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YQL Business Plan 2021-2024

prepared by:

Modalis Infrastructure Partners Inc.

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The enclosed report is prepared exclusively for the consideration and benefit of the City of Lethbridge

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Executive Summary

In a bold and strategic feat, the City of Lethbridge acquired the Lethbridge Airport (YQL) and surrounding lands from the County of Lethbridge in 2018. Since that time, much work has been done to take over ownership and operation of the Airport, assess the condition of the assets, evaluate the performance of the airport as a whole, investigate governance models and create a strategic roadmap for the path forward. The City of Lethbridge is laser focused on positioning the Airport as a major economic driver for Lethbridge and the southern Alberta region.

In January 2020, Modalis Infrastructure Partners Inc. prepared a YQL Business Plan (YQL BP) that provided detailed analysis and a strategic roadmap for all potential areas of improvement. The YQL BP included recommendations for capital asset investment requirements, traffic analysis and route development, revenue opportunities (both aviation and land development), operational improvements, marketing activities, governance and risk. As a result of the COVID-19 pandemic and the devastating impact and financial hardship that has hit YQL and the world-wide aviation industry, previous recommendations and timelines needed to be revisited. As such, this updated 2021-2024 YQL BP focuses on an assessment of the aviation industry recovery and the diversification of revenue streams through long term, non-aviation related land development.

Traffic

Passenger traffic volumes were set to decline in 2020 after the exit of Air Canada, which coincided with the onset of the COVID-19 pandemic, resulting in only 22,078 total passengers in 2020, compared to 104,078 the year before.

The month-to-month percentage changes in passenger volumes were relatively small throughout 2019 and into 2020. By April 2020, traffic had dropped 97.6% compared to March which again saw a decline of 47.1% from February. While there have been some very modest recoveries since, these are erratic and have yet to provide a good indication of a sustainable recovery.

Although too early to develop a dependable forecast, using various industry sources as input, two possible scenarios are included to illustrate how a recovery can unfold. It seems to be a general census in the market that end of 2023 is a reasonable assumption for recovery of domestic travel.

Key Strategic Actions:

- Continually monitor recovery, update long term forecasts, and analyze route profitability in order to have timely and informed conversations with airlines on routes and route development.

Revenues

YQL generated total revenues of just over $1.8 million in 2018[1], increasing to $2.3 million in 2019 on the back of a 19.2% increase in passenger volumes. Before grants, 2020 ended the year with revenues of $1.1 million. 2020 saw a 53.1% decline in revenues, somewhat compensated by a Municipal Operating Support Transfer (MOST) of $1.2 million that made up the shortfall and generated a net loss around a quarter million dollars, the same as 2019. As to be expected with a 79% decline in passenger volume, land leases are now the most important revenue source at YQL.

The strategy of revenue diversification, creating a better balance between passenger related and land use related revenues as outlined in the 2020 Business Plan, remain a key priority for the years to come.

Fully developed, assuming all parcels are leased and using current lease rates, the Airport Lands could generate up to $10 million in lease revenue per year. In addition, using the 2021 mill rate, the City has estimated that an additional $10 million in municipal tax revenue could be possible.

Key Strategic Actions:

- Review and revise lease rates (every 2-3 years),
- Examine potential lease opportunities (ongoing),
- Annexation of Airport lands (2022),
- Completion of Airport Business Park Area Structure Plan and Outline Plan (2023), and
- Infrastructure servicing of Airport lands (2024).

Operations

Lethbridge Airport spent $2.098 million in operating expenses in 2018 and $2.6 million in operating expenses, interdepartmental transfers, reserves, and City overhead charges in both 2019 and 2020.

As air travel plummeted in 2020, YQL was quick to examine opportunities to reduce operational costs. The organization includes 11 approved FTEs, 10 full-time resources and 2 seasonal Airfield Maintenance Specialists. During the 2020 year, 2 vacancies were left unfilled to reduce operational expenditures. In June 2021, a Safety and Security Coordinator was hired as per the recommendation of the Operational Review to meet Transport Canada safety requirements. It is expected that the seasonal vacancy will be filled when needed as passenger volumes recover.

The YQL-BP includes strategic revenue initiatives, and it is recommended that Opportunity Lethbridge take charge of and drive strategic oversight, commercial development and marketing activities.

[1] The change of ownership of the airport in the middle of 2018 might have resulted in some underlying changes in accounting practices.

Key Strategic Actions:

- Review and fill vacancies as traffic demand returns,
- Develop Airport Security and Environmental Management Systems (2021), and
- Introduce monthly performance dashboard (2021).

Capital Expenses

The Operational Review and Asset Condition Assessment that was completed in 2019 proved to be a highly valuable action. It provided YQL with the demonstrated need coupled with the scope, cost estimate and timelines of each asset renewal requirement. This empowered the City of Lethbridge to successfully leverage $2.6 million to secure $26 million in total for capital and customer improvements through the Municipal Sustainability Initiative (MSI), Municipal Stimulus Program (MSP), the Airport Capital Assistance Program (ACAP), and the Regional Air Transportation Initiative (RATI). The previous YQL Business Plan predicted approximately $34 million in total investments required over a 20-year period. With funding approvals, two-thirds of the 20-year plan will be completed by the end of 2022. This work includes:

- Terminal building renovation,
- Airfield lighting system,
- Pump house with new water line service,
- New sand storage shed,
- Rehabilitation of aircraft maneuvering areas, including Taxiways A, B and C; Apron I, II and III; and Runway 12/30,
- Extension of Taxiway B,
- Customer and carrier improvements, including a new baggage carousel, self-check kiosks, common use terminal systems, and mobile wheelchair pushers, and
- Replacement of the runway tar kettle.

These projects eliminate high airside safety risk areas and completes future critical projects early, leaving YQL in excellent condition and well positioned for recovery.

Key Strategic Actions:

- Complete all funded projects (2021-2022), and
- Update master plan/land use plan (2023).

Corporate Governance

A comprehensive review of Corporate Governance options and scenarios was undertaken in 2020 and 2021. Given YQL's financial situation and the ongoing need for operational subsidies, continued operation as a City Department was recommended during the pandemic recovery period.

It is suggested that the governance question should be revisited once YQL is approaching the critical performance and financial sustainability metrics for *two consecutive years* of:

- $500,000 net operating margin, and
- 150,000 annual passengers.

Key Strategic Actions:

- Review governance structure at trigger point.

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1. Introduction

1.1. Background

The City of Lethbridge (City) assumed ownership over Lethbridge Airport (YQL or the Airport) in July 2018. As a proactive move to assess the development potential of YQL, Modalis Infrastructure Partners Inc. was engaged to develop and implement various business planning initiatives. The first YQL business plan was delivered in Jan. 2020 (i.e., pre-pandemic) and outlined the initial plan for 2020, along with long-term views on development/evolution of YQL's business lines.

While some initiatives and the terminal upgrade were on the way in early 2020, the effects of COVID-19 have stalled any initiatives related to passenger activities.

1.2. Business Plan Scope

The YQL-BP will seek to capture the most salient airport conditions and stakeholder issues. The plan covers the period from mid-2021 to end of 2025. More details are provided for the short term (2021-22). Broad strokes activities are included for the medium term (2023-2024) and longer term (2025). In light to the uncertainty around pandemic recovery, an update of the long-term plan is targeted for 2024, with annual actions being further developed annually.

1.3. Study Approach

Overall, a pragmatic and action-oriented approach has been taken in developing this plan. It builds on the Phase II, 2019 Business Plan, however with a post-pandemic lens focused on passenger traffic "recovery" rather than growth-related growth (i.e., beyond 2019 benchmark levels).

As with most well managed businesses, several revenue streams mean lower risk and the ability to withstand external shocks. Non-aviation related land developments can be one such alternative revenue stream. The assessment of the land development potential builds on the previous business plan but has a greater focus in this document.

2. Observations

While various action items have been included within certain periods, these should be seen as indicators more than firm moments in time.

The uncertainty of timing of the anticipated recovery means close observations of key triggers will allow YQL to act at the appropriate time to maximize the benefit as the environment changes.

3. Strategic Direction

Following the 2019 SWOT (Strengths, Weaknesses, Opportunities, and Threats) and traffic analyses, some key elements were identified as critical to the short- and long- term strategic direction.

The overarching objective of the City is to **grow the business to make it sustainable and a net contributor to the City and region.**

Flowing from the strengths of the current airport operations combined with identified opportunities, a two- pronged strategy to enhance the value of the airport were formulated:

- Passenger Traffic Growth
- Land Development for Commercial Use

Each of these should individually positively contribute to the bottom line and add to the value that the Airport contributes to the City.

The market decline of 2020 and 2021 materially delays the implementation and benefits of any passenger related initiatives.

In the longer term, the strategy of traffic growth is sound and should be pursued, however starting from a much lower activity level than previously anticipated.

Passenger traffic volumes must further increase in order to ensure the continuation of the current air services and potentially grow daily frequencies, aircraft size and/or destinations. Implementing effective action elements to achieve this will be crucial for the long-term financial viability of airport operations.

The success in developing the terminal and accelerating airside projects through substantial external funding will put YQL on a solid footing for future growth opportunities. The facilities are there to serve future passengers and airlines.

Strategic Land Development

The 900-acre available land mass represents a positive potential contribution to the City's current land areas available for development. As the City is now the owner of both the airport, as well as local business park, any new development can and should be pursued where it provides highest and best value for the type of development the investor requires. Airport land should ideally be used for businesses that benefit from airside access and/or proximity to aviation related activities, ideally in a complementary fashion.

The strategy developed in this plan can therefore be summarized as follows:

- Complete the terminal and airside projects as planned as it provides a solid base for welcoming increased passenger volumes and aircraft movements.
- Monitor the overall aviation market closely with planned activities ready at the opportune time.

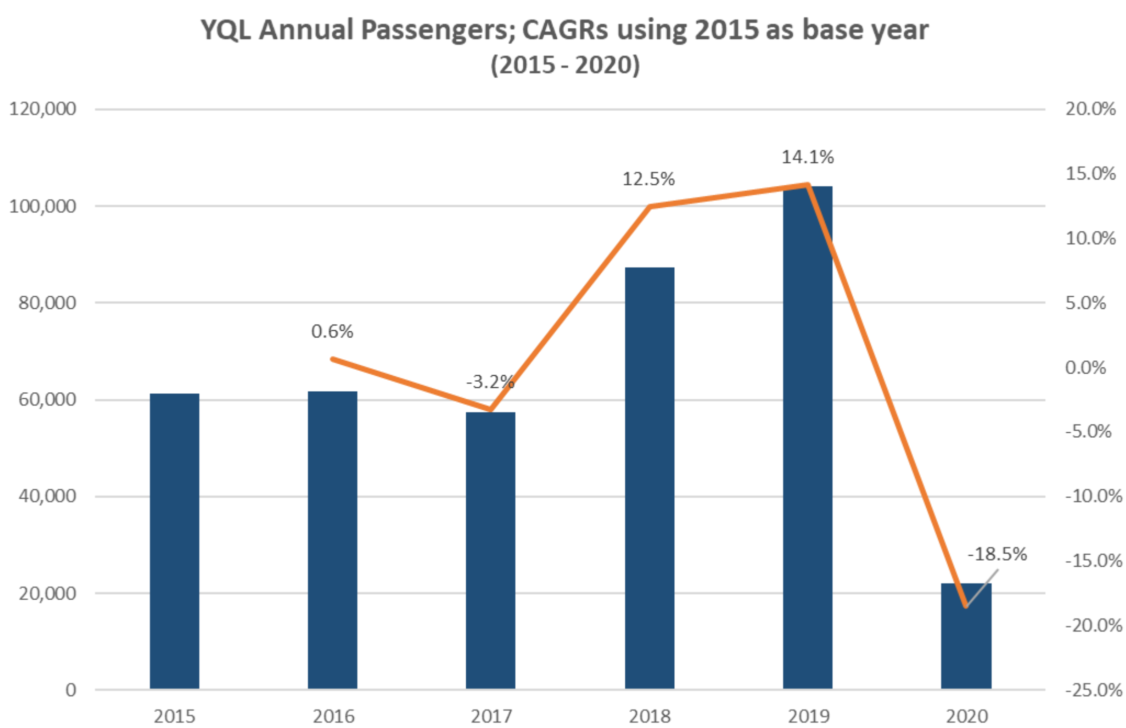
- Implement a long-term non-aviation development strategy to balance revenue sources and reduce risk. Key actions include:
    - Annexation,
    - Area Structure Plan,
    - Outline Plan, and
    - Infrastructure Servicing of business park expansion.

4. Traffic

The following section provides a background and insight on the current traffic situation at YQL.

4.1. Historical Traffic

In 1990 when Time Air was in operation, YQL served 116,000 passengers. By the early 2000s, these volumes had reduced to around 60,000, which was the norm until as late as 2017.



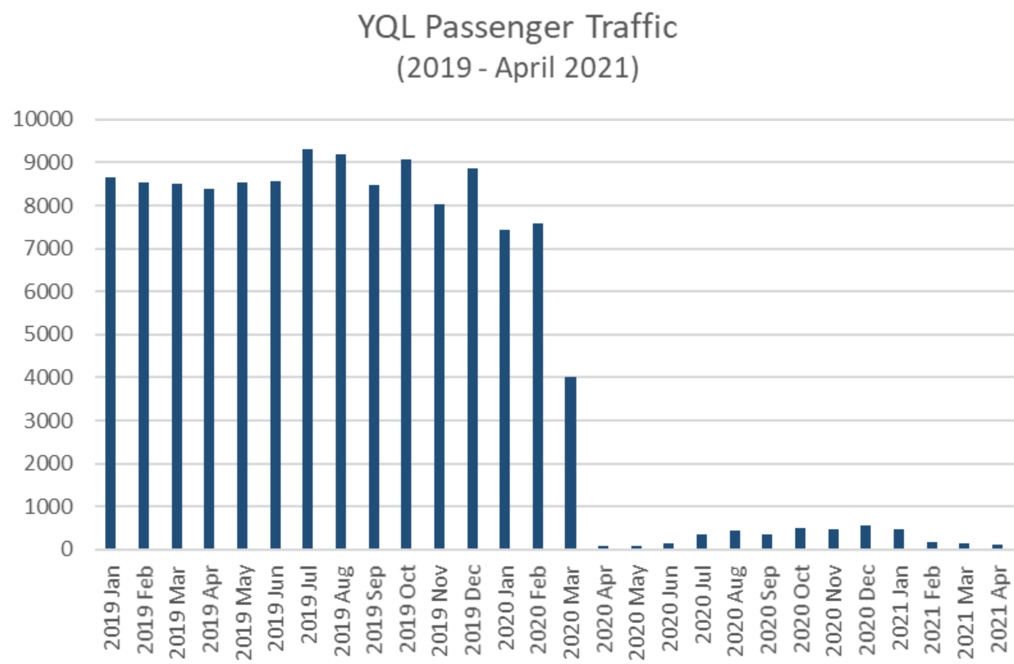
Until June 2018, two carriers served YQL, Air Canada Express with service to Calgary and Integra Air with two times daily (Monday to Friday) service to Edmonton. Integra Air discontinued its services to YQL in March 2018. By that time, WestJet Link had announced its intent to commence services from YQL to YYC beginning in June 2018. Air Canada responded by replacing its Beech-1900 aircraft with a Dash 8-100 and increasing frequencies to six turnarounds per day. Passenger volumes immediately increased and 2018 ended with 87,302 passengers passing through the airport, which included WestJet traffic for less than six months. 2019 proved even stronger, ending with 104,078 passengers using YQL.

Average annual growth (CAGR) from 2015 has varied over the last few years. 2015 – 2017 had a 3.2% decline, before 2018 and 2019 posted double digit figures. 2015-2020 saw a CAGR of negative 18.5%. The year on year 2019-2020 decline was 78.8%.

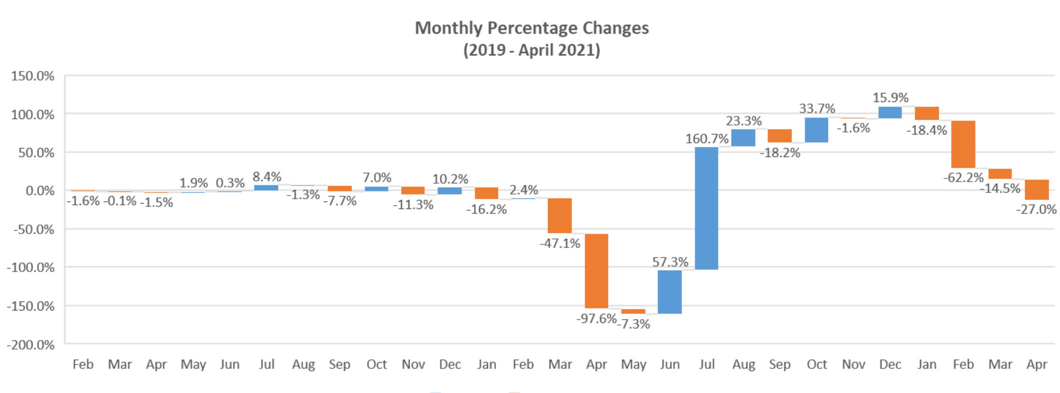
4.2. Current Traffic

The dramatic traffic decline due to COVID-19 is well documented hence a broader market description is not warranted at this point.

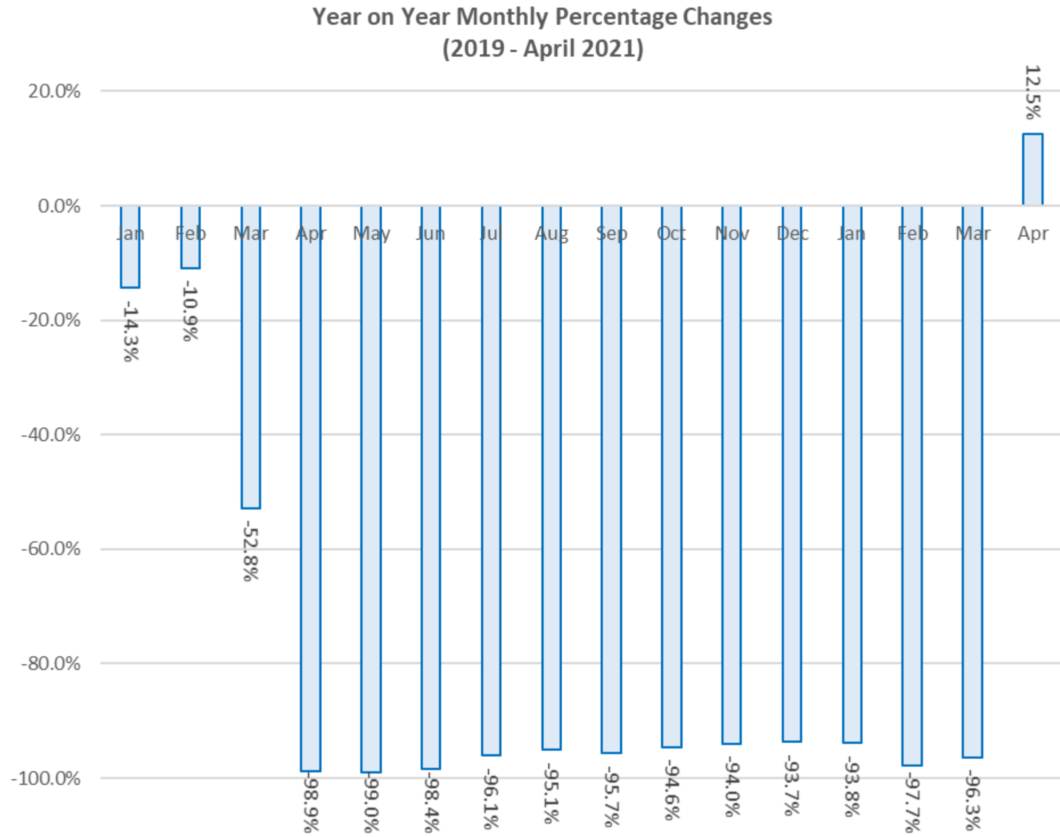
For YQL, the traffic development has been equally grim as the graph illustrates. The calendar 2020 ended with 22,078 passengers using the airport, compared to 104,078 the year before.



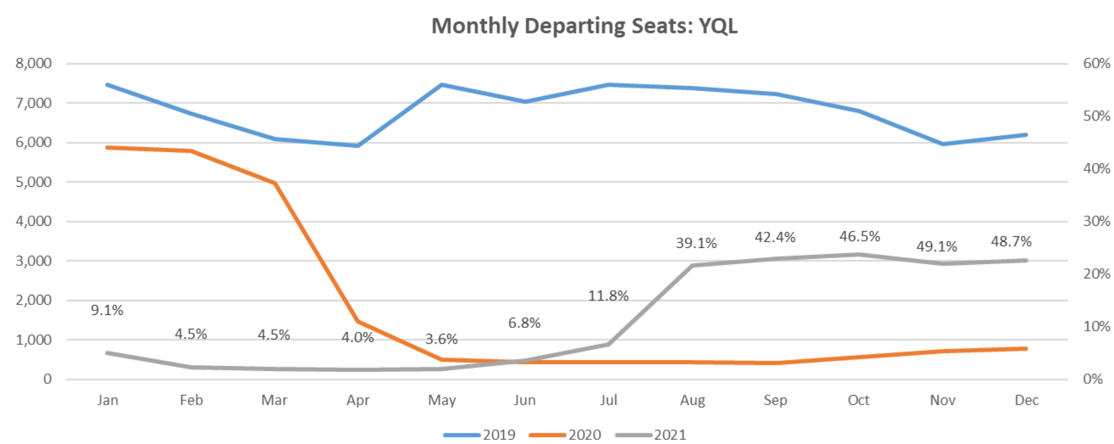
The month-to-month percentage changes in passenger volumes were relatively small throughout 2019 and into early 2020, however by April 2020, traffic had dropped 97.6% compared to March which again saw a decline of 47.1% from February. While there have been some very modest recoveries since then, these are erratic and have yet to provide a good indication of a sustainable recovery.



The year-on-year statistics show passenger numbers consistently below ninety percent per month comparing 2019 with 2020. April 2021 recorded a 12.5% growth, but that is of course based on the very low volume from April 2020.



While the outlook for the summer of 2021 looks slightly better, it may still be too early to declare the crisis over and assume continuous growth from June onwards. Data from the Official Airlines Guide (OAG) illustrates this by way of available seats in the market.



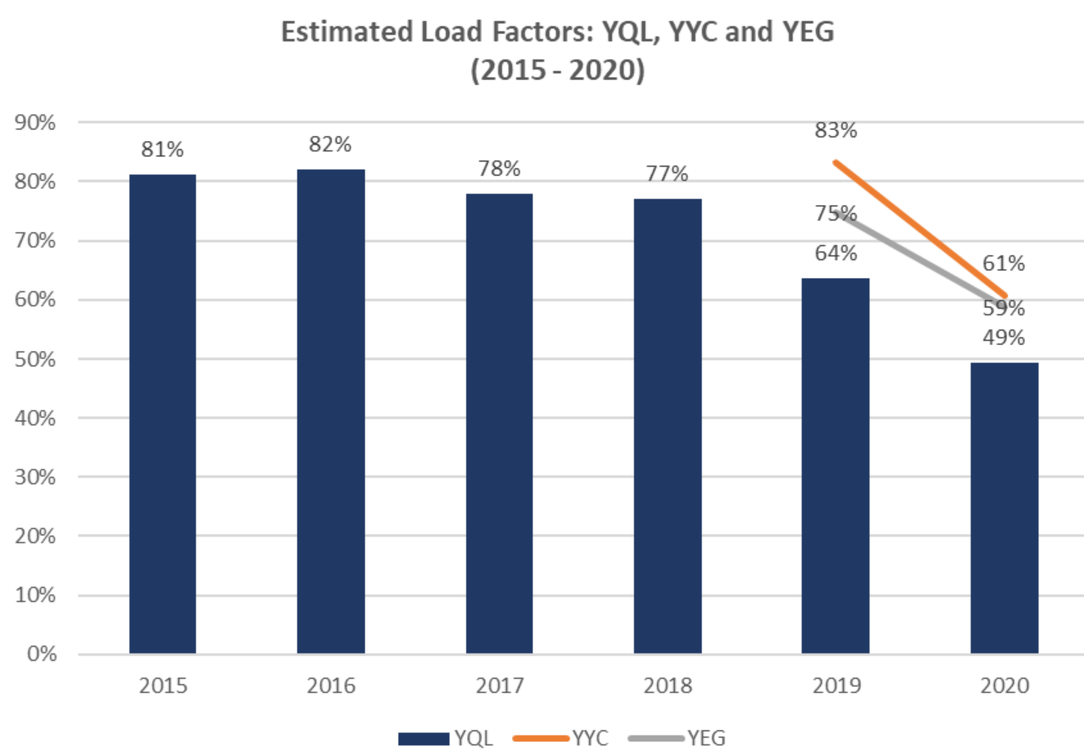
The percentages compare available seats in 2021 with the same month in 2019. While there is a planned recovery (supply of seats), it remains somewhat flat from August until the end of the year. Also note that throughout the COVID period, carriers have offered flights (seats), only to cancel these if the load factors were too low.

4.3. Traffic Recovery Observations

Load Factors

In the 2019 Business Plan, the relatively modest load factor of 62% - 65% was calculated[2] (depending on the data set used). This was likely a contributing factor to the Air Canada exit in 2020, although it is understood that a contributing cause might have been a re-calibration of the network of feeder traffic.

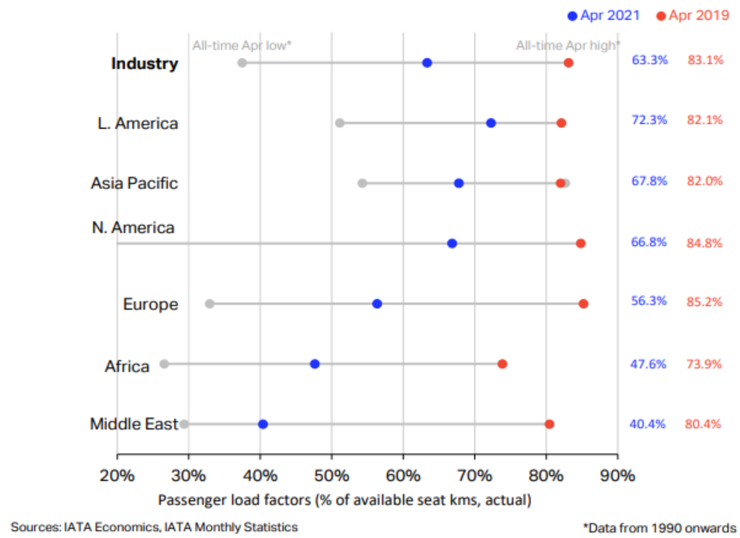
Load factors for 2020 have been estimated at 49% using OAG data of seat supply vs. passengers flown. This load factor is too low to sustain flight frequencies and comes on top of a very limited schedule during 2020 and 2021.



[2] The Official Airlines Guide (OAG) provide projections of seat supply to a chosen market. Total seats to YQL in 2019 was projected at 164,000.

On a global basis, load factors have declined across all markets. Using April 2019 and 2021 as a guide, industry load factors declined by around 20%. The loss of passengers is only related to the flights actually flown and does not consider all the flights that never took place.

A load factor in the mid-60s may not be sufficient for WestJet to increase its frequency unless fares are higher than in 2019.



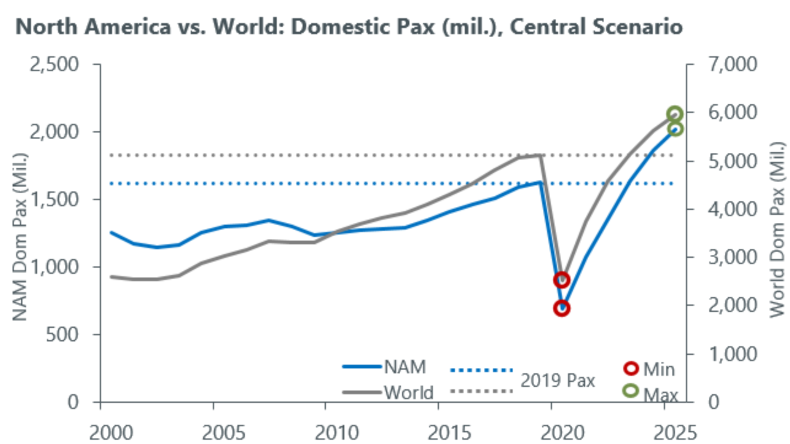
Recovery Observations & Scenarios

A detailed traffic forecast was previously planned to be included in this updated business plan. However, given the current situation the value of such projections does not warrant the cost as there would be too many assumptions creating uncertainties around the final output. See Section 4.4 for further comments related to air service developments.

North American Domestic Traffic

DKMA has developed a high-level projection for domestic traffic across North America. While elements unique to YQL may mean its traffic will not develop in perfect tandem with the continental average (U.S. numbers drive 90% of the total), the below graph and commentary may indicate a timeframe of when one can expect a sustainable growth towards normal and when a YQL forecast should be developed separately as previously planned.

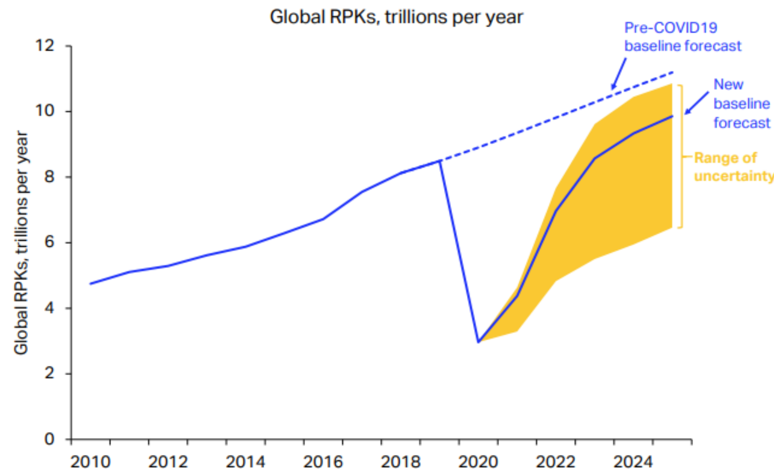
DKMA's median (central) forecast for North American domestic traffic indicate a return to 2019 levels around the end of 2023. While a domestic forecast for Canada has not been prepared it is reasonable to assume that, given that the Canadian economy is not as strong as the U.S. and that there are more restrictions to fly in Canada than in the U.S., that the Canadian domestic market will take longer to recover.



IATA Global Predictions

The above assessment is in line with the analysis provided by the larger industry organizations.

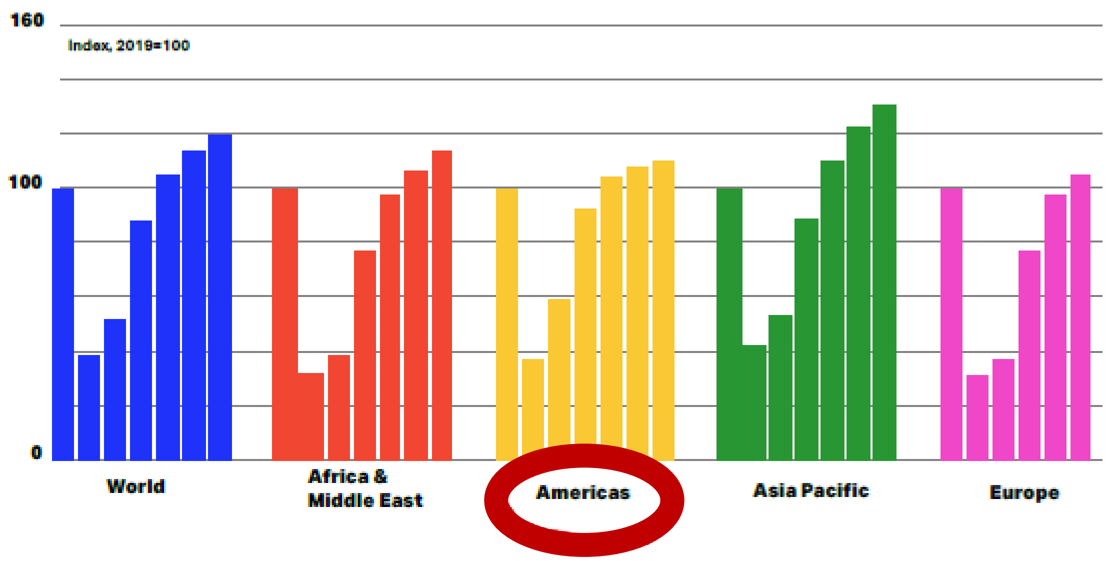
IATA states that air travel demand and passenger revenues should rebound very strongly once travel restrictions allow. There is pent-up leisure and VFR (visiting friends and family) demand, and that a strong economy and accumulated savings should lead to a rapid rise of global revenue passenger kilometers (RPKs).



Source: IATA/Tourism Economics 'Air Passenger Forecasts' January 2021

Indeed, IATA projects a sharp rise in 2022 in line with the DKMA assessment above. One key question for the longer term is if the baseline will permanently move below the historic one or catch-up in the latter half of this decade.

IATA Baseline 2019 - 2025



From 2015 to 2020, the North American CAGR for domestic traffic was negative 13.3%. In order to achieve a similar recovery as depicted above, North American domestic traffic will have to increase by a CAGR of 23.9% from 2020.

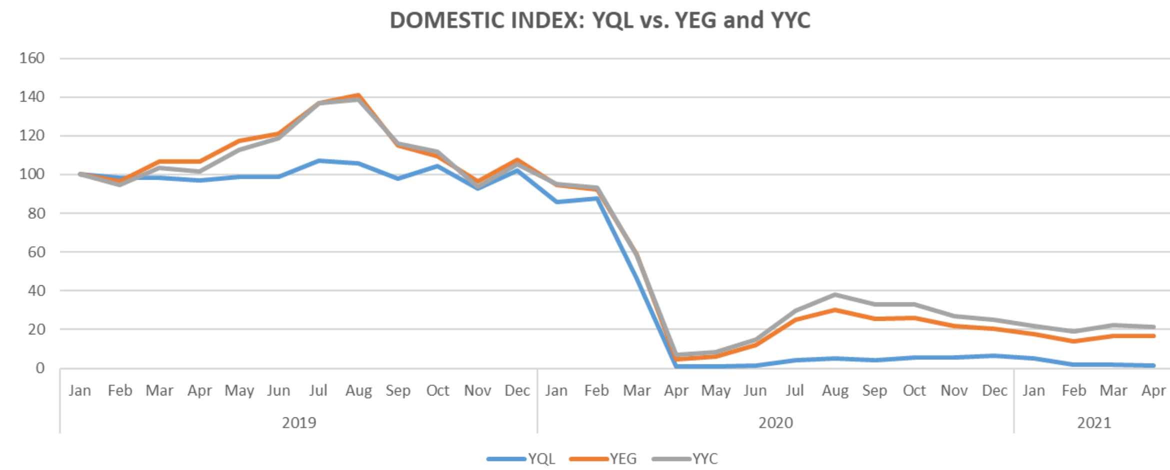
AAGR: North America vs. World (Domestic), All Scenarios

		2000-19	2000-20	2019-20	2015-20	2020-25
Low	NAM	1.4%	-2.9%	-57.5%	-13.3%	18.4%
Low	World	3.6%	-0.1%	-50.6%	-10.1%	15.7%
Cent.	NAM	1.4%	-2.9%	-57.5%	-13.3%	23.9%
Cent.	World	3.6%	-0.1%	-50.6%	-10.1%	18.6%
High	NAM	1.4%	-2.9%	-57.5%	-13.3%	27.9%
High	World	3.6%	-0.1%	-50.6%	-10.1%	22.0%

At YQL, the average annual growth for the same period (2015-2020) was negative 18.5% somewhat reflecting vulnerability of smaller regional markets, as well as unique local conditions.

Alberta Recovery

Using January 2019 as the index month (100), the below graph depicts traffic development for Calgary, Edmonton and Lethbridge.

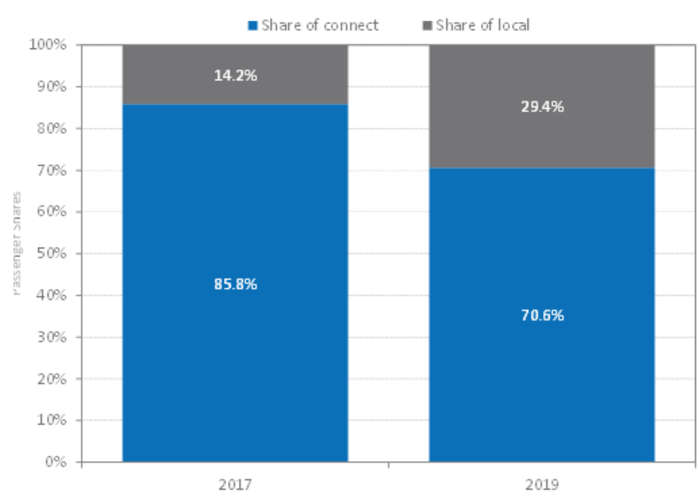


The limited recovery seen from April 2020 onwards indicate a deeper decline and slower recovery for YQL versus the larger and more diverse YYC and YWG.

It would therefore be likely that traffic will return to the larger airports first as these have a larger catchment area and more connecting traffic. As the long-haul routes improve and stabilize, feeder traffic becomes more attractive. Combined with O&D traffic, this should increase frequencies and volumes in regional markets.

Traffic Scenarios for 2021-2023

The enviroment is still too fluid to make a realistic forecast, hence the following two scenarios are two out of a mutlitude of outcomes. Given the uncertainty, the recovery could be before or after 2023.



Source: MIDT and DKMA analysis

The September 2020 route development study indicated that about 70% of YQL traffic connects onwards from Calgary (excluding self-connecting passengers).

Note the composition of the market changed from a predominantly connecting market to one where local/O&D traffic grew in importance when WestJet commenced flights.

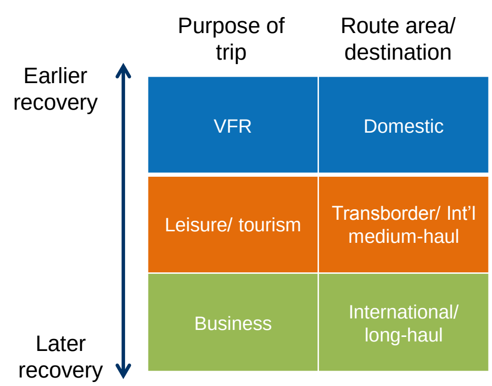
In 2017, when Air Canada had a monopoly, nearly 86% of passengers connected and when WestJet entered this fell to about 71%. In 2019 Air Canada and WestJet have different profiles: WestJet handled more O&D traffic than Air Canada and the entry of WestJet largely explains why O&D traffic grew much more rapidly than overall traffic on the route between 2017 and 2019.

Any full recovery to the 2019 average monthly passenger volumes of around 8,000 will likely require the following:

- Low and under control COVID case counts.
- A decrease and ultimate abolishment of public orders limiting local activities and movements outside of local areas.
- Domestic and international borders must re-open without quarantine, including freedom to travel across the U.S. border in both directions before all international travel is allowed.
- Meaningful opening of international markets with the certainty of rules and regulations to avoid quarantine, surprise restrictions mid-travel and a coordinated approach to testing and documentation.
- A second airline providing flights to take average monthly passenger volumes beyond 5,000 passengers (60,000 passengers per year)[3].

Most importantly passengers must feel safe and confident to travel with a firm belief and acceptance that the pandemic is substantially over and a return to a more familiar lifestyle is not only possible, but in sight.

The desire to travel will depend on the reason for traveling, with domestic VFR likely being one of the earliest segments on planes. Businesses have proven during the pandemic that it is possible to conduct many activities renotely, hence it is predicted that this will be the last segment to re-enter the market in volumes.



Given the current traffic levels, YQL passenger volumes would have to increase by an average of almost 15% per month in order to reach the 2019 monthly averages at the end of 2023. Such gradual and consistent growth is not realistic, hence another "shock" event is likely to take place, this time in a positive direction.

YQL Scenario 1 – Recovery to 2019 Monthly Volumes by the End of 2023

It is difficult to envision a rapid and full recovery taking place in 2021 or early 2022. While most (western) countries are plotting a gradual opening this summer with less restrictions after September 2021, the recent scheduled capacity numbers do not necessarily support a rapid recovery yet, with the unknown impact of the so-called "Delta Variant" a contributing factor.

For the month of June, airlines scaled back capacity with some 6.7 million seats being removed globally and for those carriers brave enough to look into July a further 10 million seats were

[3] It is assumed that with the current aircraft type, WestJet will peak at approximately 60,000 passengers per year. To move beyond this volume, a second airline, larger aircraft or increased frequencies will be required.

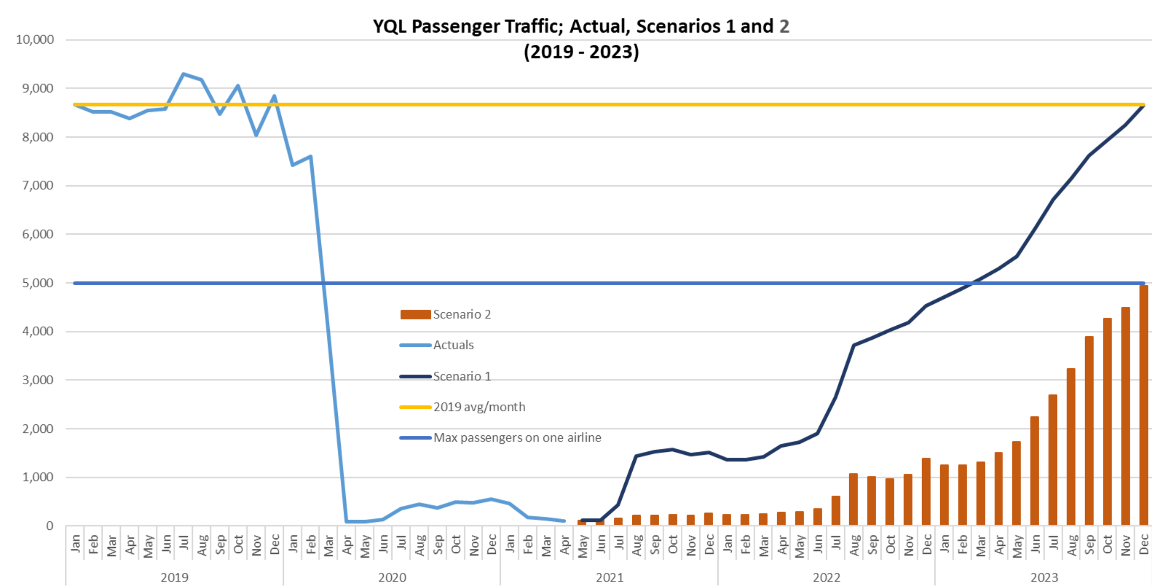
removed. The indications are now that this summer season will not provide the necessary cash that airlines have been hoping for.

The winter season will suppress and delay recovery even further. If capacity is to recover earlier, clarity of messaging from regulators must be forthcoming with demand responding like never before. If so, late July/August could see higher growth, but the outlook is bleaker by the day[4].

As such, this scenario therefore depicts a development where all the requirements listed in the previous section are in place at the earliest in the summer of 2022. The scenario includes a summer of 2021 with similar but slightly higher traffic than 2020, a stagnation in the fall or early winter as is normal in any year and as possible COVID flare-ups keep adding uncertainties in the market and generate another winter with (some) travel limitations. Gradual recovery takes place the spring of 2022 with another leap during the summer. A steady growth thereafter and a substantial spike in demand in 2023 takes the market to 2019 levels in 2024.

In this scenario, a 50% load factor on the currently announced schedule (see graph regarding seat supply at YQL based on OAG data above) has been included for 2021. The foregoing assumes airlines can sell sufficient number of seats and will not cancel any of these flights for the rest of 2021. If this holds, it will result in about 9,000 passengers in 2021.

Finally, this assumes that a new carrier will serve YQL from the summer of 2023.



YQL Scenario 2 – One carrier recovery through 2023

As of June 2021, the plans across North America and Europe are that governments will aim to "open border and have no quarantine" by late summer. Note that this is contingent on meeting vaccination targets, a continuous decline in new cases and limited travel to and from areas with high case counts per 100,000 people.

[4] This paragraph from the Official Airlines Guide (OAG). OAG tracks all scheduled airline capacity worldwide.

In Scenario 2, a more subdued view is taken, assuming a slower growth this summer, the traditional slower winter months (except December), with a spike the summer of 2022.

As traffic may climb from there, it peaks at ~5,000 passengers/month as this scenario does not include a second carrier until after 2023. Also, a key assumption is that WestJet will not increase frequency or aircraft size to increase volumes, but possibly seek to increase yields instead.

Air Service Development (ASD)

Short Term (2021-22)

Airlines continue to be in survival mode, having little time to plan beyond the current schedules and the need for revenue growth. It is unlikely that there will be opportunities to present a new route development case during 2021.

A close monitoring of WestJet and dialogue would be helpful to ensure the incumbent airline services are secured and have the desire and ability to be the backbone for the recovery of passenger volumes.

It is recommended that YQL management continue with regular meetings with the incumbent carrier to gauge and discuss traffic volumes, frequencies, service levels and other operating issues.

It is imperative that YQL be pro-active to position itself to be ready to take advantage of the rebound when it happens.

Medium Term (2023-24)

Medium term was defined in the previous plan as the period after the current frequencies have operated for a sufficiently long period and are proven sustainable. The recommendation is to monitor recovery and revisit ASD activities when the market growth stabilizes, possibly around the middle or end of 2022.

Long Term (2025)

By the middle of this decade, “business as usual” should be in place with various growth initiatives underway.

4.4. Strategic Action

A more detailed understanding of the current traffic and passenger profile is required before executing any marketing efforts or further discussions with the incumbent and potentially new airlines. The following is therefore recommended:

- **Monitor**: Continue monitoring changes in the market.
- **Long Term Forecast**: Delay development of a detailed long-term forecast until stable growth has been established.
- **Current Route Profitability (yield assessment)**: Update the yield analysis on current routes (to Calgary and connections beyond) once load factors are within normal range and overall traffic volumes creates financially sustainable flights.

- **Future Route Development**: Assess further growth in conjunction with the long-term forecast development.
- **Airport Surveys**: Surveys remain an important tool to understand the travellers' sentiment. The following remains in place and are recommended executed in conjunction with the long-term forecast development.
- **Passenger Survey**: A study primarily aimed at understanding the passenger demographics, travel habits, destinations beyond YYC and also new destinations. A small questionnaire could be delivered on tablets but would require a fairly large sample to be useful (1,000)[5]. It is recommended to include a survey of service levels and facilities.
- **Community Survey**: Research conducted online, promoting the participation on local media, airport website, City Council website etc.
- Following the success of airlines at social crowdsourcing initiatives, airports have also recognized that today's more connected world offers unprecedented opportunities for inviting customer participation and giving travelers "skin in the game" thereby making them feel part of the brand. They have used crowdsourcing as an effective means to a variety of ends such as product innovations, development of communities and improving passenger experience.

The foregoing is important for marketing purposes and services at the airport (e.g., if there is a high proportion originating in the Lethbridge catchment area, car parking facilities are more important than car rental and vice versa).

[5] If such survey can be arranged as part of some case work in a business course at the University of Lethbridge, students may be able to collect the data/perform the interviews thus lowering the study costs.

5. Revenues

Under normal conditions, airports around the world are attractive for long term investors and operators as they are seen as investments with a moderate risk/return profile. Local governments and communities are also becoming much more attune to the relationship between the vibrancy of airport services/facilities and regional economic prosperity. Airports are attractive investments due to their diversified revenue stream and ability to weather economic fluctuations better than airlines and many other players in the aviation industry.

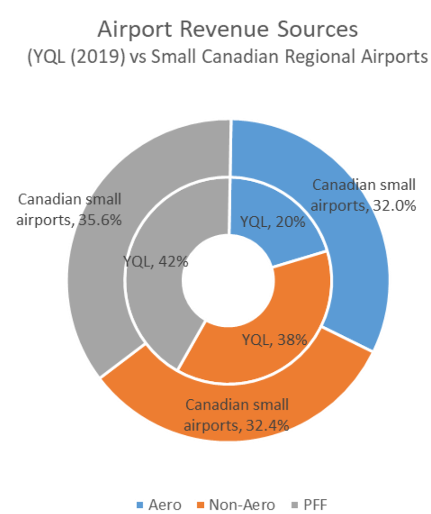
Airports are attractive investments due to:

1. Low competition risk
2. Steady, predictable, diversified revenues
3. Attractive long-term growth rates
4. Mature secondary market

Forty percent of the world's top 20 airports by passenger count have some form of major private involvement through investments or service deliveries. Of the top 500 (i.e., including many smaller airports), only 7.6% have some private involvement. Although there are several reasons for this, one key element is the small airport's inability to fund required capital investments for major maintenance and growth (it is, however, a bit of a paradox that YQL facilities will emerge from the pandemic in better shape than before through the added capital contributions from various government entities).

YQL is no exception but having the City as the new owner may prove to be a situation which will benefit both parties. The City has financial resources, expertise, and the market knowledge to extract value from the excess land at the Airport. Since the City is the ultimate beneficiary of income from the Airport as well as development of City industrial areas and business parks, there is no longer competition between the Airport and the City in respect of land development. As such, this should allow for a coordinated and focused approach to land and aviation activity development, taking advantage of the existing expertise of both entities.

Small regional airports in Canada have three main sources of income, namely aeronautical fees (e.g., landing fees, aircraft parking fees), and charges (32.0%), Passenger Facility Fees (PFF), also called Airport Improvement Fees, (35.6%), and non-aeronautical revenues (e.g., retail, car parking, car rental, F&B) (32.4%), i.e., income from commercial activities on site.



The PFF at YQL is in line, although slightly higher, with the Canadian average. The proportion of non-aeronautical revenues are higher, which is positive as it indicates more diversified revenue sources.

This again helps mitigate the risk of operating the airport as a commercial enterprise.

5.1. Existing Airport Revenues

YQL generated total revenues of just over $1.8 million in 2018[6], increasing to $2.3 million in 2019 on the back of a 19.2% increase in passenger volumes. Before grants, 2020 ended the year with revenues of $1.1 million.

The following table incudes key numbers related to Sales of Goods & Services for the years 2012 to 2020[7].

Year ----->		Driver	2012	2013	2014	2015	2016	2017	2018	2019	2020
			(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)
Revenues											
Passenger Facility Fee	$	PAX	392,482	397,389	394,539	440,453	475,214	445,585	690,493	984,582	235,837
Airport Terminal Fees	$	PAX							165,105	220,515	54,115
Domestic Landing Fees	$	ATM	336,889	306,290	295,683	296,614	304,293	310,761	180,534	207,743	77,950
International Landing Fees	$	ATM							28,083	23,966	3,454
Aircraft Parking Fees	$	ATM							17,913	17,942	6,863
Parking Revenue	$	CPI+PAX	80,445	97,167	82,931	109,166	113,767	100,100	163,800	234,901	51,829
Vending Machines	$	CPI+PAX							4,760	4,773	495
Advertising Revenues	$	CPI									
Lease Revenue	$	CPI	498,845	520,428	486,202	437,563	578,197	556,631	509,788	597,045	588,560
Sales of Goods & Services	**$**		**1,308,661**	**1,321,274**	**1,259,355**	**1,283,796**	**1,471,471**	**1,413,077**	**1,760,476**	**2,291,467**	**1,019,103**
Utility Revenues	$	CPI	-	-	-	-	-	-	-		
Utility Costs Recovered	$	CPI	52,808	54,974	65,156	48,353	46,913	7,603	7,433	37,077	65,538
Misc. revenues	$	CPI	12,755	22,512	4,416	41,329	85,503	43,987	13,698	12,736	13,130
Customs Costs Recovered	$	ATM	126,446	108,884	93,709	83,454	77,528	65,349	-		
Marketing Costs Recovered	$		86,078	200,000	293,303	200,000	206,850	288,000	-		
Other Revenues	$		278,087	386,370	456,584	373,136	416,794	404,939	21,131	49,813	78,668
Total before grant	$		**1,586,748**	**1,707,644**	**1,715,939**	**1,656,932**	**1,888,265**	**1,818,016**	**1,781,607**	**2,341,280**	**1,097,771**
MOST Grant											1,192,147
Total Revenues	$		**1,586,748**	**1,707,644**	**1,715,939**	**1,656,932**	**1,888,265**	**1,818,016**	**1,781,607**	**2,341,280**	**2,289,918**

The Airport recorded a 53.1% decline in revenues in 2020, somewhat compensated by a Municipal Operating Support Transfer (MOST) of $1.2 million that made up the shortfall and generated a net loss around a quarter million dollars, the same as 2019.

In 2020, aeronautical revenues made up 34.5% (62.1% in 2019), with non-aeronautical revenues (including leases) generating 59.5 (37%). The remaining 6.0% (1.6%) was made up of utility recoveries. The Passenger Facility Fee (PFF) (driven by passenger volumes) and the Lease Revenues (largely driven by payments per m^2) make up 75% (68%) of total revenues.

[6] The change of ownership of the airport in the middle of 2018 might have resulted in some underlying changes in accounting practices.
[7] Data from the City

As to be expected with a 79% decline in passenger volume, land leases are now the most important revenue source at YQL.

Revenues	CAD **2019**	CAD **2020**	% **Change**	% **Portion of total**	%
Landing fees - Dom	207,743	77,950	-62.5%	8.9%	7.1%
Landing fees - Int	23,966	3,454	-85.6%	1.0%	0.3%
AC parking	17,942	6,863	-61.7%	0.8%	0.6%
Pax Facility Fee	984,582	235,837	-76.0%	42.1%	21.5%
Terminal fees	220,515	54,115	-75.5%	9.4%	4.9%
Aeronautical Revenues	**1,454,748**	**378,219**	-74.0%	62.1%	34.5%
				0.0%	0.0%
Vending	4,773	495	-89.6%	0.2%	0.0%
Parking	234,901	51,829	-77.9%	10.0%	4.7%
Lease revenues	597,045	588,560	-1.4%	25.5%	53.6%
Water	19,621	34,585	76.3%	0.8%	3.2%
Wastewater	12,295	24,067	95.7%	0.5%	2.2%
Electricity	5,161	6,885	33.4%	0.2%	0.6%
Other	12,736	13,130	3.1%	0.5%	1.2%
Non - Aeronautical Revenues	**886,532**	**719,551**	-18.8%	37.9%	65.5%
Total Revenues	**2,341,280**	**1,097,771**	-53.1%	100.0%	100.0%

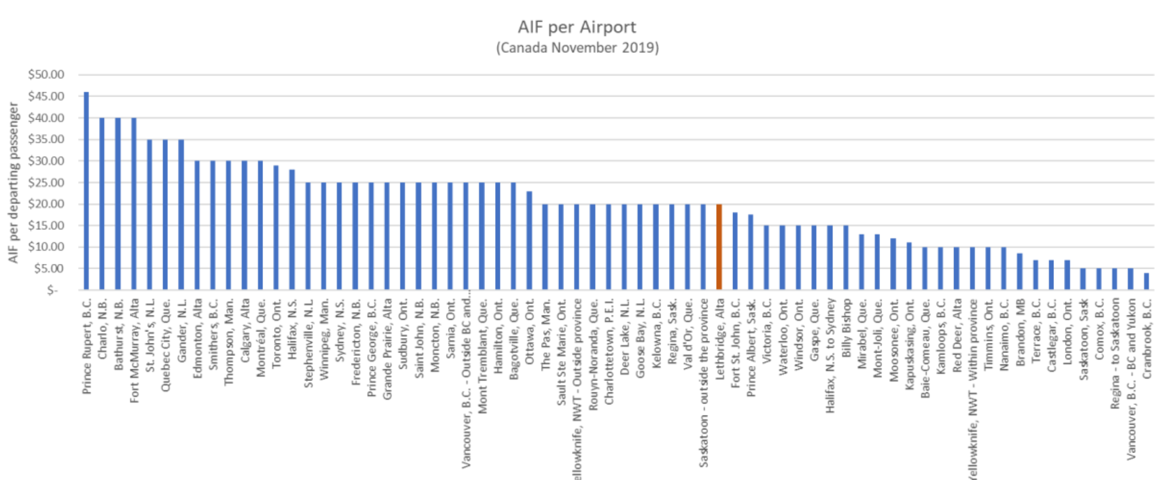
(% of total excludes the MOST grant as this is a one-time payment)

As such, this confirms the stated approach from Section 3 to focus on two key elements, namely traffic growth and land development.

Land development is a long-term endeavor, however once in place it can generate a predictable revenue stream for years to come. It therefore remains a suitable compliment to air traffic development activities.

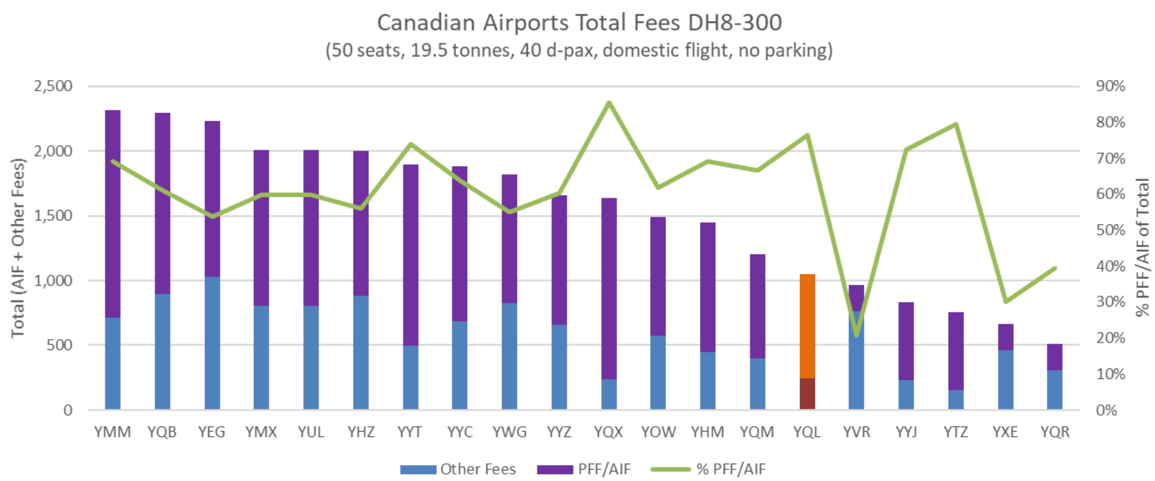
5.2. Aeronautical Revenues

Aeronautical revenues are driven by aircraft and passenger movements. The PFF (also called Airport Improvement Fees; AIF) is a cornerstone of airport financing in Canada. The current $20 PFF at YQL is in line with and competitive with other airports across the country, sharing a 30th



ranking with eleven other sites. The PFF/AIF ranges from a high of $46.00 at Prince Rupert to a low of $4.00 at Cranbrook – both relatively small airports.

Using the IATA Aviation Charges Intelligence Center Database[8] as a source, benchmarking of total fees and charges of twenty airports across Canada shows YQL below the average in the 15th position.



The figure above includes all aeronautical fees as charged to airlines for a DH8-300 sample aircraft. YQL is at the lower end of the spectrum, between Moncton and Vancouver International Airports.

Pre-COVID, one can conclude that the current fees and charges at YQL are competitive and acceptable among the airlines. Normally, these fees are not adjusted every year but should be seen in the context of investments on site and should be reviewed and possibly adjusted every three years. Given the current status of airline finances, an increase should probably not be considered for another three years.

5.3. Non-Aeronautical Revenues

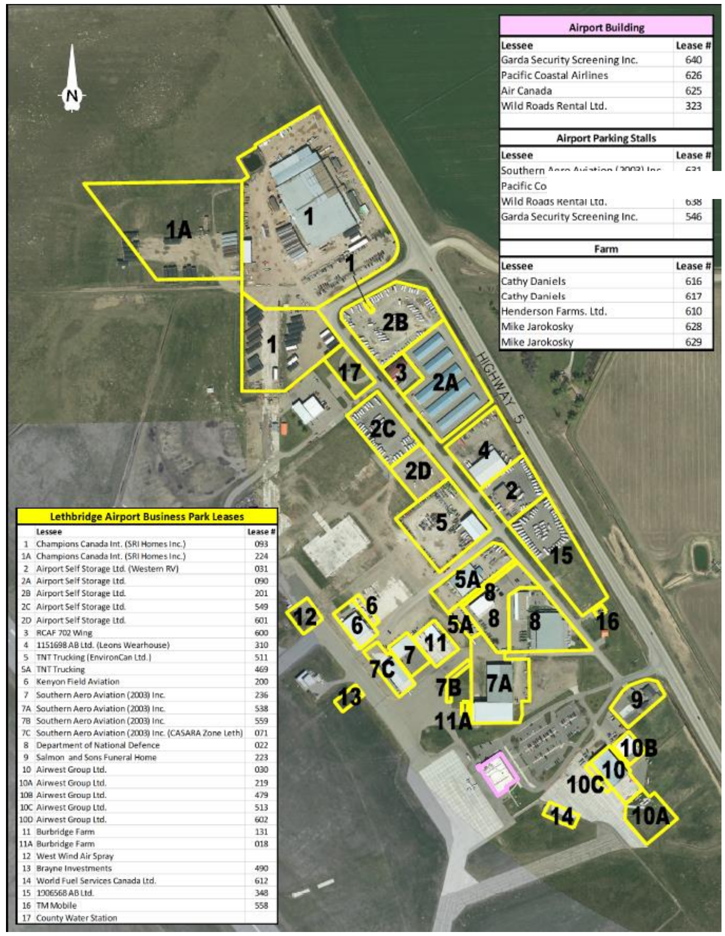
Leases

The lease revenue component of total revenues (Total Sales of Goods and Services on the financial statements) may be broken down into four major components as illustrated in the table. Later on, these categories will be useful in order to assess the potential for revenue increase of the airport in the near future.

Area	2018	2019	2020	Portion	Change
Land	$ 444,298	$ 485,517	$ 480,326	81.6%	-1.1%
Farm	$ 17,097	$ 8,548	$ 9,052	1.5%	5.9%
Terminal	$ 40,339	$ 99,934	$ 90,742	15.4%	-9.2%
Parking	$ 6,300	$ 3,046	$ 8,440	1.4%	177.1%
Total	**$ 508,034**	**$ 597,045**	**$ 588,560**	**100.0%**	**-1.4%**

8 The IATA ACIC is a database of airport fees and charges worldwide. In Canada, it includes the 20 sites depicted in the graph. The benchmarking function does not include all aircraft types, but the DH8-300 has been used at YQL and is sufficiently representative to create a good comparison between the airports.

Following are highlights derived from the source date of this table:



- Land leases generate 81.6% of estimated Lease Revenues and 54% of the total Non-Aeronautical Revenues,
- Terminal leases generate just under 15%, including revenues from the airlines, car rental, vending machines and Garda Security,
- Farmland contributes 1.5%,
- Leased parking stalls make up 1.4%, and
- Lease Revenues declined by 1.4% from 2019 to 2020.

Terminal Space, Farmland & Parking Stalls

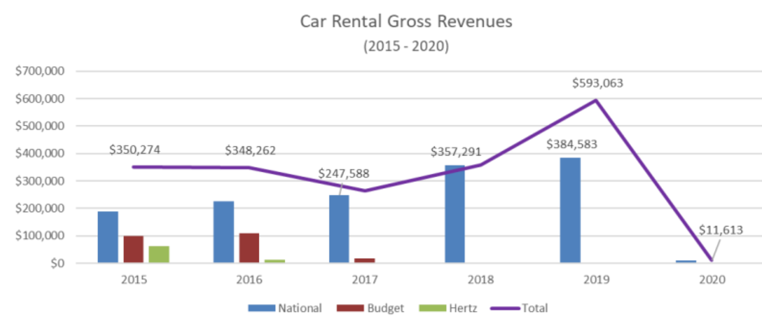
The Terminal Space/Farm/ Car Parking category of revenues includes different types of leases:

- 1 lease for airline counter space,
- 3 leases for farmland on airport property,
- 4 leases for vehicle parking space,
- 1 lease for rental car counter and parking space,
- 1 lease for a tenant employee lunchroom, and
- National Car Rental - does not have a long-term lease. Currently month-to-month, paying [8]% of gross revenue to the airport in addition to counter space and car parking rents. An RFP for an additional provider was prepared, but the process was abandoned as the market declined.

Vehicle Parking

- In 2019, vehicle public parking generated about a quarter million dollars in revenues, declining by 77.9% to $51,829 in 2020.

Car Rental



- YQL previously had three car rental companies servicing the airport. Hertz left in 2016 and Budget left in 2017, leaving National as the only provider of rental vehicles.
- Initially, gross revenues declined, however car rental revenues increased substantially in 2018 (34%) and 2019 (estimated at 66% at year-end).
- Higher than the passenger growth for the same years, this is possibly indicating that a higher proportion of the additional traffic is incoming, originating outside of the Lethbridge area (assuming that locals do not rent vehicles at the airport).
- Car rental revenues declined 98% from 2019 to 2020.

Food & Beverage (F&B)

Currently there are no F&B services operating at YQL other than the vending machines in the hold-room and near the old cafeteria area.

The current traffic is served by small gauge aircraft on short haul flights with small groups of passengers having short dwell time. These issues limit revenue capture for successful and sustainable food & beverage options. From our perspective and experience, the current traffic, limited surrounding population, and the abundance of F&B options elsewhere in the area would prohibit any investment to develop a food and beverage offer. Passenger traffic would in general have to more than triple to meet required thresholds.

By way of examples from smaller airports, Boundary Bay outside of Vancouver with six flight schools and an adjacent work force, have established a following that supports a sustainable F&B offer. Boundary Bay subsidized the financing of the F&B facility which made it viable, achieving revenues of +/- $800,000 per year. Nanaimo Airport currently serves in excess of 500,000K passengers per year and can therefore support viable F&B services. Harbour Air and Helijet terminals in B.C. provide complimentary coffee and snacks to their clientele.

The conclusion drawn is that a commercial F&B operation, fully staffed and financed by a vendor would more than likely not be feasible with the current traffic volumes.

Improved vending machines may be the best option in the short term, although the terminal renovation will provide an opportunity for F & B options.

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Land Leases

Land Leases are currently the most important non-aeronautical revenue generator at the airport. The lease rates were previously below the estimated market rates, but these have been adjusted to the following:

- Interior land - \$2.66 per m^2
- Aviation land - \$3.76 per m^2
- Highway Front - \$3.08 per m^2

In early 2021, a land use plan for the Airport was developed. The plan considers critically airport requirements over the long term and reserve appropriate lands for future aviation activities. Land areas not required for future airport uses were identified for non-aviation uses, considering divestments of some of the lands to improve the airport's financial situation.

The proposed land use plan is shown on the right, with the full report included as Appendix C.

5.4. Potential Opportunities

Based on the analysis of current airport revenue and on airport industry recognized best practices, this section comments on potential opportunities for increasing airport revenues. Some of these opportunities may be implemented in the short term while others may require a certain time before being implemented.

Terminal

- **Rental of terminal space**: It is recommended that terminal space rental rates be assessed in terms of full cost recovery, and that those new rents be implemented as soon as possible as terms of leases and/or rent terms expire. Calculation of such rents shall consider amortization of capital over a certain number of years and operations and maintenance costs allocated to each category of space (office, counters, etc.). Such evaluation should be performed on a regular basis. With the loss of Air Canada last year, additional rental revenues may come at the time of a second airline entering the market.
- **Update of terminal space leases**: Any lagging lease agreements should be updated as soon as possible, although rent increases is not recommended at this time for leases dependent on traffic throughput.

Terminal Concessions

Terminal concessions are currently limited to vending machines with snacks, cold drinks and coffee, an ATM machine, limited advertising and one rental car company.

The following recommendations are proposed with regards to terminal concessions:

- Car Rental: The current rent paid by National to the airport for rental cars is at 8% of gross revenue, which is significantly below the market level (generally at least 10.5%, although some can be as high as 12% depending on passenger volumes and profiles). In the context of the current passenger decline, it is recommended to leave rates as is at least until YQL reaches 2019 volumes again. A competition for a second operator should take place once there is a demonstrable market for two car rental companies. Earlier will likely only erode the business of the incumbent, not giving YQL the revenue boosts it is looking for. Once ready, the RFP should be structured to allow bidders to propose both a percentage of gross revenues and a Minimum Annual Guaranteed (MAG),
- ATM: Commission currently paid by the ATM operator is much lower than market value, therefore it is recommended to be adjusted to $2.50 to $3.00 per transaction,
- Advertising: An assessment of the potential YQL advertising market should be performed, and discussions should take place with potential advertising firms to confirm interest to operate a concession at the airport (outdoor electronic billboards may be a place to start), and
- Food & Beverage: The above concluded that a regular commercial F&B operation would likely not be viable at YQL, even with 2019 passenger numbers. Enhanced offerings through vending machines makes the most sense now. Once a survey of airport passengers, employees, and meeters/greeters, is undertaken, YQL can seek to identify their wants and needs in terms of terminal concessions, especially relative to a potential convenience store and to food and beverage services. Depending on results of the survey, calculation of concession “supportable space” should be performed in order to adjust concepts and size to the market potential. In any event, the upcoming terminal renovations should consider current and future space/utility provisions within the terminal plan.

Public Vehicle Parking

Public vehicle parking generated $163,800 to the airport in 2018, which represents an increase of more than 63% over the previous year. The following rates apply to parking:

- 15 minutes: $0.25
- Hourly - $1.00 (2-hour limit)
- Per Day (24 hours) - $10.00
- Parking Violations - $25.00

Careful consideration should be taken to ensure that the daily rate reflects the local/regional market. A simple benchmarking exercise related to downtown City-imposed parking rates indicates a rate of $1.00 per hour with a two- and three- hour limit in the more attractive areas (Zones 2 and 3 respectively).

Additional longer term revenue opportunities include a differentiated rate for stalls with block-heater plug-ins or chargers for e-vehicles. Also, if/when solar power is developed on-site, parking lot could be covered with solar panels, again with potential value-added service/revenue (i.e., premium for covered spaces), year-round.

Land Leases

The current leases have been updated and adjusted in line with the 2019/20 business plan recommendations. There are limited opportunities on site before additional parcels are developed. The City also has land available for industrial use that may be used ahead of airport lands if for non-aviation activities.

Future Land Development

With the 2018 transfer of the airport from the County to the City, approximately 900 acres of airport land can be considered by the latter as an addition to its bank of land located off-airport and available for development. In this context, as other areas within the City already have services, priority should be on YQL and on parcels of land with access to the airside for aviation related projects.

By the way of examples, today the Airport collects rent from various sources:

- 62 acres (25 hectares) of non-aviation related development comprising a variety of uses from prefabricated home construction, self-storage, distribution, warehousing, trucking/towing, an RV dealer, and a funeral home.
- 49 acres (13 + 7 hectares) of aviation related uses, including the existing two FBOs, a flight school, an aerial spraying operator and some private/corporate hangars.

As defined in the above land use plan, there are several areas that can be developed and create additional revenue in the future. Sizable land parcels that can be serviced and developed in three different categories:

- Interior land - \$2.66 per m^2
- Aviation land - \$3.76 per m^2
- Highway Front - \$3.08 per m^2

As indicated in the bullets above and in the table on the right, these could be offered at different lease rates as they would attract different types of businesses. Fully developed, assuming all parcels are leased, none are sold, and using current lease rates, the Airport Lands could generate up to \$10 million in lease revenues per year. In addition (using the 2021 mill rate), the City has estimated that an additional \$10 million in municipal tax revenues could be possible.

	Lease rates m^2	Lease rates Acre	Area Acres	Potential Revenues
Interior land	\$ 2.66	\$ 10,765	705	\$ 7,600,000
Aviation land	\$ 3.76	\$ 15,216	100	\$ 1,500,000
Highway Front	\$ 3.08	\$ 12,464	95	\$ 1,200,000
Total Leases			900	\$ 10,300,000
Corresponding Tax Revenues				\$ 10,000,000
Total Potential Revenues to CoL/year				**\$ 20,300,000**

With the 2018 transfer of the airport from the County to the City, over 800 acres of airport land can be considered by the latter as an addition to its bank of land located off-airport and available for development. In this context, as other areas within the City already have services, priority should be on YQL and on parcels of land with access to the airside for aviation related projects.

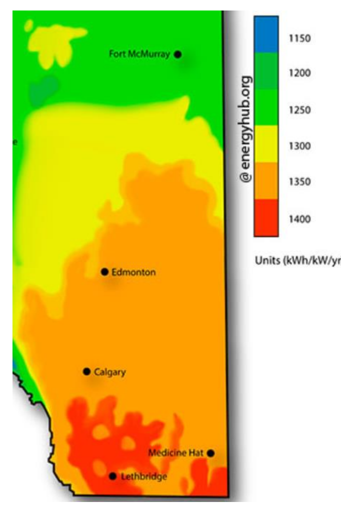
To prepare the various parcels for lease or sale, the following are required:

- **Annexation**: An annexation process to formally transfer the airport property and a land corridor connecting the City to the airport land is ongoing. Completion is targeted for early 2022 and is **identified as a high-priority objective**.
- **Area Structure Plan (ASP)**: An ASP needs to be developed to guide the development and to provide the framework for future subdivision of the available area. The ASP will describe future land use patterns, the sequence of development, the major transportation patterns, and to show how the land will fit into the overall future planning for the airport (akin to an airport Master Plan).
- **Outline Plan**: Once the ASP is in place, engineering details are added to the planned use so appropriate services can be installed to the various sub-plots.

The total process could take up to four years to complete, hence no revenues from these sites are projected during this period. The City sells about 10 acres (4 hectares) per year, so this development should be seen as long-term investments in the airport.

An example of use is a potential development of power generation utilizing the currently vacant area to the south of Runway 05-23.

Airports located in tropical climates have utilized spare land, terminal roofs, parking areas among others for solar panel installations for some time. Adelaide Airport began using solar panels on the roof of its Terminal One back in 2008 to cut energy costs and reduce emissions, which have fallen by 160 tons a year as a result, according to the airport. Alice Springs Airport's Solar Power Station opened in September 2010 now supplies about 28% of the airport's energy needs, reducing the airport's carbon emissions by about 470 tons of carbon dioxide a year. Cochin Airport in India is the first airport in the world to run completely on solar power with its 12-megawatt plant made up of 46,000 solar panels. Closer to home, San Diego and Denver airports are both utilizing the sun's energy to generate power. These are all located in warm climates with a large number of "sun-days" per year. More to the north, the airport in Helsinki, Finland has panels installed on the roof of the terminal, capable of 660 kWh at peak production (KWp).



Saskatchewan and Alberta are the two best provinces in Canada for solar power prodcution.[9] Lethbridge, with its many sunny days per year, is located in an area that has the greatest potential for solar power production in Canada as indicated in the map on the right.

Should solar not be an efficient solution, there are other options currently used at airports. For

[9] According to Energyhub.org https://energyhub.org/solar-energy-maps-canada/

example, the Greater Toronto Airport Authority (GTAA) Co-generation Plant is a combined cycle natural gas and steam power station located at Toronto Pearson Int'l Airport. The plant is primarily used to supply steam (for heating and cooling) and power to the airport with surplus power sold into the Ontario grid.

5.5. Strategic Actions

To take advantage of the revenue enhancing opportunities, the following recommendations should be considered:

- Assign the ownership of commercial development to Opportunity Lethbridge.
- The prioritized scope would be:
    - Land Development: Annex, service, prepare and then market airport opportunities over the next 3-5 years:
        - Annexation,
        - Area Structure Plan,
        - Outline Plan, and
        - Infrastructure Servicing of business park expansion.
    - Solar Farm.
    - Terminal Leases: Assess new opportunities as traffic recovers (3-5 years).
    - Car Rental: Seek another operator once the market can sustain two car rental companies (3-5 years).
    - Advertising: Develop an RFP and tender an advertising concession. Select one proponent if the terms are attractive and acceptable, alternatively research the possibility of managing advertising in-house (1 – 2 years).
    - ATM: Re-negotiate the terms of the ATM in the ATB (1 year).
    - Parking: Assess parking rates as the city rates develop. Collect parking data to analyze need for overflow lot.
    - F&B: Explore opportunity for improved vending products and limited outlet with a local vendor or college once traffic surpasses 2019 levels (3-5 years).

6. Operations

The Lethbridge Airport is a Local Commercial Class IV Airport, located to the South of the City of Lethbridge, on a site of 563 hectares and serving commercial and general aviation traffic. The airport operates two runways (runway 05-23 and runway 12-30, with runway 05 including a Category I Instrumented Landing System) and associated taxiway and apron systems, an air terminal building including passenger facilities, operations offices and Nav Canada flight service station, an operations and fleet maintenance building, a number of general aviation hangars and a disused fire hall within the aerodrome. The airport also includes a drop off area and passenger car park to the front of the air terminal building.

The airport is operational 24 hours per day, with airport operations staff available 9.5 hours per day Monday to Friday (as well as required during emergencies through a callout and standby system), and Nav Canada Flight Service Station available 17 hours per day all weekdays and weekends. Emergency firefighting services are based off-airport and are provided by the City of Lethbridge Fire Department.

The airport team is made of nine permanent and two seasonal staff and supports commercial flight services for Air Canada and WestJet, both offering daily services to Calgary, as well as a large number of general aviation operators, including a flight training service provider.

The airport layout is included below (as per WSP Lethbridge Masterplan).

6.1. Phase I Key Findings (2019)

An operations and management assessment of the Airport was conducted by Modalis in parallel with the Business Plan development. The assessment was based on a thorough documentation review, supported by a site visit including interviews with key operational staff and stakeholders.

The assessment covered the following areas, for which a range of observations and recommendations were made:

- Airport Organization,
- Airport Management,
- Safety Management,
- Aerodrome Operations,
- Aerodrome Assets,
- Airport Security, and
- Environment Management.

Overall, the assessment found YQL airport operations and management to be effective and in a number of areas ahead of what could be expected of regional airports of a similar size. The airport meets and in parts exceeds its regulatory requirements. The airport management team includes a number of new additions who have brought significant new energy to the Airport organization. A very effective in-house management system which is used by all airport personnel towards meeting a wide range of management objectives such as risk assessment, safety and incident management, wildlife management, or personnel management including tracking and delivery of training requirements has been established. The airport assets are ageing but are well maintained and provide the basis for a safe and effective operations – however the airport assets lack resilience in places due their age and associated lack of parts or maintenance support.

The key observations from the assessment were as follows:

- **Organization**: While the airport organization is effective, it lacks the additional resources required towards administration support and future security management requirements.
- **Management**: While the airport uses and maintains a number of performance indicators, it lacks a comprehensive set of Key Performance Indicators (KPIs) to support everyday operations as well as management activities and associated decision making.
- **Aerodrome Assets**: The Airfield Ground Lighting system is well maintained but in precarious condition as components are no longer available. A full reinstatement project has been planned and partial funding is being sought from the Airport Capital Assistance Program (ACAP) – however the project would not be started until 2021.
- **Airport Assets**: The Air Terminal Building (ATB) is outdated and lacks sufficient capacity as it only offers one boarding gate which is currently used occasionally for dual flights. In addition, the terminal building systems (electrical, HVAC) are outdated and are increasingly difficult to maintain (will be largely addressed through ongoing ATB upgrade works).
- **Aerodrome Operations**: Commercial aircraft operations take place in Apron I which has no dedicated aircraft stand markings.

- **Security**: While an Airport Security Program is in place at the airport, no regular and on-going management of security activities takes place.
- **Environment**: No environment management plan is in place at the airport.

6.2. Organization

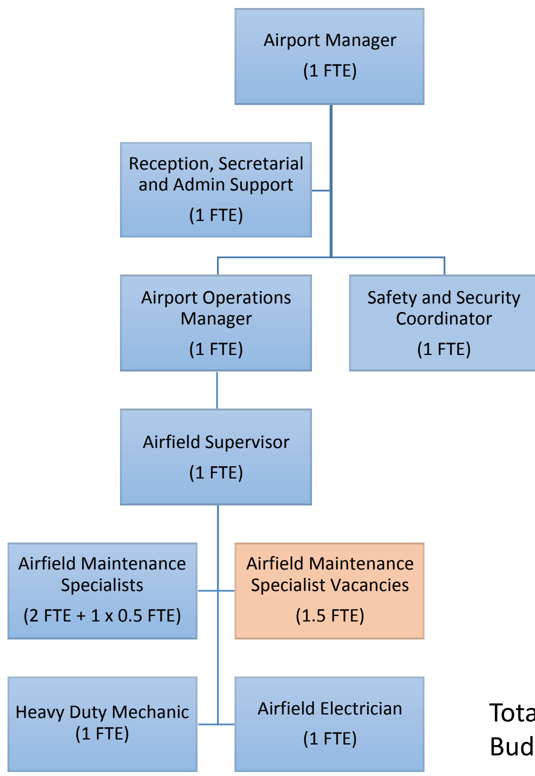
Since the Phase I assessment outlined above, several changes have taken place in terms of the YQL organization:

- Aircraft operations and commercial passenger numbers have reduced significantly as a result of COVID-19 restrictions and impact. As such, operational levels have been reduced were possible, and as such some vacancies have been created in its operations section.
- The gaps highlighted with regards to Aviation Security as well as administrative support (particularly with regards to administration of the Safety Management System) have been addressed through the appointment in June 2021 of a Safety and Security Coordinator.

The current YQL organization is displayed to the right.

The organization includes nine full time resources and one seasonal Airfield Maintenance Specialist.

As aircraft and passenger traffic increases, it is expected that the organization would fill the current vacancies, up to 11 full time resources and 2 seasonal Airfield Maintenance Specialists. In addition, as outlined in Section 5.5, focus on the commercial development of the Airport requires resources. While portions of the short-term changes and clean-up can be performed by external resources and/or the City, YQL will require an "owner" of these activities.



Total: 9.5 FTE
Budget 11 FTE

At larger sites, this would generally be handled by a VP Commercial or Commercial Manager, however at YQL such positions are not affordable at this time. It is therefore recommended that the Airport Manager (or equivalent future title depending on the selected ultimate governance structure) will take charge of and drive commercial development and marketing activities. Should commercial activities (and associated revenues) increase over time, the airport may consider an additional resource, reporting to the Airport Manager, dedicated to Financial and Commercial administration.

6.3. Operating Expenses

Lethbridge Airport spent $2.098 million in operating expenses in 2018 and $2.6 million in operating expenses, interdepartmental transfers, reserves, and City overhead charges in both 2019 and 2020.

Lifecycle costs (equipment replacements) and funds to BAU are non-recurring items.

		2019		2020	Change	2019	2020
		CAD (000s)		CAD (000s)	%	%	%
Expenses							
Personnel	$	1,226	$	1,015	-17.2%	46.6%	39.5%
Contracts	$	426	$	425	-0.3%	16.2%	16.5%
Maintenance	$	55	$	67	21.0%	2.1%	2.6%
Operating Costs	$	452	$	373	-17.3%	17.2%	14.5%
Lifecycle Costs	$	-	$	240			
Funds to BAU	$	-	$	120			
Airport Reserve	$	222	$	106			
Corporate Overheads	$	250	$	226	-9.6%	9.5%	8.8%
Total	**$**	**2,631**	**$**	**2,573**	**-2.2%**	**100.0%**	**100.0%**

YQL recorded a cost reduction of 2.2% from 2019 to 2020. Removing one off items, the reduction was 16%.

As expected, any variable costs related to operations and any semi-fixed cost that can be reduced in extended down periods saw a decline last year. Staff costs and direct operating costs were all reduced in an effort to minimize losses due to lack of traffic.

Looking ahead, one would expect operating expenses before reserves and extraordinary expenses be in the $2.1 - $2.2 million range, adjusted for inflation beyond 2022.

A detailed breakdown of operational expenses is included on the next two pages.

Expenses	2019	2020	Change	Portion of total 2019	Portion of total 2020
	CAD	CAD	%	%	%
Salaries, Wages and Benefits	1,188,173	1,014,105	-14.7%	45.2%	39.4%
Training	37,413	1,241	-96.7%	1.4%	0.0%
	1,225,586	**1,015,346**	-17.2%	**46.7%**	**39.4%**
Contracts					
Marketing	250	-	-100.0%	0.0%	0.0%
Advertising	-	-			
Printing	489	13	-97.3%	0.0%	0.0%
Postage	462	1,269	174.6%	0.0%	0.0%
Telephone & Fax	4,253	3,141	-26.2%	0.2%	0.1%
Cellular Telephone	8,019	4,427	-44.8%	0.3%	0.2%
Legal Services	-	-			
Special Services & St	12,478	90,039	621.6%	0.5%	3.5%
Insurance	313	-	-100.0%	0.0%	0.0%
General Contracted Services	8,425	58,307	592.1%	0.3%	2.3%
Jantorial	68,282	69,318	1.5%	2.6%	2.7%
Security	212,292	145,332	-31.5%	8.1%	5.6%
HVAC	837	3,348	300.0%	0.0%	0.1%
Customs	89,097	32,415	-63.6%	3.4%	1.3%
Building Monitoring	1,583	1,712	8.2%	0.1%	0.1%
Parking Systems	14,505	2,705	-81.4%	0.6%	0.1%
FID System	2,233	4,872	118.2%	0.1%	0.2%
Elevator	1,663	2,264	36.1%	0.1%	0.1%
Terminal Building	516	4,016	678.3%	0.0%	0.2%
Signs	690	1,933	180.1%	0.0%	0.1%
	426,387	**425,110**	-0.3%	**16.2%**	**16.5%**
Maintenance					
Equipment Maintenance	6,076	8,317	36.9%	0.2%	0.3%
Fixed Asset Repair General	4,185	12,392	196.1%	0.2%	0.5%
Terminal Building	39,441	36,554	-7.3%	1.5%	1.4%
Maintenance Garage	5,594	7,479	33.7%	0.2%	0.3%
Firehall	187	2,404	1185.7%	0.0%	0.1%
	55,483	**67,146**	21.0%	**2.1%**	**2.6%**

Expenses	2019	2020	Change	Portion of total 2019	Portion of total 2020
Operating Costs					
Machinery & Equip-Contract	2,246	8,046	258.2%	0.1%	0.3%
Memberships & Subscri	2,087	4,825	131.2%	0.1%	0.2%
Licenses & Permits	1,536	651	-57.6%	0.1%	0.0%
Office Supplies	2,057	1,364	-33.7%	0.1%	0.1%
Parts & Consumable Tools	10,815	11,194	3.5%	0.4%	0.4%
General Supplies	(2,231)	3,554	-259.3%	-0.1%	0.1%
Supplies - Terminal Building	13,244	11,903	-10.1%	0.5%	0.5%
Supplies - Maintenance Garage	1,126	4,576	306.4%	0.0%	0.2%
Supplies - Firehall	1,015	281	-72.3%	0.0%	0.0%
Equipment Supplies Total	52,714	51,336	-2.6%	2.0%	2.0%
Fuel	49,607	17,914	-63.9%	1.9%	0.7%
Meals	-	292		0.0%	0.0%
Safety Supplies	4,872	1,993	-59.1%	0.2%	0.1%
Airfield Supplies General	1,270	5,957	369.0%	0.0%	0.2%
Wildlife control	1,435	1,228	-14.5%	0.1%	0.0%
Electrical	1,170	3,953	237.8%	0.0%	0.2%
Ruway Chemical	8,450	(5,037)	-159.6%	0.3%	-0.2%
Crackfiller	7,688	539	-93.0%	0.3%	0.0%
Radios	2,478	650	-73.8%	0.1%	0.0%
Herbicide	405	43	-89.4%	0.0%	0.0%
Lubes & Other Crude M	9,395	11,701	24.5%	0.4%	0.5%
Computer Software	5,202	3,500	-32.7%	0.2%	0.1%
Computer Hardware & E	58,321	2,299	-96.1%	2.2%	0.1%
Natural Gas Charges	27,045	24,289	-10.2%	1.0%	0.9%
Energy, Dist & Trans	121,804	101,055	-17.0%	4.6%	3.9%
City Utilities	34,821	45,192	29.8%	1.3%	1.8%
	418,572	**313,296**	-25.2%	**15.9%**	**12.2%**
Corporate Overheads					
Gains/Losses Foreign Exchange	(122)	11	-109.0%	0.0%	0.0%
Banking & Other Service Fees	(4,369)	2,726	-162.4%	-0.2%	0.1%
Bad Debts	-	387		0.0%	0.0%
Legal, Training, Admin (City)	288,340	284,065	-1.5%	11.0%	11.0%
Lifecycle Costs		240,000			
Transfers to BAU		120,000			
Airport Reserve	221,751	105,187	-52.6%	8.4%	4.1%
	505,600	**752,377**	48.8%	**19.2%**	**29.2%**
Total Expenses	**2,631,628**	**2,573,275**	-2.2%	100.0%	100.0%

6.4. Key Performance Indicators

Key Performance Indicators (KPI) and a Balanced Scorecard are tools to track data on a consistent and continuous level. KPIs are an important management tool as they report key data points in an easy manner that provides a quick overview of the status of the business. A Monthly Performance Dashboard, based on a balanced scorecard approach, has been developed through 2021 to capture KPIs at YQL, and track overall airport performance. It is expected that the dashboard will be fully implemented in Q3 2021.

The following KPIs have been included in the monthly dashboard.

	Traffic & Financial Performance	Safety, Security & Environment	Operational Performance	Customer Service	Learning & Growth
Direct YQL Control	• Non-Aeronautical Revenues • Operational Expenses • Total Performance	• Wildlife Strikes • Runway Incursions • Runway Safety Events • Safety Incidents • Security Incidents	• Planned vs Reactive Maintenance	• Passenger Complaints • Passenger Satisfaction (**) • Airport Lessee Satisfaction (*)	• Actual vs Planned Training (*) • Outstanding Training
Indirect YQL Control	• Air Traffic Movements (Total) • Air Traffic Movements (Commercial Aircraft) • Aeronautical Revenues	• Regulatory Findings and Observations	• On-time Arrivals (*) • On-time • Departures (*) • Flight Cancellations	• Check-In Queue Time (**) • Security Screening Queue Time (**)	

(*) In development (**) to be introduced once passenger traffic increases to pre-COVID levels

In addition, the dashboard provides regular updates on on-going projects at the airport.

6.5. Aircraft Rescue & Fire Fighting (ARFF) Services

As part of the development of this business plan, a memo outlining requirements for Aircraft Rescue and Fire-Fighting Services at YQL. Canadian Aviation Regulations (CARS) regulates the requirements for fire fighting services based on passenger volumes and the number and size of commercial aircraft movements.

The threshold at which airports and aerodromes in Canada are required to provide Aircraft Rescue and Fire Fighting (ARFF) services is 180,000+ passengers per year per CARS 303.02(1).

YQL has never experienced passenger counts of this magnitude, and such numbers are not projected within the timeframe of this business plan. Since no specific ARFF resources are located on airport, YQL needs to maintain the existing service agreement with the City and Fire and Emergency Services and Coaldale as the primary responder.

Recommendations

In anticipation of reaching the 180,000-passenger mark, there a few things that will help position the airport in implementing and providing ARFF services.

- The emergency response agreement with the City of Lethbridge Fire Department is already in place and will remain even when the airport has ARFF services.
- The agreement should be updated for current operations.
- Joint emergency exercises should continue to be carried out at minimum to meet Transport Canada requirements, but could be enhanced to include yearly full interagency exercises.
- The City Fire and Emergency Services, RCMP, and Coaldale Fire Department could be included in the exercises.
- ARFF live fire training for Coaldale Fire Department and designated City of Lethbridge Fire and Emergency Services would be beneficial for first responders as the airport progresses towards it numbers.
- Periodic Airport leadership familiarization and equipment validation visits to Coaldale and Lethbridge Fire and Emergency Services.
- If not already in place, start full statistical analysis for ARFF requirements including passenger statistics and monthly aircraft category numbers.
- Complete a review or study of the different operations models for support of ARFF services at small airports to determine path forward.

When the airport does meet the passenger numbers, the Fire-Fighting Vehicle and Shelter (Garage/Firehall) along with initial tools, bunker gear, and equipment are 100% funded through the Transport Canada ACAP Program.

Please see Appendix B for the full memo.

6.6. Strategic Actions

It is recommended that the following actions are progressed from Q3 2021 onwards.

Operational Improvement:

- **Organization**: Review organizational resource levels against traffic demands, and fill vacancies as required,
- **Management**: Introduce the Monthly Performance Dashboard currently in development and ensure that airport management decisions are based on available data and performance. In addition, to appoint an Accountable Executive for the airport and ensure regular liaison between the Accountable Executive, the Airport Manager, the Operations Manager and the Safety and Security Coordinator,
- **Aerodrome Assets:** Maintain the short-term contingency plan for the failure of the Airfield Ground Lighting system, including short term financial implications, and to progress the medium-term full rehabilitation of the system,
- **Airport Assets:** Ccomplete the refurbishment of Terminal Building and transition into operations,
- **Aerodrome Operations:** Design and implement Apron I aircraft stand plan and associated markings,
- **Security:** Develop, implement, and provide on-going support to an Airport Security Management System,
- **Environment:** Develop, implement, and provide on-going support to an Airport Environmental Management System, and
- **Aircraft Rescue & Fire Fighting**: Update current agreement with the City, conduct exercises with the City and Coaldale fire departments, and plan for YQL facilities and equipment once passenger counts are projected to reach 180,000 per year.

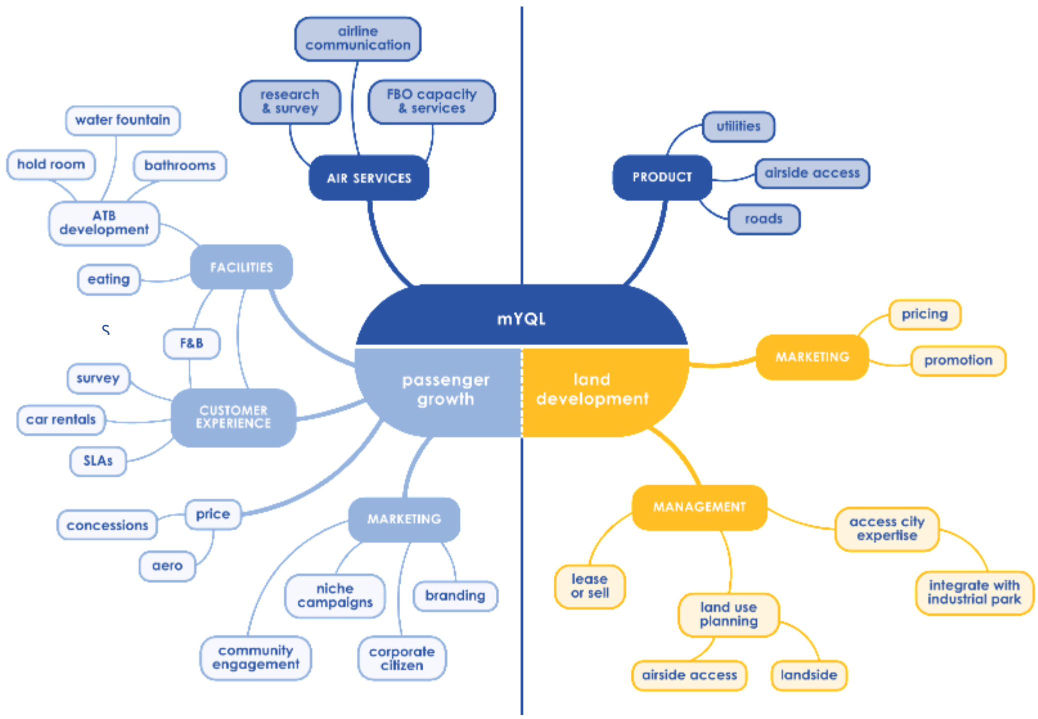
7. Strategic and Marketing Planning

7.1. Strategic Plan

Section 3 above identified the overall strategic direction for YQL with a focus on traffic growth and land development growth.

The mind-map below depicts the overall strategic and detailed marketing and operational approaches to move the Airport business towards the strategic objectives. This graphic was included in the 2019-2020 business plan and remains relevant even in this plan.

Some of the recommended activities have been undertaken or is underway. The Airport Terminal Building (ATB) development will be concluded late this year and a land use plan has been developed and can be implemented in the coming years.



Strategic Partnership & Collaboration - Opportunity Lethbridge, Economic Development Lethbridge and Lethbridge Chamber of Commerce

As the City now owns the Airport, development objectives should be aligned and coordinated between City entities and the YQL organization.

To be effective, these should be supporting YQL's core mandate as well as that of Opportunity Lethbridge, which aims to:

- Enable economic activity and be a leader in innovative community growth and development,
- Break down barriers for business and investment,
- Provide enhanced customer service for development-based opportunities, and
- Create profit and financial prosperity for the City.

The YQL team will work in a collaborative and coordinated approach with Economic Development Lethbridge (EDL), Tourism Lethbridge (TL) and the Lethbridge Chamber of Commerce (LCC) to attract and retain aviation-related services and airport-related and airport compatible development. The goal would be to diversify income streams which again reduces the risk profile of the airport. Activities will aim to achieve a sustainable balance of commercial passenger-related and land-based revenue streams by mid-decade.

With support from YQL's specialist aviation advisor Modalis, as well as EDL, TL and LCC, specific efforts will be focused on fortifying the business relationship with WestJet to secure continuity of the incumbent carrier. In addition, activities will be initiated to achieve growth and diversification of YQL scheduled commercial air services. In order to recover and surpass 2019 passenger volumes, a second airline is likely required. The initial objective during the post-pandemic period is the restoration of service levels and traffic volumes to the 2019 level, upon which YQL will be in a stronger position to pursue increasing pre-pandemic flight frequencies and destinations served at the airport.

In parallel, YQL implement its land development strategy building on the WSP Master Plan (2018) and the Modalis Land-use Plan (2021). Activities to identify potential and desired uses for various categories of airport property, formulating a list of prospective investors, developers and formulating a strategic plan to attract these key players to YQL will be undertaken.

A key element of this strategy will be the identification of 'prerequisite conditions' spanning infrastructure requirements (i.e., water, sewer, power, natural gas, road access, etc.), as well as zoning requirements and other municipal considerations, the most critical being City annexation of the YQL properties.

Availability of skilled human capital is another key prerequisite which will require close collaboration and partnership with EDL, LCC and the University of Lethbridge, among others, to create the critical technical capacity to incubate and develop the local aviation sector, which may, as examples, include expansion of pilot training and establishment of an Aircraft Maintenance Engineering (AME) program to meet the forecasted shortage of these critical skillsets in the labor force.

The following sections outline suggested marketing initiatives to support the strategy.

7.2. Marketing

A strong airport brand is reinforced with robust marketing,
customer service and community engagement actions.

The marketing strategy should therefore:

- Focus on communicating the airport brand and opportunities to increase revenues.
- Define and implement customer service initiatives that ensure the seamless experience associated with the brand is maintained as the airport grows.
- Implement a community engagement strategy that ensures the airport is obtaining feedback, providing updates to the community, and providing an excellent passenger experience to destinations that support community needs.

Branding

With an increasing focus on airports as commercial centers, more airports are taking advantage of branding strategies to build their competitive advantage. An airport brand can be described as the perception or set of associations that travelers and industry have for a specific airport. As YQL is embarking on a terminal upgrade, an opportunity presents itself to re-brand YQL as the local community's airport.

Such brands need to be innovative and flexible to allow it to communicate to all stakeholders, both internal and external. Brands have helped airports re-invent themselves and attract new customers by influencing, educating, and making people aware what an airport represents and offers.

To develop a successful airport brand, the point of view of the traveler as well as strengths and weaknesses of the passenger experience need to be understood. An excellent airport provides a seamless continuum of a safe, secure, on time, efficient, hassle free and pleasing experience, irrespective of size, complexity and/or traffic levels. Referring to one of the key strengths identified in the SWOT analysis, YQL has the ability to provide this on a consistent basis.

The brand should be an extension of the vision and mission statement and reflect the relationship between the airport and the community it serves.

As part of the proposed passenger survey, a question should be about the reason for using YQL as the airport of choice.

Good Corporate Citizen

Any corporation or commercial entity that interacts with and touches over 100,000 people per year (2019) should seek to give back to the community when possible. Such contributions could include support for select charities, providing professional intern or other opportunities for young students locally, or offering terminal space for local artists to display their work on a rotating basis – fee of charge.

For example, the look and feel of the ATB could be enhanced through displays of student artwork from the University Arts program. Both the Fine Arts and New Media displays could enhance the passenger experience in the existing Terminal.

Explore opportunities for hosting and participating in charity events, e.g., 'ALS Plane Pull' in Toronto. Charity classic car and/or motorcycle "show-and-shine" event, perhaps combine with a fly-in event.

Community Engagement

Perhaps the most important form of local marketing could be in the form of increased community engagement and awareness. While current levels of air service are relatively extensive, falling load factors could lead to a reduction or lose of some or all service from one or both carriers. YQL should seek to increase the level of engagement between the airport and community in order to maintain and bolster current passenger levels by emphasizing within local forums the importance of the Airport to the economy, business, community connectivity and travel convenience that the current level of air service provides to the local community.

A variety of actions could be undertaken to build efficient communications around a potential *mYQL* campaign. Effective communication should relate to the emotional aspect of "owning" an airport, achieved through personal stories in the media, promotional material following a fictitious passenger's journey out in the world or coming home. Such subjective messages can be backed or concluded with short, fact-based bits of information.

Specific initiatives include:

- Partner with local community organizations to promote awareness and use of Lethbridge Airport i.e., Kiwanis, Rotary, University, College etc.
- Canvass for speaking opportunities for Airport management to promote awareness of the airport at community organizations, university, and college guest lectures etc.
- Raise local awareness of Lethbridge comparative air service levels within the community as compared to other similarly sized communities. Promote 'One Stop to the World' concept.
- Survey local residents as to convenience of current flight times, quality of service etc.
- Seek to engage with the College and University to work with and offer students in select programs an opportunity to execute course related projects or obtain some sample work experience. In this plan, the passenger surveys and F&B opportunity are identified as possible pilot projects.
- Students in the Music Program at the University could be offered opportunities to provide live music performances in the terminal. Such music programs are already underway at large airports such as Toronto Pearson.
- Annual community open house with activities for children.

Niche Marketing

In cooperation with the airlines, promote specific initiatives and campaigns through electronic media and the YQL website:

- **Cost effective to connection at YYC**: Publish air fare comparisons online and through local media to promote the use of an 'Airport Price Calculator' prior to booking flights from Lethbridge so travelers are aware of savings on time/parking etc. Add Great Falls to 'Airport Price Calculator' with U.S. Dollar impact.
- **"One-Stop to the World" through YYC:** Structure a local campaign to raise awareness of the worldwide destinations available from Lethbridge on a one-stop basis through Calgary on WestJet and other airlines operating out of YYC.
- **Convenience:** YQL advantages, ease of use, short walks, queues, cheaper car parking. etc.
- **City electronic media**: Airport profile and recent news in the City website.
- **City Open annual house:** Airport profile at the annual information sessions.

Student Resources

Elaborating on the above, YQL could adopt a strategy of leveraging available resources, within the community, especially through partnering with the University of Lethbridge and Lethbridge College. Engagement of these resources would not only increase community engagement and awareness of YQL but also provide low-cost resources to address a variety of existing issues.

The University of Lethbridge offers Undergraduate and Graduate programs in a variety of subject areas which could be leveraged to provide valuable information, insight, and actionable plans to address issues facing the airport. Both Undergraduate programs offered through the Dhillon School of Business and the Lethbridge University's Masters-of-Science (Management) program could be leveraged:

- Students within the Undergraduate or Graduate program could be offered research projects to help define and create Marketing and Communication strategies.
- Students within the Business or Mathematics and Statistics programs could as a project to fulfill requirements of their program:
    - Assist with the design and undertake a passenger survey to gather base user information on Passenger characteristics, attitudes, and behaviors, including demographics, trip origin within the Lethbridge area, destination (Calgary or beyond), trip purpose, frequency of airport use, group size, passenger arrival to airport profile. etc.
    - Design and undertake a Community Survey gathering information on community attitudes towards the airport and its services. i.e., flight frequencies, aircraft type preference, what factors influence passengers who use other airports (i.e., those who drive to YYC or Great Falls), what destinations would the community like to see served from YQL, etc.
- Students within the Business Program could also:
    - On a project basis as part of their program requirements develop social marketing programs, advertising campaigns etc.
- Management could consider partnering with Lethbridge College on the establishment of an Aircraft Maintenance Engineering program as an extension to existing Heavy Equipment Technician and other programs (similar to program established at Abbotsford Airport with University of Fraser Valley to Cascade Aerospace's demand Aircraft Maintenance Engineers). Creation of such a program may increase demand and/or market opportunities for aviation-oriented tenants on Airport lands.

7.3. Communication Plan

The global COVID-19 pandemic has severely curtailed air traffic in Canada and worldwide. That situation has started to reverse itself to the point we might see the end of it over the next few months. Late fall and early winter will be key months to see if the decline during the summer months persists during the regular "flu-season".

For the City an YQL, it will be important to signal its commitment to community and its stakeholders to a "back to business" posture prior to recovery to a "new normal" in the months and years ahead, using the Modalis March 2020 Impact Analysis as a guide to create the strategy and propel the recovery plan.

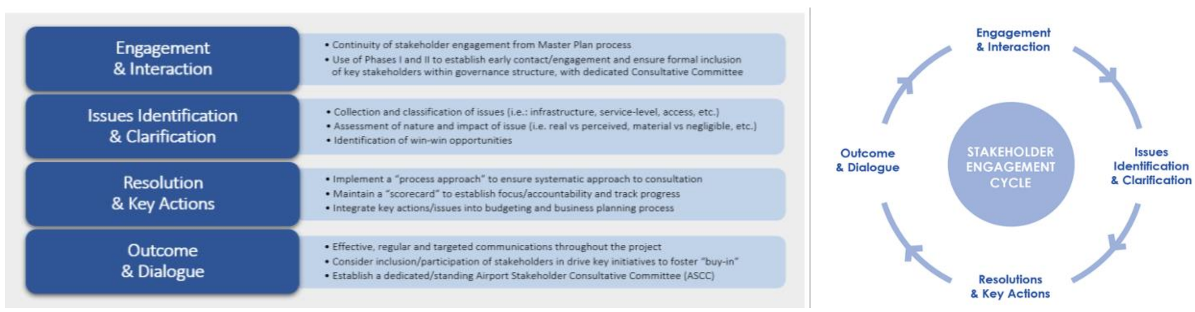
In such situations, it is useful to ask, “What are the challenges and opportunities presented by the current situation?” while ensuring a solutions-oriented approach. Current City and YQL actions and priorities are, by necessity, focused on reacting to the immediate and pressing impacts of the crisis, however a pivot to restart is essential as the recovery starts to take shape.

Airports can be tremendous sources of civic pride. Not only do they create a critical first impression for visitors and business travelers, they reinforce the essence of the community to its citizens. To do this, YQL must earn a place in the hearts and minds of the people it serves.

Words alone are not sufficient to achieve this goal.

The actions YQL takes, coupled with timely, useful communications will create this emotional connection that can be a catalyst to Lethbridge’s economic and social recovery.

In keeping with the above, we recommend a structured and mindful approach as detailed in the YQL Stakeholder Engagement Plan, as illustrated below.



Note: This “Back to Business” Communication Strategy is meant to supplement the stakeholder engagement activities outlined in the Phase I/II YQL Stakeholder Engagement Plan, as well as the Air Service & Route Development Analysis/Strategy.

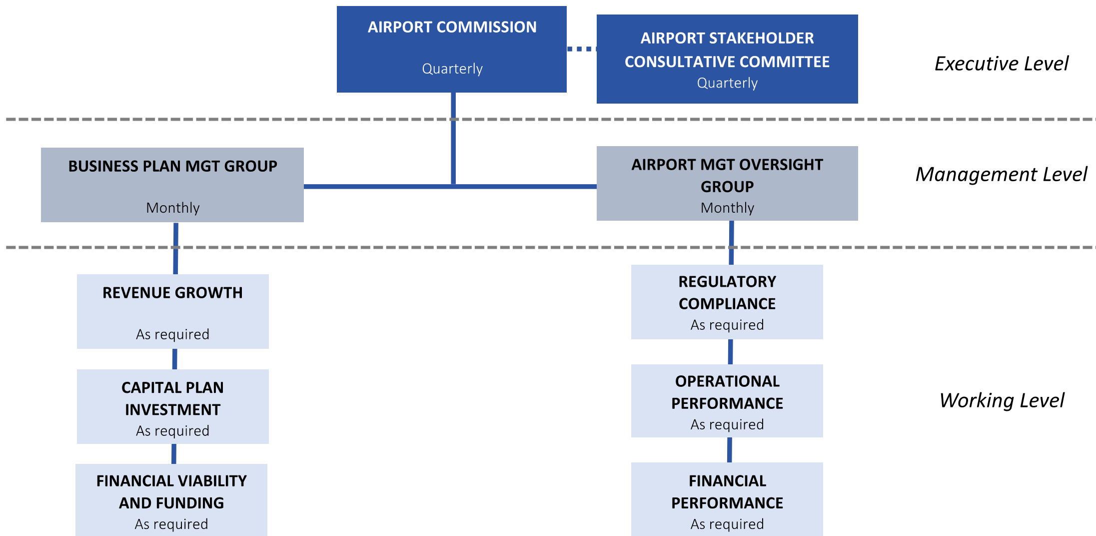
The tone of communications should be upbeat, optimistic, and confident, but also realistic and measured, building the mindset and conditions necessary for a progressive and well-managed resumption of operations.

Active listening will also be a critical element, to identify potential public and traveler concerns, issues, and roadblocks so these can be dealt with quickly and effectively, which will also facilitate adjustments in messaging as the situation evolves. The frequency and method of communications can also be adjusted, as needed.

The relationships and credibility built by the City since assuming ownership and operation of YQL, through the successful transition, operational review and business plan development will take on increased importance as the City and YQL collectively prepare to get “back to business” and rebuild the operation.

Communication is the foundation of building productive relationships, therefore how the City and YQL engages all the appropriate people and groups in this process will be critical.

It may also be an appropriate and opportune time to implement the Airport Consultative Committee (see below), as recommended in the YQL Stakeholder Engagement Plan.



As the entire Lethbridge community works together to recover economically and socially from this crisis, YQL is well-positioned to be a leader and key catalyst in that recovery, having already raised the awareness of its economic and community/social benefits with a focus on optimizing the airport's growth and development opportunities. As such, these opportunities can play an integral role in Lethbridge's economic and social recovery and ongoing growth.

YQL can demonstrate its entrepreneurial attitude through non-traditional non-aeronautical revenue development as outlined in this business plan and sharing these ideas and innovations with its various stakeholders.

Key Objectives

As part of a broader and coordinated regional effort:

- Ensure timely, transparent useful communication is developed and maintained.
- Strengthen relationships within the airport and broader community, so YQL plays a leadership role in the rebound and recovery of the Lethbridge economy.

	Stakeholders	Objectives	Message Content	Channels	Frequency
Tier 1	Airport Management & Staff Elected representatives Airport Stakeholder [Consultative Committee]	Ensure clear understanding of current situation Morale-building Take recovery leadership position Recovery idea creation	Clear outline of current situation Explain new normal, new reality Explore viability of new carriers and destinations Outline opportunity to take recovery leadership position	Regular Meetings/ Updates Calls to key stakeholders to gauge effectiveness of messages and tone Emails *	Weekly Quarterly Monthly
Tier 2	Airport Service Providers (current and potential) Airside/ground-side Tenants Economic Development Agencies	Ensure they have clear understanding of current situation Understand their current status Seek opportunities presented by current situation	Clear outline of current situation Exploration of what is possible How do we get there?	Regular Meetings/ Updates Emails * Milestone events & celebrations	Quarterly or as Needed
Tier 3	Citizens of Lethbridge and surrounding areas Other Significant Groups	Ensure a clear understanding of current situation Seek opportunities presented by current situation	Clear outline of current situation Explanation of new normal; new reality Updates on activities and plans How they can contribute to recovery	Emails* Updates/ feedback opportunities on YQL website; social media; Get Involved Lethbridge Earned media (paid) Unearned Media (releases, interviews) Annual Public Meeting **	Quarterly or As Needed

* Suggest these emails ("YQL Updates") be adjusted as to the subject matter and level of detail that is appropriate to these different audiences

** An Annual Public Meeting provides an opportunity to provide a face-to-face update on current YQL activities and future plans

7.4. Strategic Actions

Task the commercial development function with further developing the marketing initiatives based on timing, interest from outside groups and available resources. Develop a multi-year plan for various projects, activities, speaking engagements and stakeholder communication.

Airline and route development marketing is covered in Section 4 above.

8. Capital Expenses

Not many positives have come out of the pandemic, however the slowdown in traffic has allowed the ATB to be developed with less disruptions compared to the regular traffic levels. It also resulted in various government entities offering additional funding for capital projects to help stimulate the economy and ensure a faster recovery.

The 2019/2020 business plan identified several projects of some urgency, including the Airfield Ground Lighting system and various airside rehabilitation and upgrade initiatives.

8.1. Current Projects with Secured Funding

YQL actively sought funding sources for a number of projects and managed to secure $26 million in total through the Municipal Sustainability Initiative, Municipal Stimulus Program, the Airport Capital Assistance Program (ACAP) and the City of Lethbridge.

By the end of 2021, YQL will have:

- Replaced the pump house with new water line service,
- Constructed a new sand storage shed ,
- Completed the terminal building renovation,
- Replaced the airfield lighting system, and
- Rehabilitated the aircraft maneuvering areas.

Additionally, Apron I and Taxiway Alpha will be rehabilitated by end of Q1, 2022 and Runway 12/30 will be rehabilitated a year after that.

Additional capital expenses in this report are based on a review and adjustment of the Master Plan observations and recommendations.

	Budget	Actuals to date	Funding	Status	City	MSI	MSP	ACAP	2019 Bus Plan
ATB Renovation	$ 6,320,000	$ 1,632,100	MSI/City	Underway	$ 700,000	$ 5,620,000			2021
Waterline	$ 1,200,000	$ 1,582,800	Subdivision Surplus	Underway	$ 1,200,000				
Airfield Lightning	$ 5,700,000	$ 56,000	MSP				$ 6,100,000		2021
Pavement Rehab (Apron II,III T/W B&C, 05 Threshold)	$ 4,653,000	$ 41,300	MSP				$ 5,063,000		2021
	$ 17,873,000	**$ 3,312,200**							
Airfield Pavement Rehabilitation (T/W A, Apron I, 12-30)	$ 7,379,700	$ -	ACAP/City		$ 738,000			$ 6,641,700	2021
Sand Storage Shed	$ 226,800	$ 226,800	ACAP/City	Complete	$ 15,400			$ 211,400	2020
Runway Liquid Chemical Spreader	$ 89,320	$ 89,320		Complete	$ 4,470			$ 84,850	2021
Total	**$ 25,568,820**				**$ 2,657,870**	**$ 5,620,000**	**$ 11,163,000**	**$ 6,937,950**	

Additionally, Apron I and Taxiway Alpha will be rehabilitated by end of Q1, 2022 and Runway 12/30 will be rehabilitated a by end of Q4 2022.

As additional funding has become available through double funding of the Taxiway Alpha and apron work (ACACP and MSP both funded this), the excess $1 million may be allocated to the extension of Taxiway Bravo.

Further, a $575,000 grant has recently approved for the Regional Air Transportation Initiative (RATI)[10]. The Grant will allow YQL to further complete future initiatives that will include a new

[10] The Regional Air Transportation Initiative (RATI) is a $206-million program that will provide support over two years to eligible regional businesses and airports that directly contribute to regional air transportation. The fund is designed to help ensure that regional air connectivity and services, which are critical to economic growth, are maintained and that regional routes are reconnected across the country.

baggage carousel and common use terminal equipment. This grant is 100% federal funding, no matching municipal funding is required.

8.2. Master Plan Capital Expense Program

Capital expenses are identified and classified three-ways as follows:

- **Required**: Upkeep and rehabilitation projects necessary for the ongoing operations and to meet current regulations. The AGL and ATB projects were included here. As noted, these will be complete by the end of 2021.
- **Development Enablers I**: Investments required to further develop the Airport as a commercial enterprise and include investments to prepare parts of the property for future land leases. These investments should be timed with an estimated market demand. The Taxiway Bravo extension falls into this category as it provides airside access to future development parcels.
- **Development Enablers II:** Long term investments for airside preparation and expansion if the demand for larger and more frequent aircraft movements occurs, which are included on the Master Plan and entails a runway extension, a parallel taxiway, and other initiatives. Such investments would only be considered with a supporting business case and an acceptable project rate of return. The current traffic projections do not support such investments.

Given the rough order of magnitude estimations, the CAPEX program is presented in three sections as per the tables below. The amounts should be seen as rough order of magnitude only and are based on estimates in the WSP Master Plan. The amounts will therefore not align with the current projects and updated budget numbers.

The tables are organised based on the previous timing and plans (business plan and master plan) to illustrate what has been delayed and what has been brought forward due to the funding obtained in 2020 and 2021.

In general, there is an obvious advantage of completing projects earlier than planned, in particular when this takes advantage of available external funding. Specifically, there are a number of high and moderate safety risks that are now dealt with before they could impact operations. Specifically, these include the Airfield Lighting System and various airside pavement rehabilitation projects.

Ref.	Hazard Description	Associated Risk	Mitigation Measures in Place	Residual Risk Rating			Planned Mitigation Measures	Related Safety Objective	Target Completion Date	Person Responsible	Objective Review Date
				Likelihood	Consequence	Risk Rating					
001	AGL system outdated and relying on obsolete parts	Failure of an irreplaceable component part of the AGL control system, leading to a complete failure of airfield lighting, resulting in a closure of both runways at night or in low	M1. Additional preventative maintenance regime M2. System review completed to define upgrade requirements M3. MSP funding obtained towards AGL system replacement	3	5	High	P1. AGL failure contingency plan development P2. AGL System Replacement	O1. Reliable safety infrastructure in place	P1. 08/31/21 P2. 12/31/21	L Canning	12-31-21
002	Pavement surface failure	Surface breakup due to pavement surfaces having exceeded their life expectancy, resulting in aircraft incident	M1. Additional preventative maintenance regime M2. Pavement review completed to define rehabilitation requirements M3. MSP and ACAP funding secured towards Pavement surfaces rehabilitation completion	3	4	Moderate	P1. Pavement breakup contingency plan development P2. Pavement rehabilitation - ACAP Alpha Taxiway / Main Pavement P3. Pavement rehabilitation - MSP remaining pavements P4. Pavement rehabilitation -	O1. Reliable safety infrastructure in place	P1. 08/31/21 P2. 12/31/21 P3. 12/31/21 P4. 12/31/22	L Canning	12-31-21

Additional projects are based on defined projects in the master and land use plans.

Immediate & Short-term

SHORT-TERM (1-5 YEARS) 2021-2025	Funded	Non - Funded	Source	Year
Airside				
Rehabilitation of Taxiway 'A	$730,000		ACAP	2021
Rehabilitation of Taxiway 'C	$425,000		MSP	2021
Localized rehabilitation of Runway 05 threshold	$237,000		MSP	2021
Rehabilitation of Runway 12-30	$5,754,000		ACAP	2022
Rehabilitation of Apron I asphalt	$490,000		ACAP	2021
Localized rehabilitation of Apron II	$244,000		MSP	2021
Localized rehabilitation of Apron III (part of T/W B extension)	$137,000			2021
Construction of Taxiway 'B' extension (porton connected to 12/30 will b	$285,000			2025
Apron I painting (design, survey and painting)	$25,000		MSP	2021
Rehabilitationof Field Electric Centre and associated electrical systems	$1,088,000		MSP	2021
Rehabilitationof maneuvering area edge lightsand guard lights	$1,369,000		MSP	2021
Rehabilitation of runway approach lights	$460,000		MSP	2021
Installation of Precision Approach Path Indicators	$538,000		MSP	2021
Rehabilitation of airfield visual aids	$780,000		MSP	2021
Air Terminal Building				
Hold Room Expansion	$225,000		ATB Reno	2021
Holdroom gate millwork replacement and repositionins	$20,000		ATB Reno	2021
Holdroom Accessible washroom (1)	$61,000		ATB Reno	2021
Holdroom water bottle fill station	$5,000		ATB Reno	2021
Common Use Check-in Counter allocation system		$50,000	RATI	2021
Replacement of check-in counter millwork	$55,000		ATB Reno	2021
Airline branding sign holders (will be removed as not required)		$6,000		2023
Preparation of comprehensive design vision	$75,000			2021
Terminal aesthetic upgrades	$250,000			2021
Ultra Low Cost Carrier - Terminal Design Study		$75,000		2023
Groundside water bottle fill stations	$5,000		ATB Reno	2021
Groundside				
Construction of overflow parking lot		$300,000		2025
Reassignment of airline and rental car parking stalls as long-term parking				2025
Collection of parking data	$5,000			2021
Construction of access road		$121,000		2023
Total per funding category	**$13,263,000**	**$552,000**		
Total		**$13,815,000**		

On an annual basis (before detailed scheduling that would likely result in some investments taking place over several years), $1.2 million that is currently not funded would likely be required towards 2025. Activities driven by land development and traffic are delayed in order to match the expected recovery (traffic) and annexation (land).

Medium-term

MEDIUM TERM (6-10 YEARS) - 2026 - 2030	Funded	Non - Funded	Source	Year
Airside				
Extension of Taxiway 'D		$120,000		2027
Construction of Taxiway 'E		$433,000		2027
Construction of Taxiway 'G'		$251,000		2027
Extension of Runway 05-23		$2,567,000		2027
Rehabilitation of Runway 05-23 (Eligible in 2025)		$6,245,000	ACAP	2027
Localized rehabilitation of Apron I (Portland Cement Concrete) panels	$92,000		MSP	2021
Air Terminal Building				
Common Use Self-Service kiosks (4)		$55,000	RATI	2024
Appropriation of security office space as airline office space (N/A)				
Move and consolidate the rental car counters	$75,000		ATB Reno	2021
Dedicated PBS lane space	$52,000		ATB Reno	2021
Holdroom expansion	$353,000		ATB Reno	2021
Dedicated holdroom vestibules	$110,000		ATB Reno	2021
Additional holdroom accessible washroom (1)	$65,000		ATB Reno	2021
Relocation of unsecured holdroom to baggage claim area		$18,000		2027
Expansion of baggage claim area		$1,633,000		2027
New baggage carousel		$300,000	RATI	2027
Baggage claim accessible washrooms (2)	$130,000		MSP	2021
Dedicated baggage claim vestibule	$55,000		MSP	2021
Groundside				
Extension of access road		$97,000		2027
Replacement of pump house	$1,250,000		CoL	2020
Total per funding category	**$2,182,000**	**$11,719,000**		
Total		**$13,901,000**		

Long-term

LONG TERM (11-20 YEARS)	Funded	Non - Funded	Source	Year
Airside				
Extension of Taxiway E		$446,000		2032
Construction of Taxiway F		$210,000		2032
Extension of Taxiway G		$253,000		2032
Construction of Taxiway H		$214,000		2032
Construction of Runway 05-23 full-length parallel taxiway		$5,033,000		2032
Air Terminal Building				
Common Use Self-Service kiosks (2)		$30,000	RATI	2032
Conversion of existing combined-service CATSA lane to a dedicated bag drop lane		$10,000		2032
Installation of PBS equipment for the new dedicated lane		$10,000		2032
Groundside				
Construction of access roads		$565,000		2032
Total per funding category		**$6,771,000**		
Total		**$6,771,000**		

Totals	
Total Master Plan Estimates	**$34,487,000.00**
Funded	$15,445,000.00
Non - Funded	$19,042,000.00

The total estimated CAPEX investments for the Master Plan period remains just shy of $35 million (Rough Order of Magnitude (ROM) estimates based on 2018 prices).

Removing funded and projects to be completed during the next two years, focus should be given to the following capital projects in the future:

SHORT-TERM (1-5 YEARS) 2021-2025	Year	ROM est.*
Air Terminal Building		
Common Use Check-in Counter allocation system	2021	$50,000
Airline branding sign holders (will be removed as not required)	2023	$6,000
Ultra Low Cost Carrier - Terminal Design Study	2023	$75,000
Groundside		
Construction of overflow parking lot	2025	$300,000
Reassignment of airline and rental car parking stalls as long-term parking	2025	
Collection of parking data	2024	$5,000
Construction of access road	2023	$121,000

MEDIUM TERM (6-10 YEARS) - 2026 - 2030	Year	Non - Funded
Airside		
Extension of Taxiway 'D	2027	$120,000
Construction of Taxiway 'E	2027	$433,000
Construction of Taxiway 'G'	2027	$251,000
Extension of Runway 05-23	2027	$2,567,000
Rehabilitation of Runway 05-23 (ACAP eligible in 2025)	2027	$6,245,000
Air Terminal Building		
Common Use Self-Service kiosks (4)	2024	$55,000
Appropriation of security office space as airline office space (N/A)		
Relocation of unsecured holdroom to baggage claim area	2027	$18,000
Expansion of baggage claim area	2027	$1,633,000
New baggage carousel	2027	$300,000
Groundside		
Extension of access road	2027	$97,000

LONG TERM (11-20 YEARS)	Year	Non - Funded
Airside		
Extension of Taxiway E	2032	$446,000
Construction of Taxiway F	2032	$210,000
Extension of Taxiway G	2032	$253,000
Construction of Taxiway H	2032	$214,000
Construction of Runway 05-23 full-length parallel taxiway	2032	$5,033,000
Air Terminal Building		
Common Use Self-Service kiosks (2)	2032	$30,000
Conversion of existing comb-service CATSA lane to a dedicated bag drop lane	2032	$10,000
Installation of PBS equipment for the new dedicated lane	2032	$10,000
Groundside		
Construction of access roads	2032	$565,000

* Rough Order of Magnitude (ROM) estimates based on 2018 prices for a total of around $19 million. Estimates to be updated at the next Master Plan update around 2023.

8.3. Strategic Actions

The airside and terminal complex will be in good shape after this year and will not need (substantial) investments for some time to come. Overflow parking will also not be required until at least a full recovery of passenger volumes is certain.

It is therefore time to turn the focus onto the development of the remaining site. The following actions are recommended:

- Continue developing the power generation concept and studies.
- Integrate land development marketing and management efforts in the City department for land development. The expertise and resources are already available and do not need be replicated at the Airport.
- Allocate funding for parcel preparations, access road and utilities (see more details in section 5.6 above), timed with the completion of the annexation and subsequent activities.
- Perform a five-year review and update master plan/land use plan. As many of the recommended projects will be completed earlier than anticipated, a refresh of the master plan and corresponding capex budget will be due around 2023.
- Review and update Master Plan Capital Investment Program.

9. Corporate Governance

9.1. Governance Structure

Irrespective of local political landscape, ownership, management, or operating structure, early and meaningful engagement of key players is critical to securing genuine initial buy-in and long-term support of an airport's governance structure.

Whether operated publicly, privately, jointly or as a not-for-profit, an airport's governance structure and development strategy can only be useful and effective if it accurately identifies inherent opportunities (as well as risks) and aligns these realities with the needs, expectations, aspirations and overarching vision of its ownership and key stakeholders.

As such, in 2020, the City launched what is arguably the most critical stage in YQL's transformation initiative; assessment, structuring and adoption of the Airport's corporate governance framework to guide its strategic direction and oversight.

The key strategic objective driving the transition of YQL from County to City oversight is the repositioning of the Airport as a dynamic and proactive economic development catalyst for the community, rather than simply a passive "public utility" infrastructure.

Capturing these aspirations, the YQL Airport Committee developed this vision statement:

"Lethbridge Airport is a dynamic destination providing services to enhance tourism and economic development in Lethbridge and the surrounding area".

Guiding this "re-invention" process, the City's examination of various governance structures/options aimed to foster a business-focused mindset to leverage and optimize YQL airport facilities/services and position it as a vital community and regional economic asset.

At such a critical juncture, is it also particularly important to clearly identify and understand other associated strategic objectives, expectations and sensitivities of the City and respective stakeholder groups vis-a-vis development and diversification of the local/regional economy in the short, medium, and longer term.

Based in the above-referenced objectives and influencing factors, Modalis assisted the City in answering the key question:

"What is the 'best' corporate governance structure to guide YQL's future?"

In doing so, a series of "qualifiers" were considered including, but not limited to:

- Who does the airport serve, who are the clients/customers?
- What are the opportunities and obstacles to growth and development?
- What are the key drivers (i.e., growth, service levels, safety)?
- Who bears the various risks (i.e., political, operational, financial)?

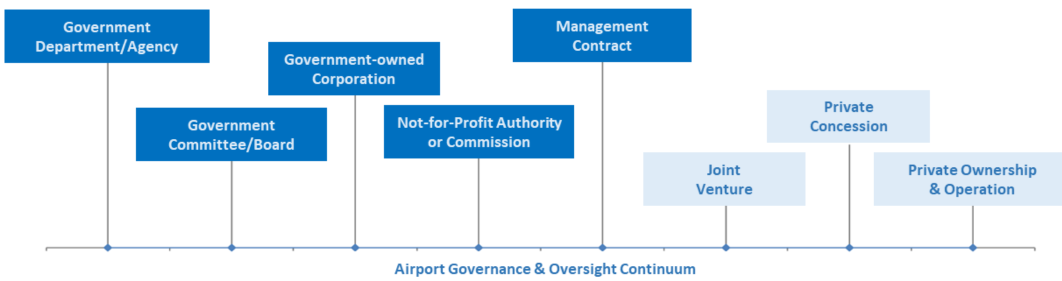
Key to the governance review, it was also essential to determine the desired level-of-control to be retained by the City versus delegation of this control/responsibility and associated transfer-of-risk and accountability.

The City already invested considerable time and thought on the governance question for YQL back in 2018, focusing primarily on the following four options:

- City Council governing and operating as a City department,
- Airport Authority (under the Airport Authority Act,)
- Airport Commission, or
- Municipal Corporation.

In the interim, the City chose to directly control/manage YQL with the goal of moving to one of the other three models listed above, under the guidance the YQL Airport Committee.

Initially, the Municipal Corporation (Muni-Corp) model received the most favourable consideration, however the governance review assessed the full spectrum of governance structures in place across the globe, as shown below.



In doing so, the YQL Airport Committee gained a clearer view of pros/cons to guide their evaluation of the optimal "fit" vis-à-vis the local political landscape, economic environment and strategic objectives referenced above.

Upon initial review, the following models were identified for more thorough evaluation:

- Government Department/Agency
- Government Committee/Board
- Government-owned Corporation
- Not-for-Profit Authority/Commission
- Management Contract

The Committee then conducted a weighted evaluation of these short-listed options. The Government-owned Corporation (aka muni-corp.) ranking highest with an average score of 650, versus a Not-for-Profit Authority/Commission at 649 and a Management Contract at 644 (all falling within a statistical margin of error - effectively a 'dead heat').

Strategic Objectives & Metrics	Strategic Weighting	Gov't Dept/Agency		Gov't Cmte/Board		Gov't Owned Corp		Not-for-Profit Auth/Comm		Management Contract	
Weighting (W) x Effectiveness (E)	(W) x	(E)	Ttl	(E)	Ttl	(E)	Ttl	(E)	Ttl	(E)	Ttl
Mayor Spearman		770		770		770		762		788	
Coun. Crowson		619		611		654		628		587	
Coun. Carlson		379		409		526		556		556	
Total | Average		1768	589	1790	597	1950	650	1946	649	1931	644

Note: A Management Contract approach could be combined with any of the above as this can be seen as an add-on to secure required management and operational expertise, while board-level governance takes place under one of the identified models.

As YQL is currently in a deficit position, the City will continue to be the financial backstop of the operation. It therefore sensible for the City to operate YQL as a Government Department during the pandemic recovery period, however once YQL achieves certain milestones, it may be appropriate to revisit the issue and potentially opt for a more independent model.

A comprehensive overview of the YQL Governance Review, including these ranking results, is attached as Appendix E.

9.2. Strategic Actions

It is suggested that the governance question should be revisited once YQL is approaching the critical performance and financial sustainability metrics of two consecutive years of:

- $500,000 net operating margin, and
- more than 150,000 annual passengers.

Upon reaching these performance critical thresholds, prospects for a successful YQL governance transition will be vastly improved.

10. Risk Matrix

A comprehensive risk register should be developed, maintained, and reported on in conjunction an annual reporting cycle, KPIs etc.

Any inherent threats and opportunities (ahead of any mitigation) should be described and assessed in terms of likelihood and consequence and attributed a single risk owner. Mitigation plans should be included, and the residual risk will be assessed on the assumption that all mitigating measures have been implemented. The risks will be rated at inherent and residual level according to a Red-Amber- Green matrix combining likelihood and consequence ratings.

LIKELIHOOD	Probable >80%	5	G	A	R	R	R
	More than Likely 50% to 80%	4	A	A	R	R	R
	Less than Likely 30% to 50%	3	G	G	A	R	R
	Unlikely 10% to 30%	2	G	G	G	A	R
	Improbable <10%	1	G	G	G	A	R
			1	2	3	4	5
			Negligeable	Minor	Major	Severe	Catastrophic
			CONSEQUENCE				

The following information will be compiled for each identified risk:

- Unique Reference: unique risk identifier
- Risk Classification: threat or opportunity, and type of risk, such as technical, financial, legal, operational, setup, EHSS, stakeholder or economic.
- Inherent risk description: formulated in the format EVENT leading to CONSEQUENCE resulting in EFFECT on business objectives.
- Cause: describing how it can go wrong.
- Risk Owner: Single risk owner accountable for the risk consequence.
- Inherent risk rating: Likelihood rating (1 to 5 score), consequence rating (1 to 5 score), and Red / Amber / Green rating (according to the risk rating matrix above).
- Mitigation: A summary statement of control action plans proposed towards mitigating the risk.
- Mitigation Action Owner: Single owner accountable for implementation of the control action plans.
- Residual Risk Rating: Likelihood rating (1 to 5 score), consequence rating (1 to 5 score), and Red / Amber / Green rating (according to the risk rating matrix below), assuming that all mitigation actions have been implemented.

Please see Appendix D for a sample matrix.

11. Summary of Strategic Actions

Though 2019 and early 2020, the Airport was in a transitional mode after the hand-over from the County. Several actions from the previous business plan have been implemented, ensuring best practices and the development for a solid foundation for future growth, the pandemic notwithstanding.

Two main areas of focus were identified in Chapter 3 above:

- Passenger traffic recovery and growth, and
- Long term land development

The recommended actions are designed to further these.

The strategy element should be assigned to individual resources and broken into more detailed activities on an annual basis.

Chapter	Business Area	Action	Timing	Trigger and Comments
4	**Traffic**	Monitor recovery	Continuous	Look for consistent higher levels of traffic
		Long Term Forecast	Trigger	Look for consistent higher levels of traffic
		Route Profitability Update	Trigger	In conjunction with long term forecast
		Route Development/ second airline	Trigger	Around 5,000 pax per month level
		Airport Surveys	Trigger	Around 5,000-8,000 pax per month level
5	**Revenues (Aviation)**	Terminal Leases	2023-2024	Assess new opportunities as traffic recovers
		Car rental	2024	Seek second A/L once market can support two
		Advertising	2021	RFP or negotiate billboard and other opportunities
		ATM	2022	Re-negotiate terms
		Parking	2023	Review rates and follow City increases
		Vending and F&B	2022	Improve in upgraded ATB
5	**Revenues (Land Development)**	Review and Revise Lease Rates	2023	Every 2-3 years
		Airport Annexation	2022	As early as possible
		Area Structure Plan (ASP):	2023	As early as possible following annexation
		Outlne Plan	2023	As early as possible following annexation
		Parcel preparations and services	2024	As early as possible following annexation
		Solar farm / lease opportunity	2021	Preliminary study completed
6	**Operations** (see also CAPEX)	Organization	Trigger	Review and fill vacanices as traffic demand returns
		Management	2021	Introduce Monthly Performance Dashboard
		Apron I Aircraft Stand Plan	2021	Should be part of current airside work
		Airport Security Management System	2021	
		Environmental Management System	2021	
		Aircraft Rescue and Fire-Fighting	2021 +	Update agreement, conduct excercises
		Aircraft Rescue and Fire-Fighting	Trigger	Plan and implement YQL ARFF once 180k pax is feasible
7	**Marketing**	Brand	2022 +	Re-build brand through recovery
		Good Corp. Citizen/Community Engagement	Ongoing	Participate in community events
		Airport Staff and Stakeholder meetings	Ongoing	Quarterly info and planning sessions
		Service Providers and Tenants	Ongoing	Quaterly info
		Citizens	Ongoing	Quaterly info
		ATB Opening Event	2021	Open house for terminal completion
8	**CAPEX**	Airfield Ground Lighting System	Ongoing	Maintain contingency plan until new system is in place
		Complete funded airside projects	2021-2023	
		Update master plan/land use plan	2023	Five year update
9	**Governance**	Review (Amend) Governance Structure	Trigger	Around two consecutive years of $500,000 net operating profit, and more than 150k pax
10	**Risk**	Maintain Risk Register	Ongoing	Maintain safety and management risk register

Appendix A: 2019 SWOT Analysis

Three SWOT sessions were conducted locally on October 30, 2019, the first with representatives from Air Canada, WestJet and Garda (screening services), the second with airport management and the last with City staff and the Chamber of Commerce. Conversations were also held with economic Development Lethbridge and Tourism Lethbridge.

A key summary of elements requiring action or offering immediate opportunity is presented on the next page, with full notes included in Appendix A below.

In addition to the feedback from the October sessions, we have considered and included observations from previous reports and discussions with various stakeholders.

The key SWOT elements need to be addressed and therefore form an integral part of the business planning exercise going forward.

Strengths

Strengths were in general related to the advantages of being a small airport, offering good connections to the world via Calgary and the positive factor of the ownership change to the City and its economic development activities.

Strength Element	Notes
New owner ready to invest in and further develop the airport	Key strength as there are several opportunities but the airport requires upgrades and investments in order for these to materialize.
Good air service with six flights a day	Good foundation on which to build traffic growth. YQL needs to ensure the current routes remain solid and profitable.
Short distance from curb to aircraft seat with effective passenger movements	Advantage as passengers require less time on site both at departures and arrivals.
Large catchment area with strong government and institutional travel	Limited marketing has been undertaken in the recent past. YQL should build on a current strong base.

Weaknesses

Most weaknesses centered around the lack of services on site and the outdated ATB.

Weakness Element	Notes
Aging and somewhat outdated infrastructure	The terminal needs expansion and upgrades of at least the hold-room, additional washrooms, mechanical/electrical systems etc. Airside needs immediate upgrade of lighting system.
Overall service levels related to the total passenger experience	Outdated air terminal building (ATB), lack of washrooms airside, ground transportation issues, not food and beverage on site, flights to one destination only.

Opportunities

The availability of a large area of land to be developed by the City as part of its overall land development activities is one of the main opportunities. The airport must take advantage of current traffic levels despite the outdated facilities and lack of active marketing locally.

Opportunities Element	Notes
900 acres of land can be developed	Complements nicely with City owned business or industrial park lands without competing as both have the same owner. Provides opportunity to diversify airport revenues and solidify airport long term profits.
ATB upgrade	Plans underway to mitigate many of the weaknesses related to on-site service levels.
"Sleeping" asset can be better utilized	General opportunity that can be acted on through marketing, air service development, closer relationship with the City for investments as well as communications, administration, and land development.

Threats

External threats were to a large extent related to leakage (i.e., resulting in lack of traffic growth) and lack of funding for upgrades and investments.

Threats Element	Notes
Low average load factors	Current frequencies must be sustainable before seeking additional destinations. A study of yields for current flights will clarify the risk related to the current load factors.
Lack of adequate external funding for required upgrades	YQL should (and does) seek external funding through ACAP and other programs. Should ensure it taps into the provincial air access strategy over the next 2-3 years. The City has indicated willingness to invest.
Traffic leakage	This will likely always be an issue but a better passenger experience at the airport and increased frequencies will mitigate some of the leakage.

During our site visits on October 3rd, 4th 2019 and three SWOT workshops on October 30th 2019 Modalis recorded various information and statements as described in the following tables.

Note that these are in no particular order, and merely reflects information received, observations made and conversations had between Modalis team members and various stakeholders. A prioritised shortlist can be found in Section 2.1.

Strengths:

- New owner ready to invest in and further develop the airport.
- Low seasonality creates stable traffic and business activities throughout the year.
- Cost effective to connect at YYC.
- "One-stop to the world" through YYC. Through tickets are appealing.
- Short distance from curb to aircraft seat with effective passenger movements.
- Sense that a high portion of passengers originates in Lethbridge. This could make marketing efforts more effective as one could reach a large proportion of the passenger base locally.
- Frequent and long term established scheduled air service compared to similar sized communities.
- Catchment area of 100,000 ++.
- Anchor for business travel.
- Competition for Fixed Base Operations (FBO) private/corporate flight services.
- Growth in big-box and online retail in local market, reducing draw from Calgary.
- Long runway can accommodate larger aircraft.

Weaknesses:

- Aging infrastructure. Costly runway maintenance/overlay will be required within foreseeable future[11].
- Runway lights/electrical outdated, difficult to locate spare parts. Airfield Ground Lighting requires urgent upgrade.
- No phone available to the public to call for a taxi.
- Lower than acceptable service levels in the ATB. Should be a scaled down version of a larger airport (per airline standard requirements).
- Limited ground transportation options/availability.
- The look and feel of the ATB need to change, very dated and wasted space.
- No washrooms post security.
- No water fountain in hold-room.
- No food outlet, services on site.
- Limited tourism outside of Visiting Friends and Relatives (VFR).
- Limited developed serviced lots.
- Non-complimentary business lines on site.
- Flights to one destination only.
- Poor customer experience.
- Lack of rental car choices and vehicle inventory.
- Potential passengers are using competing airports (Calgary & Grand Falls) and modes of transport due to real and perceived issues at YQL (leakage).

[11] Refer to the WSP Master Plan: Runway 05-23 was rehabilitated in 2005 and is currently reported to be in generally good condition, needing some upgrades in the medium term (WSP Master Plan p.37). Runway 12-30 was (partially) reconstructed in 2001 and is currently in fair condition requiring various repairs (WSP Master Plan p.38).

Opportunities

- 900 acres of land can be developed.
- Attract anchor tenant that could further attract additional, complementary businesses.
- Air Terminal Building upgrade. Better facilities lead to better services, more passengers, and potentially larger aircraft/added frequencies.
- Flights to new destinations like Edmonton, Vancouver, or the US.
- CAD vs. USD: Instant discount for US residents coming across the border to fly from YQL.
- Shuttle to and from the airport to improve ground transportation and accessibility.
- Improved messaging and local marketing would help increase traffic. Communicate changes, plans and "wins" to create more awareness and sense of ownership of "our airport" (see Section 3 for further thoughts on this).
- "Sleeping asset" – needs to be sold better.
- City support and resources for airport development and (market/stakeholder) communication
- Secondary tourism market (i.e., sports teams, agri-business, university, etc.).
- Marketing effort to educate the (local) population about YQL, the "real" cost of using other airports, current services, and new initiatives to attract and retain passengers ("whYQL?" and "YQL Mythbusters" approach).
- Utilize student population as a resource and customers

Threats

- Weather issues and other non-weather-related cancellation.
- (i.e., mechanical, crew shortage, etc.).
- Small aircraft not too popular among some travelers.
- 2 ½ hour drive to competing airports (Calgary and Grand Falls). People drive if poor connectivity to onwards destinations (Winnipeg example) and for lower airfares.
- Low load factors on certain routes could lead to decrease in frequencies or smaller aircraft.
- Competition for land development from established business and industrial parks.
- Habits or perceived benefits of driving to Calgary. Motivators incl. family, events, attractions, shopping, etc.
- Insufficient passenger traffic to sustain service growth.
- Absence of a marketing and corporate communication strategy.
- Lack of external funding (ACAP or provincial) to maintain key infrastructure.
- *(Barriers to do business in Lethbridge survey to come from the Chamber of Commerce).*

Appendix B: Aircraft Rescue and Fire-Fighting Services Evaluation

Lethbridge Airport Business Plan Development

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Aircraft Rescue and Fire-Fighting Services Evaluation

Date: June 25, 2021

Status: v1.0

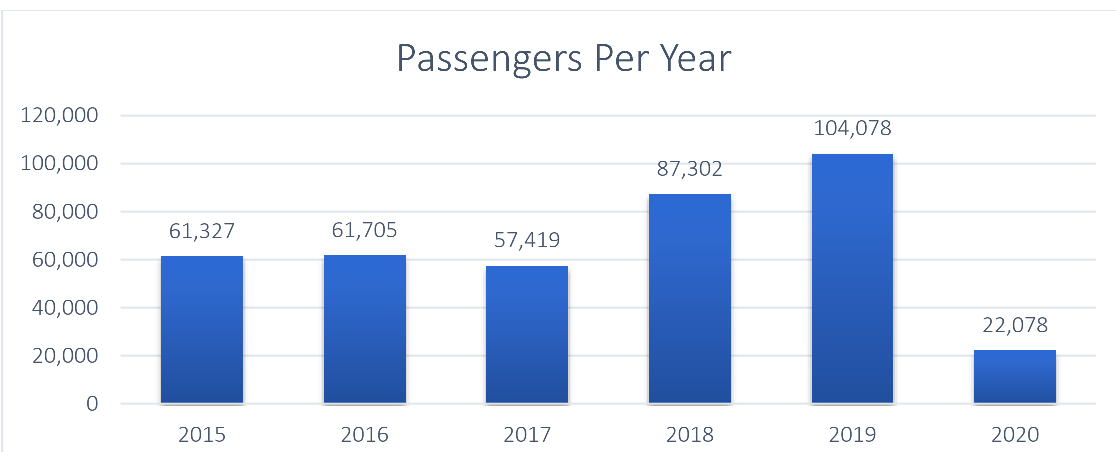
Introduction

The following is a brief review of Canadian Aviation Regulations pertaining to the establishment of Aircraft Rescue and Fire-Fighting Services at airports and aerodromes with focus on the Lethbridge Airport.

Passenger Requirements

The threshold at which airports and aerodromes in Canada are required to provide Aircraft Rescue and Fire Fighting (ARFF) services is 180,000+ passengers per year per CARS 303.02(1).

Airport operators are mandated to at minimum every six months, review passenger statistics from the previous 12 months, to determine whether they qualify as a designated airport under the noted subsection. For Lethbridge Airport passenger statistics are as follows:



ARFF Category for Fire-Fighting

Once the airport does meet the required passenger numbers, the next phase includes determining the category of fire-fighting service that needs to be provided. This is done by evaluating the number of commercial passenger-carrying aircraft movements in each aircraft category for fire-fighting per table in CARS 303.05(1) shown in table below.

	Column I	Column II	Column III
Item	Aircraft Category for Fire Fighting	Aircraft Overall Length	Aircraft Maximum Fuselage Width
1	1	less than 9 m	2 m
2	2	at least 9 m but less than 12 m	2 m
3	3	at least 12 m but less than 18 m	3 m
4	4	at least 18 m but less than 24 m	4 m
5	5	at least 24 m but less than 28 m	4 m
6	6	at least 28 m but less than 39 m	5 m
7	7	at least 39 m but less than 49 m	5 m
8	8	at least 49 m but less than 61 m	7 m
9	9	at least 61 m but less than 76 m	7 m
10	10	at least 76 m	8 m

As seen in the table, categories are determined by aircraft length and width. In addition to passenger numbers, airports and aerodromes are also required to compile monthly statistics delineating how many commercial passenger-carrying aircraft movements there are in each category for fire fighting.

To determine the category level of ARFF to be provided, the airport evaluates aircraft traffic by looking at the previous 12 months of data to determine the three consecutive months with the highest total number of movements by commercial passenger-carrying aircraft in all categories for fire fighting.

Within the identified 3-month window, if the highest aircraft category has 700 or more movements, then that becomes the ARFF service level to be provided. If the highest aircraft category has less then 700 movements, then the category for firefighting decreases by one level.

Projecting ahead, when Lethbridge Airport achieves the required 180,000 passengers per year, it would likely come into Category 5 ARFF service provision.

ARFF Category On the Ground – Response Posture

Each category of ARFF services has specific requirements for extinguishing agent, quantities, and fire-fighting vehicles as shown in the table below from CARS 303.09:

TABLE

	Column I	Column II	Column III	Column IV	Column V
Item	Critical Category for Fire Fighting	Quantity of Water (in litres)	Quantity of Complementary Extinguishing Agents (in kilograms)	Minimum Number of Aircraft Fire-fighting Vehicles	Total Discharge Capacity (in litres per minute)
1	1	230	45	1	230
2	2	670	90	1	550
3	3	1 200	135	1	900
4	4	2 400	135	1	1 800
5	5	5 400	180	1	3 000
6	6	7 900	225	2	4 000
7	7	12 100	225	2	5 300
8	8	18 200	450	3	7 200
9	9	24 300	450	3	9 000
10	10	32 300	450	3	11 200

From a required response posture perspective operations would be similar to the following:

- Category 5 ARFF services:

One ARFF trained person with one category 5 equipped fire-fighting vehicle at the ready for commercial passenger-carrying aircraft landing and take-off sequences.

- For Category 6 ARFF services:

Two ARFF trained persons each with a category equipped fire-fighting vehicle at the ready for commercial passenger-carrying aircraft landing and take-off sequences.

Under normal operations there is no requirement to provide in posture ARFF services for:

- Cargo flights without passengers
- Aircraft ferry flights
- Aircraft positioning flights
- Training flights if no fare-paying passengers are on board
- Aircraft diversions

With the minimal ARFF coverage requirements, many small airports use the hybrid "airport technician model" where the airfield maintenance personnel are cross-trained on aircraft rescue and fire-fighting. This enables cost efficiency and productivity gains for smaller airport operators. Moncton, Kamloops, Fort St. John, and Abbotsford are a few who have adopted this model.

Recommendations

In anticipation of reaching the 180,000-passenger mark, there a few things that will help position the airport in implementing and providing ARFF services.

- The emergency response agreement with the City of Lethbridge Fire and Emergency Services is already in place and will remain even when the airport has ARFF services.
  - The agreement should be updated for current operations.
  - Joint emergency exercises should continue to be carried out at minimum to meet Transport Canada requirements but could be enhanced to include yearly full interagency exercises.
  - City Fire and Emergency Services, Ambulance Services, RCMP, and Coaldale Fire Department could be included in the exercises.
  - ARFF live fire training for Coaldale Fire Department and designated City of Lethbridge Fire and Emergency Serives would be beneficial for first responders as the airport progresses towards it numbers.
  - Periodic Airport leadership familiarization and equipment validation visits to Coaldale and Lethbridge Fire and Emergeny Services .
- If not already in place, start full statistical analysis for ARFF requirements including passenger statistics and monthly aircraft category numbers.
- Complete a review or study of the different operations models for support of ARFF services at small airports to determine path forward.

When the airport does meet the passenger numbers, the Fire-Fighting Vehicle and Shelter (Garage/Firehall) along with initial tools, bunker gear, and equipment are 100% funded through the Transport Canada ACAP Program.

Appendix C: Land Use Plan

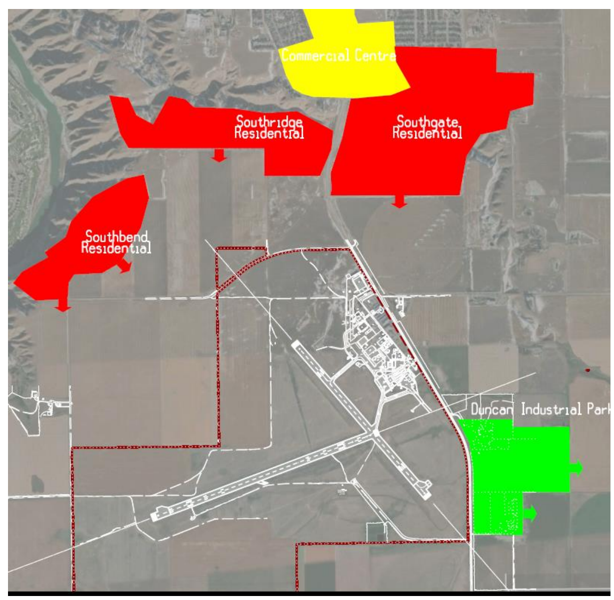
Objective

In early 2021, a land use plan for the Airport was developed. The plan considers critically airport requirements over the long term and reserve appropriate lands for future aviation activities. Land areas not required for future airport uses were identified for non-aviation uses, considering divestments of some of the lands to improve the airport's financial situation.

Location and Adjacent Land Uses

YQL is located some 8km to the south of downtown Lethbridge as the crow flies, or about 10km by road. Driving time is approximately 15 minutes, depending on traffic.

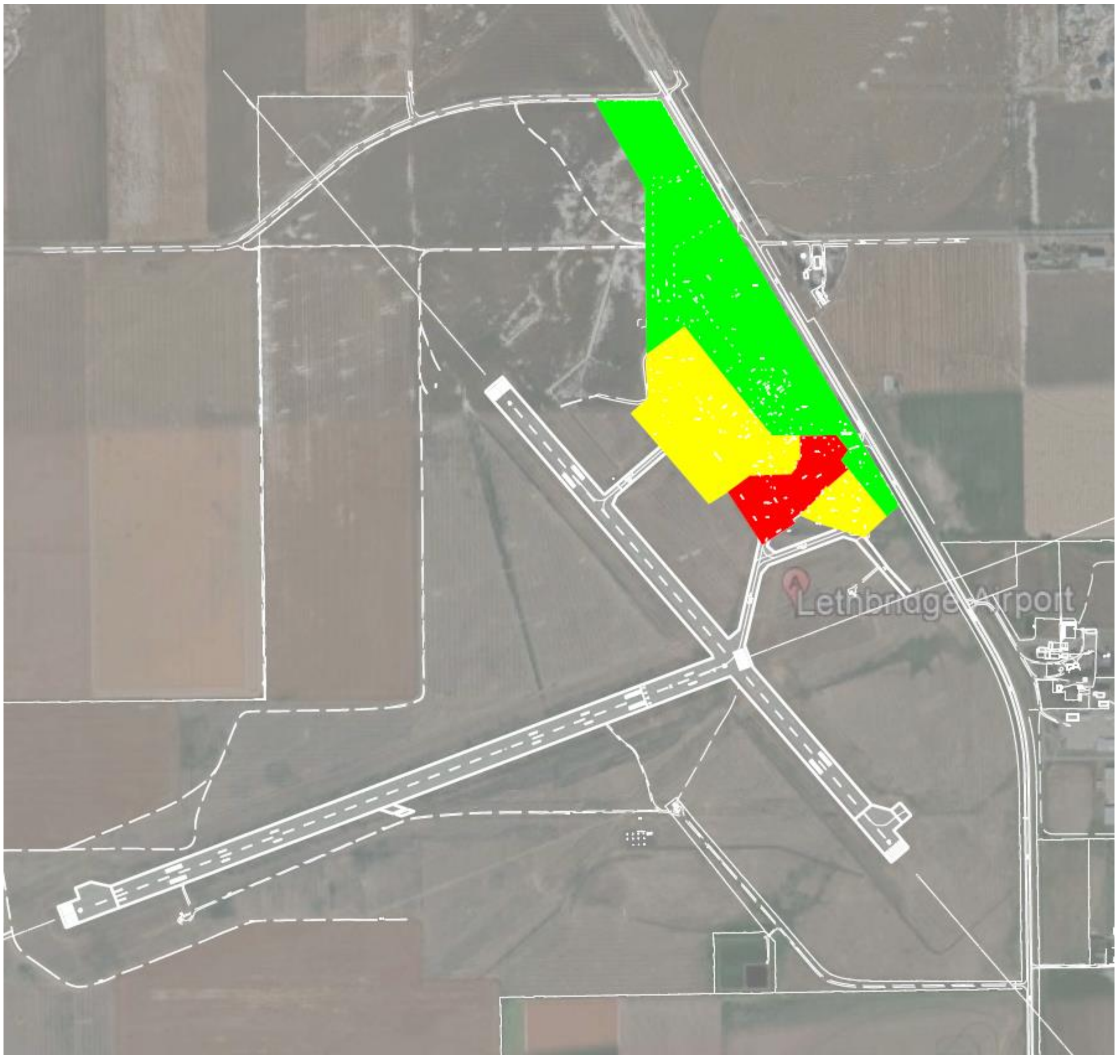
- The lands around the airport are generally agricultural (as illustrated by the unshaded areas in the photo to the left).
- There are major residential areas to the north (shown in red) for which current plans show eventual extension to the south towards the airport.
- Just 2.5 km (or 4-5 min) to the north is major regional shopping center with Walmart, Home Depot, Real Canadian Superstore, Marshals, Costco, Best Buy, Pet Smart, other smaller stores, a number of restaurants, like Swiss Chalet, Cora's, and some financial services outlets.
- Immediately to the east of the airport across Highway 5 is the Duncan Industrial Park. This industrial area is roughly 60 hectares with significant area for expansion.



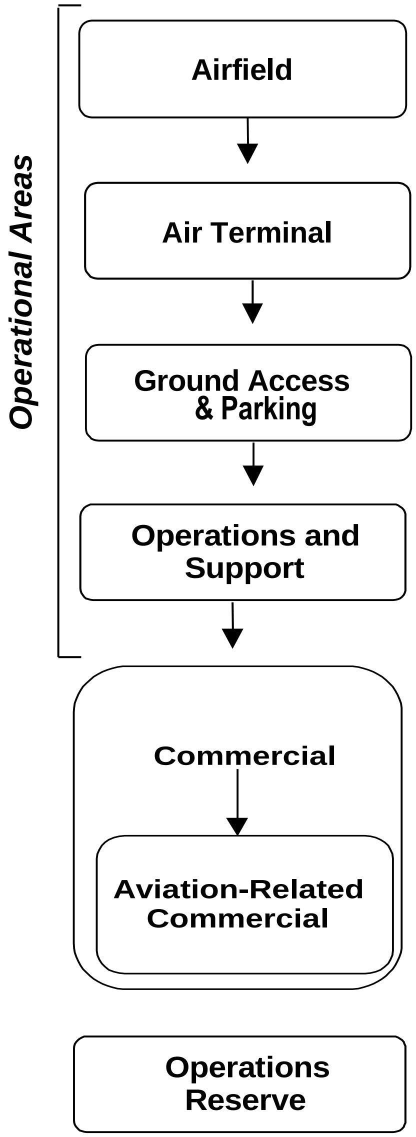
Current Airport Land Uses

- The airport site is approximate 570 hectares, with a good portion of this currently undeveloped.
- Other than the two intersecting runways, the prime development on the site is located in the north-east quadrant of the airport with direct access to Highway 5.
- The total leased/leasable area stands at just over 42.5 hectares, used as follows:
    - 25 hectares of non-aviation related development (green) comprising a variety of uses from prefabricated home construction, self-storage, distribution warehousing, trucking/towing, an RV dealer, and a funeral home.

- 13 hectares of aviation related uses, including two FBOs, a flight school, an aerial spraying operator and some private/corporate hangars, and
- 4.5 hectares for the passenger terminal area, which entails the passenger apron, terminal building, and parking/access facilities.



Airport Planning Hierarchy



Airfield – includes runways, taxiways, aprons and lan protected for air navigation aids and other safety-relat needs.

Air Terminal – typically accounts for the terminal, associat aprons and circulation and parking.

Ground Access & Parking – includes access roadwa transit corridors, internal circulation and parking.

Operations and Support – includes airport supp maintenance, emergency response, fuel facilities and Traffic Control facilities.

Aviation-Related Commercial – lands for aviation-relat activities requiring direct airside such as cargo faciliti aircraft maintenance, hangars and FBO's.

Commercial – other lands for airport and non-airport-relat activities such as industrial, warehousing/distribution, ATB hotels and offices, gas stations, etc.

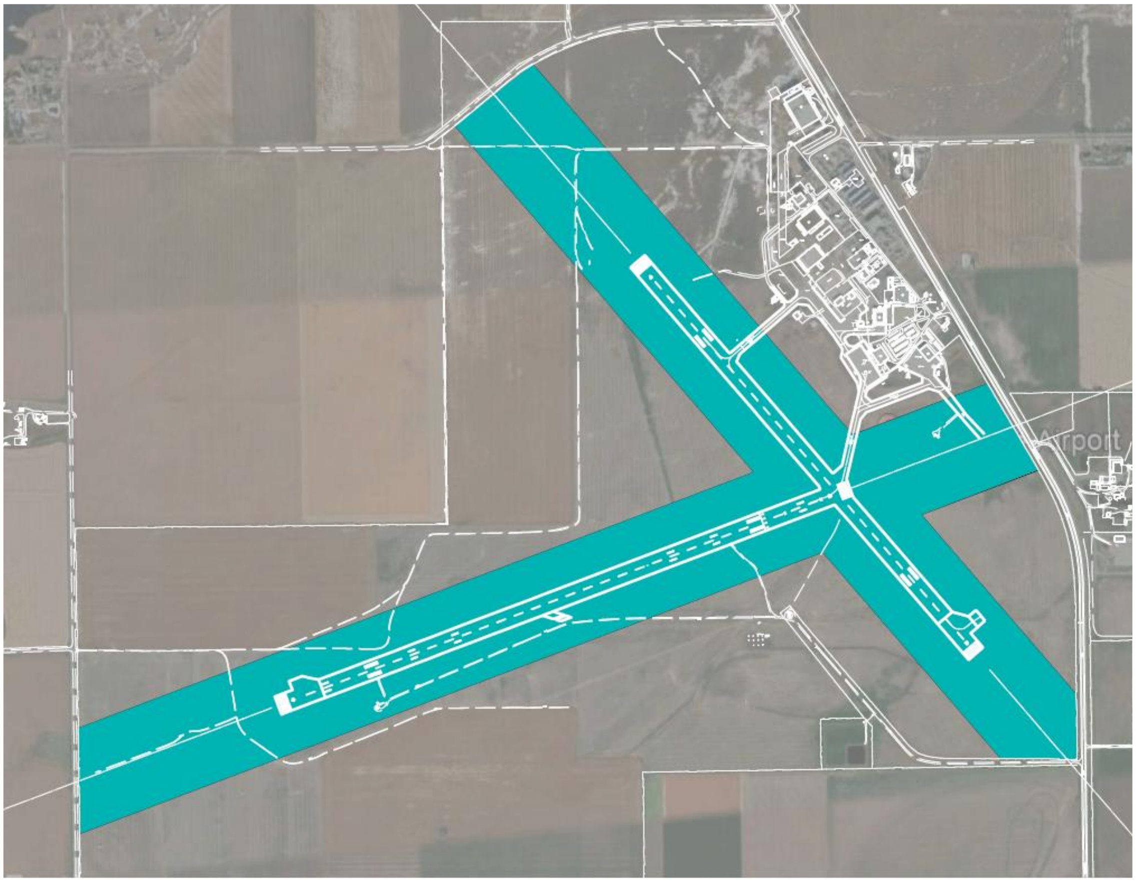
Operations Reserve – Designates areas reserved accommodate long-term development (15 – 20 years) airfield and passenger terminal facilities. These areas m accommodate *Commercial* activities on an interim basis.

Airfield

- Land use planning for the airport should be based on the new TP312 5th edition even if airport is currently certified to the 4th only.
- With (new) satellite-based approaches it should be cost-effective to achieve instrument (non-precision) approaches to both runways.
- It is proposed to use AGN IIIB aircraft as design aircraft, which requires and area of 160 meters on each side of the runway centerline, which is made up of:
  - A strip of 122 meters on each side of the runway,
  - A 26-meter strip from the centerline to the edge of the taxiway clearance, and
  - A 12- meter allowance for the service road and clearance to lease lines).

- The plan protects for maximum runway extensions possible within the land available (final calculations pending), which is lustrated below (the areas past the runway ends may need to be "flared" a bit).

Commercial Development



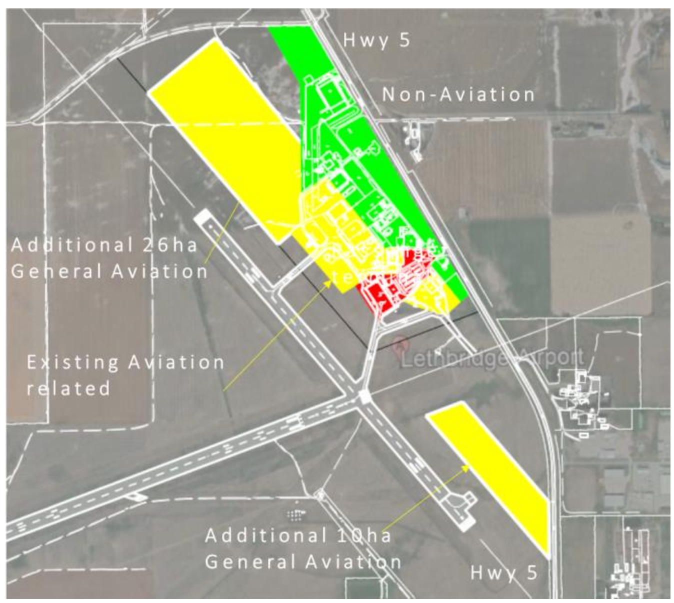
- Commercial development can be aviation related or non-aviation related.
- Aviation related commercial development should take precedence over non-aviation development as this is the business of the airport and can only be located on site, whereas non-aviation can happen almost anywhere.
- Current commercial uses tend to favor non-aviation uses in the north-east quadrant of the airport site as illustrated above.
- There has been low demand for aviation related uses at YQL, with only approximately 13 hectares of current development.
- Available land, especially along Hwy 5, and the need for alternative revenue sources, have influenced the current development pattern where there are some 25 hectares of non-aviation commercial developments.

Hwy 5
Non-Aviation related
Aviation related
Passenger terminal
Lethbridge Airport
Hwy 5

Commercial Development - General Aviation

- Current general aviation uses at YQL are as follows[12]:
- Airwest Group Ltd – FBO.
- QL Aviation – aircraft maintenance.
- Excel Flight Training - flight school and aircraft rental.
- West Wind Air Spray – agricultural aerial spraying services.
- Southern Aero Aviation – FBO.
- Brayne Investments – private hangar.
- Lethbridge International Air Show.
- Expanding the current general aviation area to the north would provide an additional 26 hectares or twice the current GA area of 13 hectares.
- This area could be used for aircraft maintenance, private hangars, avionics repairs/installation and additional flight training.
- Further General Aviation lands (~10 hectares) could be provided in the south-east quadrant and these lands could be used for private hangars.
- These new GA lands should be more than enough to satisfy demands.

Commercial Development - Non-Aviation Related

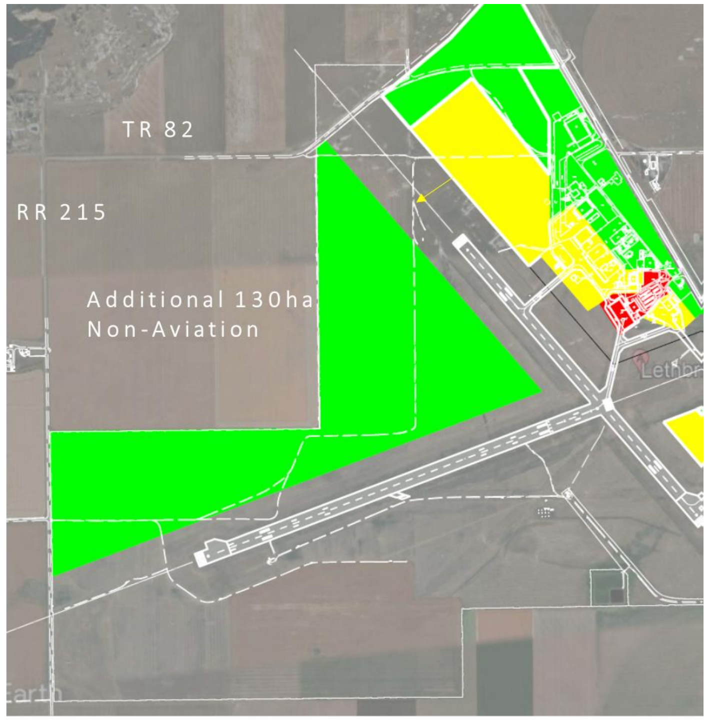


Lands along Hwy 5 have high value for non-aviation uses such as:

- Highway commercial, including retail shopping, restaurants, etc., due to their visibility, accessibility, and synergies with the current shopping opportunities along this strip.
- Office parks, due to the proximity to the airport, as well as to the city itself.
- Industrial/light-industrial and warehousing, again due to synergies with existing warehousing and industrial in the area.
- Additional non-aviation lands could be developed in the north-east quadrant.
- Additional lands could be possible with relocation of TR 82A to meet up with Prairie Arbour Blvd. Total new lands would be approximately 26 hectares.
- Further non-aviation lands could be developed in the south-east quadrant (~7 hectares) right across Hwy 5 from the Duncan Industrial Park.

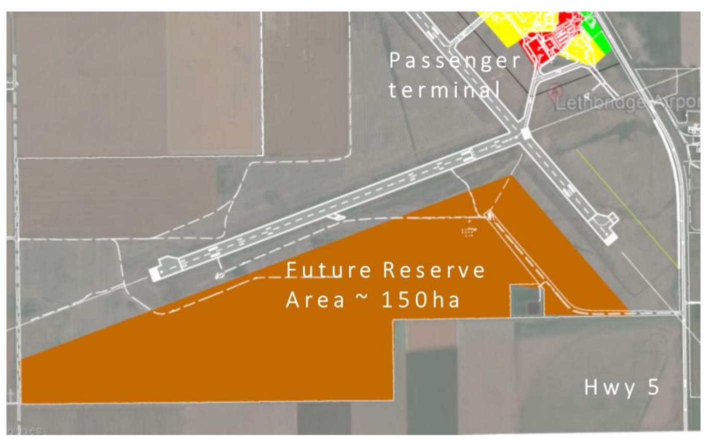
[12] Excludes tenants in the terminal building.

- Lands in the northwest quadrant of the airport are currently unused.
- This area encompasses some 130 hectares after accounting for land reserves for the airfield.
- There is more than sufficient aviation related land in the north-east and south-east quadrants, hence these lands in the north-west could be used for non-aviation uses, primarily, industrial/light industrial or warehousing.
- These lands (as opposed to lands on the south side of the main runway) are more conveniently located in relation to the city and with respect to servicing costs.



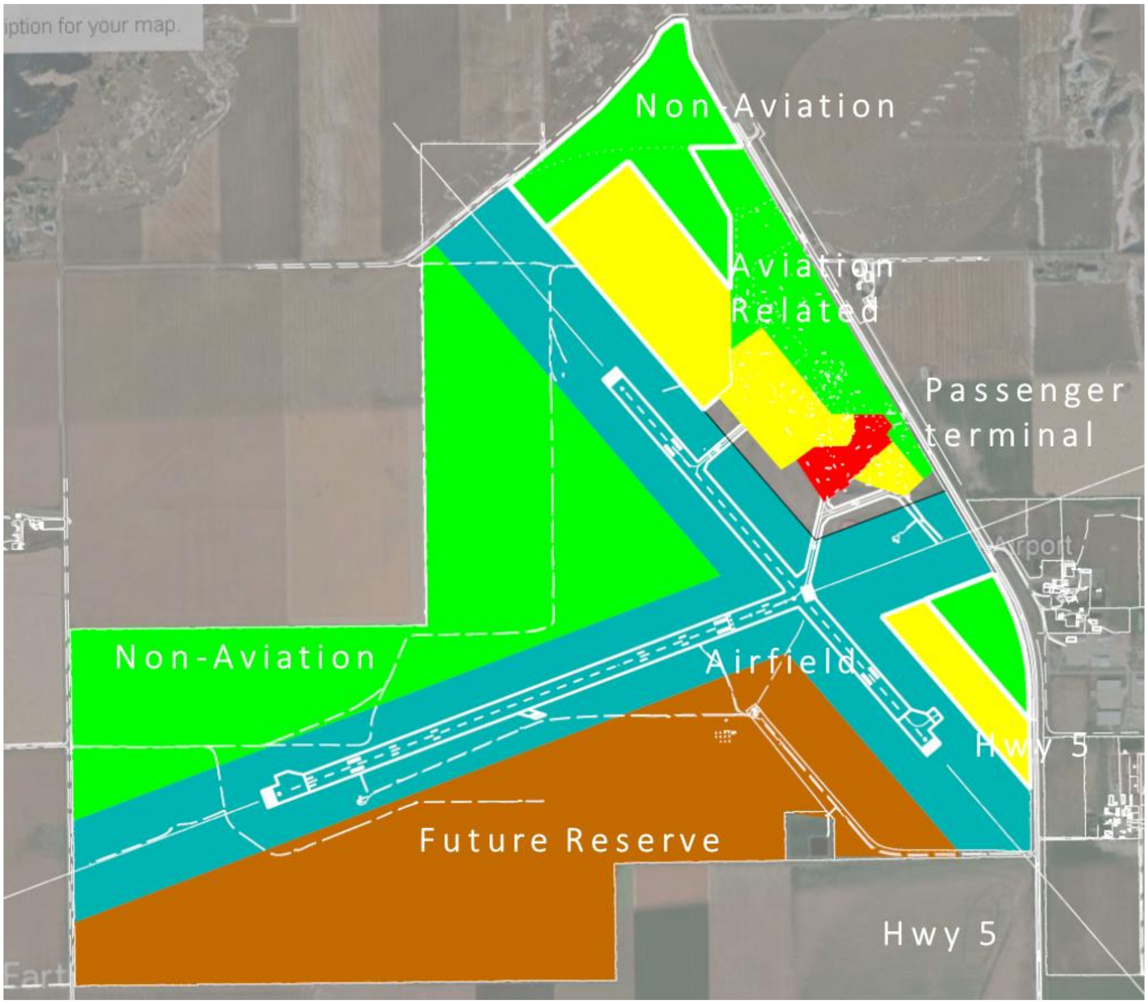
Future Reserves

- Lands in the southwest quadrant are primarily un-utilized, except for a sewage lagoon serving the airport.
- These lands have limited access from Hwy 5 via a gravel road just off the end of Runway 30.
- The total area of the future reserves after accounting for the airfield reservation is just over 150 hectares.
- These lands are not as commercially attractive for non-aviation due to their longer distances from the city and higher servicing costs.
- The lots would be very attractive for aviation related uses, likely in the very long term, as there are currently sufficient aviation related lands in the north-east quadrant.
- These lands could be reserved for a wide variety of future uses in the very long term, such as a new passenger terminal, or any variety of aviation related uses.
- In the interim, the area could be used for a very large solar farm, given the imminent switch over expected in this particular energy technology.



Proposed Land Use Plan

The proposed land use plan is shown below



Operations and support areas, some expansion of the passenger terminal reserve, and access and parking may need some further detail.

Appendix D: Safety Risk Profile

Lethbridge Airport

SAFETY RISK PROFILE

Date: Jun-20

Ref.	Hazard Description	Associated Risk	Mitigation Measures in Place	Residual Risk Rating: Likelihood	Residual Risk Rating: Consequence	Residual Risk Rating: Risk Rating	Planned Mitigation Measures	Related Safety Objective	Target Completion Date	Person Responsible	Objective Review Date
001	AGL system outdated and relying on obsolete parts	Failure of an irreplaceable component part of the AGL control system, leading to a complete failure of airfield lighting, resulting in a closure of both runways at night or in low visibility conditions	M1. Additional preventative maintenance regime M2. System review completed to define upgrade requirements M3. MSP funding obtained towards AGL system replacement	3	5	High	P1. AGL failure contingency plan development P2. AGL System Replacement	O1. Reliable safety infrastructure in place	P1. 08/31/21 P2. 12/31/21	L Canning	12-31-21
002	Pavement surface failure	Surface breakup due to pavement surfaces having exceeded their life expectancy, resulting in aircraft incident	M1. Additional preventative maintenance regime M2. Pavement review completed to define rehabilitation requirements M3. MSP and ACAP funding secured towards Pavement surfaces rehabilitation completion	3	4	Moderate	P1. Pavement breakup contingency plan development P2. Pavement rehabilitation - ACAP Alpha Taxiway / Main Pavement P3. Pavement rehabilitation - MSP remaining pavements P4. Pavement rehabilitation - ACAP Runway 12/30	O1. Reliable safety infrastructure in place	P1. 08/31/21 P2. 12/31/21 P3. 12/31/21 P4. 12/31/22	L Canning	12-31-21
003	Wildlife Strike	High or Medium risk bird strike leading to aircraft accident	M1. Wildlife Management Plan in place M2. Active patrolling of manoeuvring area towards wildlife identification and dispersion M3. Ongoing monitoring of wildlife strikes	2	5	Moderate	P1. Review Wildlife Management Plan and associated risk rating	O2. Effective aircraft operations safeguarding	P1. 09/30/21	C Prince	12-31-21
004	Runway Incursion	Aircraft or vehicle Runway Incursion as a result of cross-runway configuration	M1. Runway access and movement under direct control from TC M2. Runway Incursion hazard included in ground staff and General Aviation training M3. Ongoing monitoring of runway safety events / incidents	2	5	Moderate	P1. Yearly runway incursion awareness campaign	O2. Effective aircraft operations safeguarding	P1. 12/31/21	C Prince	12-31-21
005	Staff Training	Incomplete or out of date staff training leads to Non Compliance or unsafe practice	M1. Training requirements documented and tracked through FileMaker	2	3	Moderate	P1. Plan and deliver completion of out of date / outstanding training P2. Develop comprehensive competency and training framework	O3. Sufficient and competent airport staff	P1. 12/31/20 P2. 07/31/21	C Prince	12-31-21
006	Control of Aerodrome Works	Incorrect or Inadequate control of aerodrome works related to AGL Replacement or Pavement Rehabilitation leads to aircraft incident or accident	M1. "Construction and Maintenance Control Procedure" in place through AOM M2. Additional Safety and Security Coordinator resource available to manage the process	3	4	Moderate	P1. Ensure Contractor Aerodrome Safety requirements are included in delivery contracts, and that local Contractor resource is familiar with those P2. Establish regular Contractor review meetings to include (1st agenda item) Aerodrome Safety and incidents P3. Remind YQL airport staff of Control of Works procedures and requirements	O2. Effective aircraft operations safeguarding	P1. 07/31/21 P2. 07/31/21 P3. 07/31/21	C Prince	12-31-21

Appendix E: Governance Review

City of Lethbridge
YQL Business Plan Implementation & Management Oversight

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Lethbridge Airport -

Overview of Governance Models & Options

Date: March 10, 2021 **Author:** Curtis Grad **Status:** Update

1. Background

The City of Lethbridge (the City) assumed ownership and operation of the Lethbridge Airport (YQL) from Lethbridge County (the County) in mid-2018. Since transfer from the County, the City has been governing the airport via the YQL Airport Committee which was established by Lethbridge City Council, comprised of the Mayor (Chair) and two City Councilors. YQL is currently managed as a City department, under responsibility of the Manager, Real Estate and Land Development.

The stated purpose of the YQL Airport Committee is:

"to provide oversight and guidance for the operation of [YQL] with the goal of transitioning to a Commission or Airport Authority no longer than the current four-year operating budget cycle (December 31, 2022)."

and, most importantly, to make recommendations to Lethbridge City Council on YQL's future governance/operating model and support creation of a new, permanent governance entity.

As clearly articulated in the purpose statement above, the current YQL governance structure is strictly intended as an interim measure, to provide the City with time/opportunity to identify and thoroughly assess the most optimal governance model to suit the long-term strategic objectives of the City and broader Lethbridge community.

The City has conducted preliminary research on YQL governance options, focused primarily on the following models/frameworks:

- City Council governing and operating as a City department
- Airport Authority (under the Regional Airport Authority Act of Alberta [RAAA])
- Municipal Corporation (under the Municipal Government Act of Alberta)
- Airport Commission (under the Companies Act [RSA 2000, c C-21, Part IX] of Alberta)

however, it is understood that all potential options (or combination thereof) remain open for Airport Committee and City review/consideration *(Note: incorporation as a RAA, under*

City ownership, is not permissible pursuant to the Act, however incorporation through the federal not-for-profit corporations act is possible, although likely not the most desirable option).

1.Report Objectives

In mid-August 2019, Modalis Infrastructure Partners (Modalis) was engaged by the City to conduct an Operations and Management Performance Review (Phase I) and prepare a Business Development Plan (Phases II) for YQL.

Within this Phase I/II scope, Modalis undertook an initial high-level review of YQL's past and current governance structures, as well as preparing an overview outlining the spectrum of various airport governance models in place throughout Canada and worldwide.

As stated in this initial review, each airport has its own unique "DNA" defined by its specific socio-political context, market opportunities, challenges, drivers and objectives. As such, there is no single "right" governance structure - the best-suited solution being dependent on the specific circumstances of each airport.

With this in mind, the following sections provide an overview of various governance models, examples of airports operating under these frameworks and general business and financial implications of each option. Ultimately, the aim is to provide Council with the required focus and insight to identify the most suitable governance model for YQL going forward.

2.Strategic Vision & Objectives

A key driver of the YQL governance and management transition has been the City's desire to reposition the airport as a dynamic and proactive economic development catalyst for the community and broader region, rather than simply serving as a passive/institutional "public utility" infrastructure.

Guided by these key strategic objectives, the YQL Airport Committee developed a new Vision Statement for the airport, as follows:

***Vision:** Lethbridge Airport is a dynamic destination providing services to enhance tourism and economic development in Lethbridge and the surrounding area.*

To kick-start the airport's "re-invention" process, the City envisions an independent, business-focused corporate governance structure, with a 'skills-based' board, to re-energize and optimize YQL's future development.

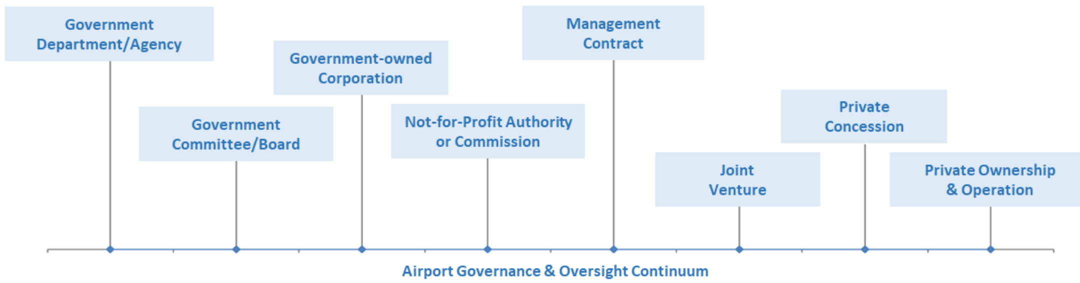
3.Governance Options & Implications

In considering and answering the operative question "What is the 'optimal' corporate governance structure for YQL going forward?" a series of "qualifiers" also need to be asked including, but not limited to, the following:

- Who does the airport serve, who are its core clients and customers?
- What are the opportunities and obstacles to growth and development?
- What are the key drivers (i.e., traffic growth, service-levels, safety, etc.)?

• Who bears various risks (i.e., political, reputational, operational, financial, etc.)?

Fundamentally, it is important to determine the desired level-of-control to be retained by the City versus the degree of delegation of responsibility and autonomy to be transferred under the new governance structure, as well as associated risk-transfer/accountability.



Note: Effectively, in the above chart, the degree of control/accountability shifts from government to private-sector interests, moving from left to right.

The following sub-sections provide a brief overview/examples of these various models.

a. Government Department/Agency

Historically most airports around the world were initially developed and operated by governments to support allied defenses in World War II (WWII). YQL was one such airport, having served as a WWII training base for the Royal Canadian Air Force.

After WWII, the federal Department of Transport (later Transport Canada) assumed management and operation of most of Canada's airports. In 1994, the federal government implemented the National Airports Policy (NAP).

The NAP paved the way for transfer of nearly all federally owned/operated airports to local management control. In the case of smaller regional airports (under 200,000 annual passengers at the time), the NAP transfers included assignment of ownership. Although governance/management models vary across the country, the NAP "experiment" has, with a few exceptions, been overwhelmingly positive.

YQL was under Transport Canada management up until 1997, at which time ownership and operation was transferred to Lethbridge County under the NAP.

The government owned/operated model is generally seen at airports of high strategic value (e.g. defense, base for fire-fighting, etc.) where governments require a high degree of control over day-to-day activities/security, as well as for airports that are not commercially feasible but remain in operation due to government desire to maintain settlement and/or bolster the economic base in certain strategic areas of the country.

b. Government Committee/Board

Following the NAP, numerous airports across Canada were transferred to City governments. Three prominent examples of City owned and operated Canadian airports includes Abbotsford Airport (YXX), Kelowna Airport (YLW) and Muskoka Airport (YQA).

Ownership and operation of YXX was transferred from the federal government to the City of Abbotsford in 1997, under the NAP. Although the YXX board is dubbed an “Authority” it is, in fact, a committee struck by Abbotsford City Council and is currently chaired by the Mayor. Operating semi-autonomously, the YXX Board of Directors is appointed exclusively by Abbotsford City Council and the YXX Board is solely accountable to the City.

The YXX Airport General Manager is a City director with overall responsibility for airport management and operations. YXX is self-funded/self-financed, based on income generated from terminal operations and land tenancy/development.

An exception to the norm, the City of Kelowna has owned and operated the Kelowna Airport (YLW) since its inception in 1946. Kelowna City Council is the final authority for all airport management and operations decisions. The YLW Advisory Committee, a standing committee of Council, provides recommendations to Kelowna City Council regarding airport operations and development.

Committee members are appointed exclusively by Council, representing local governments within the region, as well as various community and business groups. The YLW Airport Director is an officer of the City and has overall responsibility for airport management and operations. YLW is also self-funded/self-financed, based on income generated from terminal operations and land tenancy/development.

In 2018, the District of Muskoka established a “skill based” airport board, comprised of seven directors including the District Chair, covering a range of expertise including legal, financial, business, aviation, governance and tourism.

The District’s intent in setting up this new broad structure was to attract and leverage private-sector and community experience/expertise to the governance and strategic development of YQA, bringing the “perspective needed to ensure the responsible progressive operation of the airport while also serving the unique and diverse needs of the people and businesses” of the District.

The government committee/board model is generally best suited to airports with strong, but yet untapped, commercial potential, with high strategic value to the local community.

c. Government-owned Company/Corporation

Many individual airports and national airport networks around the globe are, or were, operated by semi-autonomous government-owned companies including: Brazil, Jamaica, Lithuania, Norway, Sweden, Finland, India, Malaysia, Singapore, to name a few, however such examples are scarce in Canada.

Often, these “corporatizations” have been a precursor to partial or full privatization of such airports. Doing so generally enables the government/grantor to separate or “purify” the airport budgets/finances and associated employment relationships. In addition, this option provides flexibility for governments/grantors for structuring future privatizations, as they can assign/sell shares (some/all, majority, minority, etc.) in the company.

The government-owned company/corporation model is generally seen, and may be best suited for, airport networks where one government company owns and operates all or most airports in a country. Doing so allows for cross-subsidizing airports with less traffic with profits from busier, most profitable airports in the network.

d. Not-for-Profit Authority or Commission

Almost all of Canada’s federally owned and operated airports were transferred to local control, under the NAP divestiture process. The busiest “National” airports (over 200,000 annual passengers at the time) or provincial capitals were structured under long-term leases between the federal government and individual, local not-for-profit airports authorities established under the federal Canada Corporations Act - Part II (later updated and replaced by the Canada Not-for-profit Corporations Act).

Many smaller airports (under 200,000 annual passengers at the time) were transferred to local airport authorities, incorporated either as federal non-for-profit corporations (under the same framework as the National airports) or under provincial not-for-profit statutes.

Airport authority/commission examples include Fort McMurray Airport Authority (FMAA), Grande Prairie Airport Commission (GPAC), Nanaimo Airport Commission (NAC), etc. In the case of FMAA, first incorporated as a commission, it was later transferred to an authority. The NAC “commission” is actually a misnomer, as it was incorporated as an “authority” under Society’s Act of B.C.

The Fort McMurray Airport Authority is governed by a board of ten directors appointed by various entities, including the regional municipality, local chamber of commerce, petroleum producers’ association and public employees’ union.

In Grande Prairie, the Airport Commission holds a 20-year lease from the City of Grande Prairie to manage and operate the airport. The GPAC board is comprised of three City Councilors and five public “at large” directors.

Yet another variation has been implemented at Kamloops Airport (YKA) where the Kamloops Airport Authority, a not-for profit society, owns the airport. To have a seat as a director, a person must be a “member” of the society. Currently, there are a maximum of five such members appointed from the City which must be one of following: (a) the Mayor of the City; (b) a sitting City Councilor; (c) the Chief Administrative Officer for the City; or (d) an administrative director of the City. Kamloops Airport is managed on a day-to-day basis through an operating agreement as noted in e) below.

The not-for profit model has been used across Canada at large and smaller airports. It has worked successfully as an alternative to privately owned long-term concessions once the federal government decided to divest its airport network. It may also be suitable for sites with lower traffic levels however the not-for-profit organization may need financial support if not commercially viable in its own right (particularly capital investment).

Note: *The YQL Governance Report authored by Ogilvie LLP in Nov. 2018, and preceding letter/schedules dated Oct. 05, 2018, provide an in-depth legal assessment of associated airport authority/commission options and implications.*

e. Management Contract

In the United States, airport management contracts, usually for portions of the airport (i.e., individual terminals) are fairly common given the country's very specific and somewhat peculiar federally subsidized capital funding model which creates a disincentive for more advanced forms of privatization.

Canadian management agreement examples include Kamloops, Ft. St. John and Cranbrook airports, as well as Nassau, Bahamas, through Vantage Airports Group (formerly Vancouver Airport Services Ltd.).

Generally, management contracts are a very effective means of securing operational and technical expertise under a structured, performance-focused framework, which often provides incentives to contractors to meet prescribed performance targets/KPIs.

Typically, contracted operators are not required to invest in fixed assets/capital, but may be required to supply moveable/fixed assets including light vehicles, computer and office equipment, furniture, consumables, etc. The term of such contracts is typically 5-15 years.

Best suited for individual sites where airport management capacity from a contract management company adds value by bringing a range of highly experienced external expertise to the management and development of the airport. Management contracts also provide the added value of the service provider's economies-of-scale and global industry network, including regulatory airlines (route development, operations, etc.), aviation and aerospace operators/developers, commercial services (car rental, retail, food, and beverage, etc.), as well as regulatory/inspection agencies and service providers (i.e., Transport Canada, Canada Customs, CATSA, Nav Canada, etc.).

Management contracts do not typically involve ownership transfer, concession and/or leasing, nor do they require capital investment by the service provider. Generally, this approach is combined with one of the other alternatives outlined above.

f. Joint Venture (Government-Private)

Often, as an interim step towards a concession-based model, governments/grantors have opted to joint venture with the private sector through various forms of government-owned corporations. Examples include Brazil, India, Indonesia and France where government entities and private sector companies each an ownership stake in long-term airport concessions and/or leases through various joint venture structures.

As joint shareholders, governments/grantors share in airport profits/dividends and, generally, they are responsible for contributing their pro-rata share of airport capital investment. Joint ventures typically range from 15-30 years in length.

Ownership of the underlying assets (i.e., airport land) usually remains with the government. Generally, this option has best been applied where Governments have decided to monetize part of the equity value in its airports. Such airports need to have sufficient traffic volumes and/or land development to be attractive to private investors.

g. Private Concession

With private concessions, governments/grantors award long-term rights to private-sector operators/investors to manage, develop and invest in airports. Canadian examples include Toronto Island (Billy Bishop [terminal only]) and Iqaluit airports.

In typical airport concessions, private operators/investors are assigned rights to collect revenues from some or all airport commercial activities, however they are also responsible for related operating costs, as well as capital investment and financing.

Private operators/investors also generally pay concession fees to the governments/ grantors. Private concessions typically run for 20-30 years however some have been granted 50-60 years (i.e., India) and in some rare instances up to 99 years. Note that this structure is only suitable at assets where a positive cash-flow/return can be generated.

h. Private Ownership & Operation

Although not common in North America, fully privatized airports are becoming more prevalent, particularly in Europe. Under this fully liberalize model, private companies hold outright fee-simple ownership of the airport lands and improvements.

Examples include London-Heathrow, London-Gatwick, Manchester, Glasgow, Aberdeen, etc. (United Kingdom), Brussels (Belgium), Weeze (Germany), Kiev City [terminals only] Sydney, Melbourne (Australia), etc.

Private owners/operators generally have full rights to all commercial revenues and are solely responsible for all related operating costs, capital investments and financing. As fee-simple owners of the land and improvements, ownership rights are perpetual.

The private ownership/operation model option is suited to either very large airports that are self-sufficient or sites where the private sector has been granted the right to develop the airport business from the ground up (i.e., decommissioned/idle non-strategic airfields with limited commercial traffic) into viable aviation/commercial enterprises.

For very large airports, the political climate at the time of privatization (i.e., UK, Thatcher gov't) related to state-owned assets is a key factor. Economic controls/conditions must also be firmly regulated by the government/grantor to avoid monopolistic risks. Similar considerations apply at sites developed entirely by private investors.

Note: *In 2017, the City identified four Canadian regional airports for comparison and benchmarking with YQL (Nanaimo, BC; Kamloops, BC; Fredericton, NB; and London, ON), based on a number of criteria, including community population, passenger traffic, governance model, airport facilities and financial performance. As addressed in preceding sections of this report, it is also recommended that Grande Prairie, AB; Fort McMurray, AB; Kelowna, BC; Abbotsford, BC; Ft. St. John, BC; Cranbrook, BC, Muskoka, ON and Toronto Island (Billy Bishop), ON airports are included in the YQL governance review process.*

4.Conclusions & Recommendations

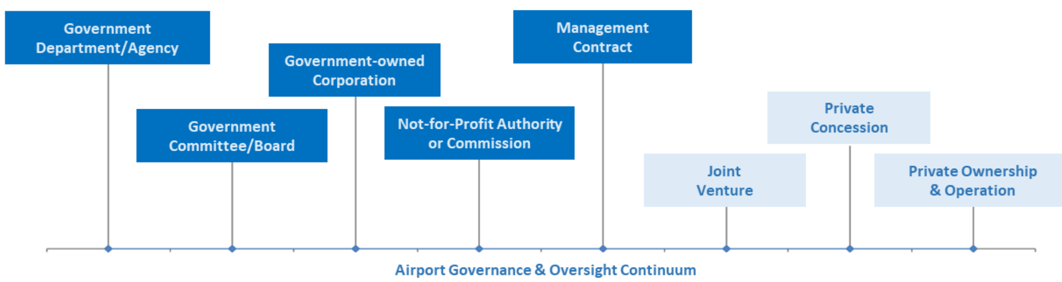
As identified by the City in its initial 2017/2018 airport governance review, there have been several "lessons learned" from review and comparisons of other similar airports, namely:

- Attracting new passenger services and commercial development at YQL will require significant, long-term strategic investment and a target marketing approach,
- YQL's competitive position would be vastly improved by investing in airport terminal building expansion and service-level upgrades, and
- YQL was significant economic value beyond scheduled passenger service.

Intrinsically, an appropriate and effective governance framework is also critical to the successful long-term management and development of airport of YQL.

In view of YQL's current traffic levels, growth prospects, land development potential and financial capacity, the five models on the left of the governance spectrum are viewed to be the most suitable/realistic to meet YQL's long-term strategic interests and objectives.

***Note:** Typically, public service airports require a sustained critical mass of passenger traffic in the order of at least 1,000,000 passengers/year to be commercially attractive for private sector investors and operators, unless supported by other significant revenue streams (i.e., real estate [commercial, industrial, residential], aerospace and manufacturing, etc.).*



Per Section 4 above, a series of "qualifiers" need to be thoughtfully considered by the City to explore and articulate the various "pros and cons" associated with these five models.

A preliminary list of governance-related "pros and cons" were developed as part of the completed Phase I/II SWOT Analysis scope of works, as summarized below.

Option	+ ve	- ve
City Department	- Easy implemnetation, managed as other City assets and operations	- Might require more flexibility and and commercial focus
Airport Authority/ (Commission)	- Tested under the AA Act	- Regulates relationship with Federal Goverment under a not for profit structure - Not applicable at YQL
Government Corporation Municipal Corporation	- Allowing for clearer view of profit/loss, capital requirements and operational performance - Can act in a commercial manner	- Dependent on the City (as owner) for some CAPEX funding

To further this initiative, as previously recommended, facilitated governance workshop sessions were held on June 26 and July 10, 2020 with the YQL Airport Committee (workshop outcomes and recommended action plan summarized in Annexes A and B attached to this report). The purpose of these sessions was focused on defining the key strategic objectives of YQL's future organization evolution and supporting governance structure including:

- Organizational accountability,
- Board and management autonomy,
- Delegation of authority and responsibility,
- Transfer of risk and risk tolerance, or
- Financial self-sufficiency.

In assessing these key elements, the aim is to assist the current Airport Committee in crystalizing its recommendation to Council on the most suitable governance model for YQL.

Once the preferred/optimal model is identified, the governance framework can be considered and defined by the Committee, including:

- Board Mandate & Terms of Reference,
- Board Representation & Fiduciary Duty,
- Nomination Criteria & Recruitment Process,
- Director Onboarding & Succession Process,
- Board Remuneration & Expense Reimbursement, and
- Code of Conduct, including Conflict of Interest Guidelines.

Although more granular, it is highly recommended that these foundational framework details are developed and presented as a complete and integrated package with the proposed governance model for Council review and approval.

ANNEX A - WORKSHOP OUTCOMES

At Jun. 26 and Jul. 10, 2020 workshops sessions, the Airport Committee participated in a governance options assessment exercise, which produced the following results.

Strategic Objectives & Metrics	Strategic Weighting	Gov't Dept/Agency		Gov't Cmte/Board		Gov't Owned Corp		Not-for-Profit Auth/Comm		Management Contract	
Weighting (W) x Effectiveness (E)	(W) x	(E)	Ttl	(E)	Ttl	(E)	Ttl	(E)	Ttl	(E)	Ttl
Mayor Spearman		770		770		770		762		788	
Coun. Crowson		619		611		654		628		587	
Coun. Carlson		379		409		526		556		556	
Total | Average		**1768**	**589**	**1790**	**597**	**1950**	**650**	**1946**	**649**	**1931**	**644**

As highlighted above, the option of a Government-owned Corporation (aka muni-corp.) rated the highest with an average score of 650, versus a Not-for-Profit Authority/Commission at 649 and a Management Contract at 644 (all falling within a statistical margin of error).

With these three options essentially drawing as a "dead heat" the decision on the optimal future governance structure for YQL, and timing of its implementation, ultimately comes down to considering/acknowledging financial and practical COVID19 realities.

As the general economy, and aviation sector specifically, are expected to take three to four years, or more, to fully recover to 2019 levels, YQL is likely to run an operating deficit during this rebuilding phase and will continue to rely heavily on external capital grant funding.

Consequently, it will be challenging to recruit directors to sit on a muni-corp. or not-for-profit board under these difficult conditions. Further, the City will likely to be the most effective agent/conduit for securing provincial and federal grant funding during the post-COVID19 recovery period, as most of these programs are tooled for distribution to local governments.

Rather than expending precious/scarce resources on development of a new governance structure now, it may be most prudent and productive to continue operating YQL under the umbrella of the City for the time being.

As an interim step however, in preparation for a future transition to a more independent and arms-length governance structure, the City may wish to consider a Management Contract as a means of bringing the specialist expertise and experience needed to accelerate YQL's recovery and expansion/diversification. Also, as outlined above in further detail, this contract management approach would also allow the City to leverage the service provider's global network/relationships in the aviation industry and benefit from its economies-of-scale.

Once YQL has reached a critical level of traffic recovery/growth and financial sustainability (perhaps two consecutive years of $500,000 net operating profit and more than 150,000 annual passengers), governance transition could be revisited. Under more favourable conditions, the probability of a successful governance transition would be vastly improved.

ANNEX B - RECOMMENDED ACTION PLAN & PROPOSED TIMELINES

The following steps and indicative implementation schedule are recommended to advance the establishment of the YQL Advisory Committee:

#	Actions & Recommendations	Action by	Target Date
1	Review and finalize committee Terms of Reference (ToR) via virtual or facilitated workshop	Airport Committee	Jul. 30, 2020
2	Airport Committee report to Council providing update on YQL governance initiative	Airport Committee	Aug. 10, 2020 - confirm date?
3	Draft corresponding bylaw to enable creation of proposed committee according to draft TOR	City Solicitor	Aug. 17, 2020 - confirm date?
4	Review draft bylaw and revised ToR with Airport Committee	Airport Committee	Sep. 03, 2020
	Complete final bylaw and ToR edits, finalize for recommendation to Council for approval	City, Modalis	Sep. 07, 2020
5	Present bylaw and ToR to Council, recommending creation of the proposed advisory committee	Airport Committee	Sep. 21, 2020 - confirm date?
6	Initiate committee member recruitment through nominating entities and community 'at large'	City Manageme nt (on behalf of Council)	Sep. 28, 2020 - confirm date?
7	Review and vet committee candidates and present recommendation to Council for approval	Airport Committee	Oct. 26, 2020 - confirm date?
8	Committee member orientation (incl. development of committee manual and delivery of governance training)	City Manageme nt (on behalf of Council)	Nov. 10, 2020 - confirm date?

9	Committee official appointment and 'swearing in' ceremony (and dissolution of existing YQL Airport Committee)	Mayor & Council	Nov. 24, 2020 - confirm date?
10	Inaugural meeting of YQL Advisory Committee, including nomination and appointment of Chair and Vice Chair	YQL Advisory Committee	Dec. 07, 2020 - confirm date?