Buildings and leasehold improvements, runways, roadways and other paved surfaces, machinery and equipment	140,587,561	21,214,816	119,372,745

13 - PENSION AND OTHER EMPLOYEE BENEFIT OBLIGATIONS

Expenses recognized as employee benefits are detailed as follows:

	2019	2018
	$	$
Salaries	**13,378,407**	12,241,598
Employee benefits	**2,081,111**	2,083,705
Defined benefit pension plan	**173,000**	203,000
Defined contribution pension plan	**501,340**	526,872
Retirement and termination allowances	**1,006,768**	89,145
Employee benefit expenses	**17,140,626**	15,144,320

Defined benefit pension plan

The defined benefit plan is registered with the Office of the Superintendent of Financial Institutions under number 57205, in accordance with the *Pension Benefits Standards Act, 1985*.

AQi offered a defined benefit plan to its full-time employees who were employed before November 1, 2000. The required employee contributions vary between 10.8% and 19.9% (10.1% and 19.4% before January 1, 2019) of the employee's salary, subject to a maximum. AQi pays the necessary contributions to finance the plan for current services and cover the shortfall. The employee annuity corresponds to a salary percentage for the five highest-paid consecutive years of service recognized for eligibility purposes. The standard retirement age is 65. However, there is an optional retirement age for participants 60 years and older who have at least two years of recognized service for eligibility purposes, and for participants 55 years and older who have at least 30 years of recognized service for eligibility purposes.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

13 - PENSION AND OTHER EMPLOYEE BENEFIT OBLIGATIONS (Continued)

AQi is subject to certain risks related to employee benefits, including investment performance, the discount rate used to measure defined benefit pension plan obligations, participant life expectancy and future inflation. The plan's administrator is the employer and its responsibility is to determine the investment policy and analyze regulatory changes, benefits, the funding and financial situation of the defined benefit contributory plan. The plan's administrator retained the services of an independent investment manager to manage the plan's assets.

For recognition purposes, AQi measures its defined benefit pension plan obligations and the fair value of its plan assets as at December 31 of each year. The most recent complete actuarial valuation on a funding basis was performed December 31, 2018 and the results have been extrapolated until December 31, 2019.

Balancing contributions required based on the 2018 actuarial valuation amount to $139,100 ($171,200 in 2018).

The defined benefit pension plan obligations for the current period are as follows:

	2019	2018
	$	$
Defined benefit pension plan obligations as at January 1	**9,624,200**	10,010,700
Current service cost	**107,800**	137,100
Financial cost	**365,300**	351,900
Employees' contributions	**57,400**	71,200
Actuarial gaps		
Actuarial loss from the experience of the plan	**14,900**	57,900
Actuarial loss (gain) from changes in financial assumptions	**850,300**	(663,600)
Benefits paid	**(341,200)**	(341,000)
Defined benefit pension plan obligations as at December 31	**10,678,700**	9,624,200

The significant actuarial assumptions used to measure the defined benefit obligations are the following:

	2019	2018
	%	%
Discount rate	**3.1**	3.8
Increase rate of compensation	**2.3**	2.4
Inflation	**1.3**	1.4

The duration of the defined benefit obligation is 13.9 years.

Management developed these assumptions with the advice of an independent valuation actuary.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

13 - PENSION AND OTHER EMPLOYEE BENEFIT OBLIGATIONS (Continued)

The reconciliation of the assets held in respect of AQi's defined benefit pension plan obligations and the opening balance at the reporting date is as follows:

	2019	2018
	$	$
Fair value of plan assets as at January 1	**11,090,037**	11,423,560
Asset increase		
Employer's contributions	**215,823**	258,077
Employees' contributions	**57,400**	71,200
Performance of plan assets, excluding interest income	**1,584,000**	(677,400)
Interest income	**419,800**	399,600
	2,277,023	51,477
Asset decrease		
Administration fees	**42,000**	44,000
Benefits paid	**341,200**	341,000
	383,200	385,000
Fair value of plan assets as at December 31	**12,983,860**	11,090,037

Plan assets are held in balanced-strategy mutual fund units.

Plan assets recognized at fair value are classified according to a hierarchy that reflects the importance of the data used to determine the valuations. The fair value measurement hierarchy includes three levels. Level 1 uses (unadjusted) pricing data quoted on active markets for assets to which the pension plan has access. The plan assets are level 1.

The defined benefit pension plan expense for the period presented in the statement of comprehensive income under "Employee benefit expenses" is detailed as follows:

	2019	2018
	$	$
Current service cost	**107,800**	137,100
Net interest	**23,200**	21,900
Administration fees	**42,000**	44,000
Defined benefit pension plan expense	**173,000**	203,000

AQi plans on making contributions of $194,445 ($239,531 in 2018) to the pension plan over the next year.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

13 - PENSION AND OTHER EMPLOYEE BENEFIT OBLIGATIONS (Continued)

The reconciliation of the defined benefit pension plan obligations and plan assets with the amounts on the statement of financial position is as follows:

	2019	2018
	$	$
Fair value of plan assets	**12,983,860**	11,090,037
Defined benefit pension plan obligations	**10,678,700**	9,624,200
Excess	**2,305,160**	1,465,837
Effect of the asset ceiling for defined benefit pension plan obligations	**(2,815,400)**	(2,044,300)
Defined benefit pension plan liability	**(510,240)**	(578,463)

Actuarial assumptions may have a significant impact on employee benefits related amounts.

The following table illustrates how changes that could have reasonably been made to the significant actuarial assumptions used as at December 31, 2019 could have influenced the defined benefit pension plan obligations on that date.

		2019	2018
		Impact on the defined benefit pension plan obligation	Impact on the defined benefit pension plan obligation
		$	$
Discount rate	2.85% (instead of 3.10%)	**368,800**	326,400
Salary increase rate	2.05% (instead of 2.30%)	**(900)**	(3,300)
Inflation	1.05% (instead of 1.30%)	**(228,300)**	(198,500)

14 - LEASES

AQi has entered into lease agreements for land and computer equipment.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. AQi is prohibited from selling or pledging the underlying leased assets as security. Furthermore, AQi must incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the AQi's leasing activities by type of right-of-use asset:

Right-of-use asset	Number of underlying leased assets	Weighted average remaining lease term (years)	Number of leases with extension options	Number of leases with options to purchase	Number of leases with variable payments linked to an index	Number of leases with termination options
Land	1	41	1			
Computer equipment	1	2		1		

14 - LEASES (Continued)

Right-of-use assets

The right-of-use asset related to computer equipment is presented under computer equipment in property, plant and equipment. As at December 31, 2019, the cost of this asset is $2,207,520 and the accumulated amortization amounts to $1,453,284. The amortization expense recognized totals $441,504 ($441,504 in 2018). No impairment loss was recognized regarding this asset.

Lease liabilities

The lease liabilities are secured by the related underlying assets. Future undiscounted contractual lease payments are as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	$	$	$	$	$	$	$
December 31, 2019	**498,717**	**543,685**					**1,042,402**
December 31, 2018	496,749	498,717	543,685				1,539,151

Lease liabilities are presented in the statement of financial position as follows:

	2019	2018
	$	$
Current	**437,138**	437,138
Non-current	**484,767**	929,344
	921,905	1,366,482

The interest expense on lease liabilities amounts to $45,949 ($61,952 in 2018).

Lease payments not recognized as a liability

AQi has elected not to recognize a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2019
	$
Short-term leases	**81,222**
Leases of low value assets	**46,411**
Variable lease payments	**4,276,662**
	4,404,295

14 - LEASES (Continued)

Variable lease payments expensed on the basis that they are not recognized as a lease liability include rentals based on revenue from ordinary activities as described below:

– AQi leases airport facilities under a lease agreement with Transport Canada since November 1, 2000. The rent is determined based on an escalating percentage that varies according to different income levels. Income does not include interest payable since it is lower than interest receivable. The income levels and agreed-upon percentages are as follows:

	%
Income levels	
$0 to $5M	0
$5 to $10M	1
$10 to $25M	5
$25 to $100M	8
$100 to $250M	10
$250M and over	12

Total cash outflow for leases for the year ended December 31, 2019 is $4,727,204 ($4,045,723 in 2018).

Operating leases as lessor

AQi leases airport land and buildings to sub-lessees. Income from the sub-leases is $2,894,787 ($2,747,374 in 2018).

Although the risks associated with rights that AQi retains in inderlying assets not considered to be significant, AQi employs strategies to further minimize these risks. For example, ensuring all contracts include clauses requiring the lessee to compensate AQi when a property has been subjected to excess wear-and-tear during the lease term. In addition, leases for land where fuelling services are offered include environmental guarantee clauses for site restoration when the tenants leave.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Their standard period may vary depending on the type of sub-lease, from 1 to 10 years as of the commencement date of the lease in the terminal and to an average of 30 years for land, except for one contract that is valid for a 60-year period.

15 - COMMITMENTS

AQi has entered into service agreements expiring at various dates until June 2024 which call for a total lease payment of $32,453,175. Minimum lease payments for the next five years are $9,505,344 in 2020, $5,715,309 in 2021, $5,775,558 in 2022, $5,776,631 in 2023 and $5,680,333 in 2024.

Moreover, AQi has agreed to pay $8,837,378 in the course of the next year for construction contracts.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

16 - INFORMATION ON COMPREHENSIVE INCOME

In lieu of taxes

During the prior year, the Minister of Municipal Affairs and Housing granted financial assistance of $2,500,000. AQi's management has chosen to allocate this amount against the in lieu of taxes.

Finance income

Finance income for the reporting periods is detailed as follows:

	2019	2018
	$	$
Interest income on cash	**132,468**	143,787
Interest income on term deposits	**1,409,563**	1,230,973
Interest income on notes receivable	**159,949**	161,713
	1,701,980	1,536,473

Finance costs

Finance costs for the reporting periods are detailed as follows:

	2019	2018
	$	$
Interest expenses on loans and lease liabilities	**7,025,496**	6,007,725
Interest income on the grant receivable relating to a loan	**(482,099)**	(400,630)
Amortization of transaction costs	**83,695**	83,695
	6,627,092	5,690,790

17 - FINANCIAL INSTRUMENTS

Classes of financial assets and liabilities

The carrying amount of amounts presented in the statement of financial position relates to the following classes of assets and liabilities:

Financial assets

Financial assets at amortized cost

	Interest rate and maturity	**2019**	2018
		$	$
Current			
Cash		**6,873,593**	3,762,911
Term deposits	Weighted average rate of 2.34% (2.31% as at December 31, 2018)	**38,443,458**	63,008,517
Accounts receivable, excluding commodity taxes receivable (Note 6)		**6,245,930**	5,749,146
Grants receivable (Note 7)		**6,926,972**	6,716,066
Notes receivable		**155,592**	153,204
		58,645,545	79,389,844

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

17 - FINANCIAL INSTRUMENTS (Continued)

	Interest rate and maturity	2019	2018
		$	$
Non-current			
Term deposits	Weighted average rate of 2.35% (2.37% as at December 31, 2018), maturing on various dates until 2026	**42,198,359**	46,498,359
Notes receivable	Residential mortgage rate plus 5.25% and fixed rate of 4.25%	**2,044,602**	2,222,152
Grants receivable (Note 7)		**35,517,673**	42,444,646
		79,760,634	91,165,157
		138,406,179	170,555,001

Notes receivable

The financial assets at amortized cost include a note receivable under an emphyteutic agreement, bearing interest at the rate of a five-year residential mortgage plus 5.25% (8.84%; 8.44% as at December 31, 2018), receivable in monthly instalments of $9,722 ending in January 2033, followed by 333 monthly instalments of $1 until October 30, 2060. The current portion receivable totals $116,667.

The financial assets at amortized cost also include a note receivable under a leasehold improvement funding agreement, bearing interest at the rate of 4.25%, receivable in monthly instalments of $4,807, principal and interest, followed by one final instalment of $79,685, and maturing on May 1, 2028. The current portion receivable totals $38,925.

Financial liabilities

	2019	2018
	$	$
Current		
Accounts payable, excluding salaries, vacations and employee benefits payable (Note 9)	**17,362,521**	24,065,899
Customer deposits	**91,579**	283,285
Loans (Note 11)	**6,336,972**	6,252,028
	23,791,072	30,601,212
Non-current		
Accounts payable (Note 9)	**1,322,613**	415,430
Customer deposits	**592,614**	660,560
Loans (Note 11)	**318,486,179**	324,739,456
	344,192,478	356,416,658

The fair value of non-current financial instruments is classified within level 2 of the fair value hierarchy.

17 - FINANCIAL INSTRUMENTS (Continued)

Fair value measurement

The valuation methods and techniques used to measure fair value are the same as those used in the previous reporting period. The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments.

Term deposits, grants receivable, notes receivable and loans

The fair value of the term deposits, grants receivables and notes receivable was determined by discounting the contractual cash flows using market interest rates for similar financial instruments having the same term to maturity and approximates their carrying amount. The fair value of the loans is $382,929,000 ($345,466,510 in 2018) and was determined by discounting the contractual cash flows using market interest rates for similar loans.

Financial instrument risks

AQi is exposed to various financial instrument risks. AQi's financial assets and liabilities are summarized above by category. The main types of risk are the interest rate risk, credit risk and liquidity risk.

AQi's risk management is coordinated by management in close cooperation with the Board of Directors and focuses on actively securing the availability of AQi’s short- to medium-term cash flows by minimizing the exposure to financial markets. AQi's financial investments all mature within five years.

AQi does not actively negotiate financial assets for speculative purposes. AQi's main financial risk exposure is as follows.

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument fluctuate and result in a loss due to changes in interest rates.

Term deposits, a note receivable under a leasehold improvement funding agreement and grants receivable bear interest at a fixed rate and AQi is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. Since financial instruments are recognized at amortized cost, changes in the fair value have no impact on net revenues and expenses.

The note receivable under an emphyteutic agreement and term loans bear interest at a variable rate and AQi is, therefore, exposed to the risk of cash flow resulting from interest rate fluctuations.

In accordance with its policies, it is AQi's intention to reduce the exposure of its long-term financing to the cash flow risk resulting from interest rate fluctuations. Longer-term loans therefore bear interest at a fixed rate.

In the opinion of management, a 1% fluctuation in interest rates would not have a significant impact on AQi's results.

17 - FINANCIAL INSTRUMENTS (Continued)

Credit risk

Credit risk is the risk that one of AQi's debtors be unable to fulfil its obligations.

Credit risk relating to trade receivables is generally diversified since AQi negotiates with a large number of establishments.

AQi's maximum credit risk exposure is limited to the carrying amount of the financial assets recognized at the reporting date.

AQi's policy is to deal with solvent parties only. AQi's management considers that the credit quality of the above-mentioned financial assets that are not impaired or in default at each reporting date is good.

None of AQi's financial assets are secured by collateral or any other form of credit enhancement.

AQi applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the payment profile for sales over the past 60 months before December 31, 2019 and 2018 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer’s ability to settle the amount outstanding.

AQi takes into account economic perspectives of regions served by its clients as well as economic decisions affecting aviation industry in Canada and worldwide (e.g. merger between two airlines, codeshare agreement or alliance, operations reconversion, etc.).

Therefore AQi adjusted historical loss rates according to expected changes in these factors.

Trade receivables are written off when there is no reasonable expectation of recovery. Failure to make payments within 120 days from the invoice date and failure to engage with AQi on alternative payment arrangement for instance are considered indicators of no reasonable expectation of recovery.

Liquidity risk

Liquidity risk is the risk that AQi be unable to meet its commitments. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that AQi has sufficient financing sources to pursue its activities. AQi establishes annual budget and cash estimates to this end.

AQi considers expected cash flows from financial assets when assessing and managing liquidity risk, in particular cash and trade receivables. AQi's cash, term deposits and trade receivables are significantly greater than current cash requirements.

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

17 - FINANCIAL INSTRUMENTS (Continued)

As at December 31, 2019, the contractual maturities of AQi's non-derivative financial liabilities (including any interest payment) are detailed as follows:

				2019
		Current		**Non-current**
	Less than 6 months	**6 to 12 months**	**1 to 5 years**	**Over 5 years**
	$	**$**	**$**	$
Accounts payable, excluding salaries, vacation and employee benefits payable	**15,349,737**	**2,012,784**	**1,322,613**	
Customer deposits		**91,579**	**592,614**	
Loans	**9,580,196**	**9,539,426**	**72,482,352**	**458,274,712**
	24,929,933	**11,643,789**	**74,397,579**	**458,274,712**

				2018
		Current		Non-current
	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years
	$	$	$	$
Accounts payable, excluding salaries, vacation and employee benefits payable	21,377,974	2,687,925	415,430	
Customer deposits		283,285	660,560	
Loans	9,661,736	9,620,966	74,044,897	475,822,288
	31,039,710	12,592,176	75,120,887	475,822,288

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

18 - CAPITAL MANAGEMENT

AQi's capital management objectives are to:

- Ensure it has the necessary capital for developing and improving air and airport services to guarantee quality service to passengers;
- Maintain a flexible capital structure enabling AQi to obtain financing to develop its infrastructure and real estate;
- Maintain the necessary cash flows to address the risks most likely to affect its financial situation.

AQi’s capital includes net assets, the lease liability and loans totalling $467,667,967 ($468,869,826 as at December 31, 2018).

To ensure it attains its objectives, AQi’s management:

- Produces and presents to the Board of Directors short- and long-term financial forecasts;
- Produces and presents to the Board of Directors quarterly financial statements and the management discussion and analysis, and follows up on financial forecasts;
- Periodically reviews service prices.

19 - NET CHANGE IN WORKING CAPITAL ITEMS

The following adjustments to non-cash working capital items have been made to determine operating cash flows:

	2019	2018
	$	$
Accounts receivable	**(277,672)**	464,879
Supplies in inventory	**(148,919)**	(498,326)
Prepaid expenses	**266,236**	(123,468)
Accounts payable, excluding trade payables relating to property, plant and equipment	**174,394**	1,492,954
Deferred revenues	**48,316**	(14,090)
Customer deposits	**(259,652)**	11,929
	(197,297)	1,333,878

Aéroport de Québec inc.
Notes to Financial Statements
December 31, 2019

20 - RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Loans	**Lease liability**	**Grants receivable**	**Total**
	$	**$**	**$**	**$**
January 1, 2019	**330,991,484**	**1,366,482**	**(49,160,712)**	**283,197,254**
Cash flows				
Proceeds			**2,701,295**	**2,701,295**
Repayment	**(2,250,000)**	**(444,577)**		**(2,694,577)**
Non-cash items				
Grants obtained			**12,744**	**12,744**
Grants awarded for the repayment of loans	**(4,002,028)**		**4,002,028**	
Amortization of transaction costs	**83,695**			**83,695**
December 31, 2019	**324,823,151**	**921,905**	**(42,444,645)**	**283,300,411**

	Loans	Lease liability	Grants receivable	Total
	$	$	$	$
January 1, 2018	337,077,212	1,788,364	(64,421,143)	274,444,433
Cash flows				
Proceeds			14,802,662	14,802,662
Repayment	(2,250,000)	(421,882)		(2,671,882)
Non-cash items				
Grants obtained			(3,461,654)	(3,461,654)
Grants awarded for the repayment of loans	(3,919,423)		3,919,423	
Amortization of transaction costs	83,695			83,695
December 31, 2018	330,991,484	1,366,482	(49,160,712)	283,197,254

21 - RELATED PARTY TRANSACTIONS

AQi's related parties include its directors, key management personnel and post-employment benefit plans for AQi's employees.

Transactions with key management personnel

AQi's key management personnel includes the directors and management and their compensation is detailed as follows:

	2019	2018
	$	$
Salaries, bonuses and termination allowances	**2,508,605**	2,257,202
Employee benefit cost	**239,020**	209,608
Post-employment benefits	**94,519**	281,491
Attendance and directors’ fees	**362,747**	333,268
Total compensation	**3,204,891**	3,081,569

21 - RELATED PARTY TRANSACTIONS (Continued)

Transactions related to post-employment benefit plans

The defined benefit and defined contribution plans are related parties. AQi's transactions with the pension plans include plan contributions, which are presented in Note 13. There are no other transactions with the pension plans and no unpaid balances other than contributions for the last month of the fiscal year, which are paid during the subsequent month.