



Canadian
Transportation
Agency

Office
des transports
du Canada

Financial Requirements Guide

For Canadian Air Carrier Licence Applicants

available in multiple formats

Canada 

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1. Who has to meet financial requirements?

When do financial requirements apply?

Financial requirements apply to Canadians applying for a licence to operate an air service using **medium aircraft** (40 to 89 seats) or **large aircraft** (greater than 89 seats).

Applicants that *already* hold an Agency licence authorizing the operation of an air service using medium or large aircraft may, in certain situations, not need to meet financial requirements. These applicants should consult the following section, ***When do financial requirements NOT apply?***

Key Terms

small aircraft means an aircraft having a certified maximum carrying capacity of up to 39 passengers.

medium aircraft means an aircraft having a certificated maximum carrying capacity of more than 39 but not more than 89 passengers.

large aircraft means an aircraft having a certificated maximum carrying capacity of more than 89 passengers.

all-cargo aircraft means an aircraft equipped for the carriage of goods only.

The classification of an aircraft as “small”, “medium” or “large” is not based on the actual number of seats on board the aircraft, but on the aircraft’s certified maximum carrying capacity.

When do financial requirements NOT apply?

Financial requirements do not apply on the issuance or the reinstatement of a licence to operate an air service using:

1. **All-cargo** aircraft;
2. **Small** aircraft;
3. **Medium** aircraft, where the applicant already operates a *non-scheduled international* or a *scheduled international* air service using *medium* or *large* aircraft;
4. **Medium** aircraft, where the applicant already operates a *domestic* air service using *medium* or *large* aircraft for which the financial requirements were met within the last 12 months;

5. **Large** aircraft, where the applicant already operates a *non-scheduled international* or a *scheduled international* air service using *large* aircraft; or
6. **Large** aircraft, where the applicant already operates a *domestic* air service using *large* aircraft for which the financial requirements were met within the last 12 months.

Financial requirements also do not apply in the following circumstances:

7. The renewal of a licence;
8. The reinstatement of a licence, where the licence is suspended for 59 or fewer days; and
9. To non-Canadian applicants.

2. General information

Overview

The financial requirements is a market entry or market re-entry (i.e., in the case of a reinstatement of a licence) requirement. Compliance with these requirements is intended to ensure that licences are issued to applicants that are financially fit and adequately financed, through a combination of equity and other sources, at the inception of the proposed air services.

Under the financial requirements test, the applicant is required to demonstrate that it has sufficient funding in place, without taking into account any revenue from operations, to meet the costs, or in other words, the cash disbursements, associated with starting up and operating the air service for a 90-day period.

Agency review process

The Agency generally reviews financial requirements submissions in two distinct stages.

Stage 1: Determination of financial requirements

During stage 1, the Agency will review the information and documentation submitted by the applicant to determine the financial requirements (i.e., funding requirement) associated with starting-up and operating the proposed air service for a 90-day period. The applicant is required to submit the information and documentation with its licence application. At the end of stage 1, the Agency will issue a decision confirming the financial requirements associated with operating the proposed air service for a 90-day period under conditions of optimum demand.

Stage 2: Compliance with the funding requirement

During stage 2, the applicant must satisfy the Agency that it has either already acquired, or it can acquire, the required funds confirmed in stage 1, and that the funds are available and will remain available to finance the air service. The stage 2 information does not need to be filed with the Agency before the Agency issues its stage 1 decision, confirming the financial requirements. The applicant may, however, choose to file the stage 1 and stage 2 information together with its licence application. At the end of stage 2, the Agency will issue its decision confirming whether the applicant has met the financial requirements.

When to submit your licence application

When planning to submit a licence application, the applicant should allow sufficient time for the Agency to review the applicant's submission, including time to respond to any additional questions or information requests that the Agency may have. The applicant

should also be prepared for the possibility that the Agency may determine that additional funding is required, beyond what the applicant is proposing, for the applicant to comply with the financial requirements. As such, the applicant is encouraged to file the required information and documentation with the Agency well in advance of the proposed air service's launch date, but not before a detailed business plan is in place, in support of the proposed air service.

Transport Canada's policy concerning Air Operator Certificates

Transport Canada will generally not initiate work relating to the issuance or amendment of an Air Operator Certificate for the proposed air service until the Agency has determined that the applicant has complied with the financial requirements. The applicant should be aware of this process in planning for the launch of its proposed air service.

Confidential information

All financial and commercial information that is filed with the Agency will be treated as confidential.

3. Filing requirements

The applicant must submit the following information and documentation in support of its application:

3.1 Business plan

The applicant must file a copy of its business plan in support of its licence application. The Agency will review the applicant's business plan to assess if the financial requirements proposed by the applicant are reasonable and consistent with the proposed air service. The business plan should, at a minimum, include the following information:

- a. A description of the type of air service that will be provided, including whether scheduled and charter type services will be offered;
- b. The market and the region within which the applicant intends to operate;
- c. The routes that will be operated and the frequency of flights;
- d. The type and number of aircraft that will be operated; and
- e. A summary of any significant agreements or partnerships that will influence how the air service will be provided and the cost to provide the air service.

3.2 Financial requirements forms

Along with its licence application, the applicant must complete the [Financial Requirements Forms](#) detailing its estimated start-up costs and its operating and overhead costs associated with operating the proposed air service for a 90-day period. Information on how to complete these forms is included in Section 4 of the present guide.

3.3 Assumptions and calculations

The applicant must provide a summary of the assumptions and calculations used to arrive at its proposed aircraft utilization for the 90-day financial requirement period, as well as for each of the start-up and operating costs reported within the Financial Requirements Forms. Key agreements, such as aircraft lease and purchase agreements that support the amounts reported within the Financial Requirements Forms, should also be filed with the Agency. Additional information on what is to be provided to the Agency is detailed in Section 4 of the present guide.

3.4 Audited financial statements (only applies to applicants that are already operating a business)

Where the applicant is or has been in operation (i.e., as opposed to a new start-up), it must provide the Agency with a copy of its most recent audited financial statements. The Agency will not be able to complete its review prior to receiving the applicant's audited financial statements. The applicant should be aware of this requirement while planning for the initiation of proposed air services, as the preparation of audited financial statements can be a lengthy process.

This requirement is not limited to applicants that operate an air service, it applies to the operation of any business.

Financial statements produced from a review or a compilation engagement do not offer the same level of assurance as those from an audit and are not an alternative to audited financial statements.

3.5 Proof of available funding

The applicant must provide proof that it has the necessary funding in place to meet the financial requirements. This information only needs to be filed as part of stage II of the financial requirements process. Additional information on the proof that is to be filed with the Agency is detailed in Section 5 of the present guide.

4. Stage 1: Determination of financial requirements

Stage I is used to determine the amount of the financial requirements. The applicant must complete and submit the Financial Requirements Forms, including providing the following information:

1. The [start-up cost statement](#), along with the appropriate supporting calculations and assumptions used to arrive at the amounts included in the statement;
2. The [90-day operating statement](#), along with the appropriate supporting calculations and assumptions used to arrive at the amounts included in the statement; and
3. The [financial requirement statement](#).

4.1 Start-up cost statement

Start-up costs (lines 10 to 99)

The Start-up Cost Statement is used to identify the start-up costs associated with the proposed air service. In completing the Start-up Cost Statement, the applicant must provide the following information:

1. The start-up costs that have already been incurred by the applicant, in the 12 months preceding the licence application filing date; and
2. The start-up costs the applicant expects to incur from the date the licence application is filed with the Agency to the proposed launch date of the air service.

All costs, including operational, maintenance, marketing, and administrative costs that have been or are expected to be incurred prior to the commencement of the air service are to be reported.

[Appendix 1](#) describes the cost categories included within the Start-up Cost Statement.

Assumptions and calculations

The applicant must provide, for each amount reported in the Start-up Cost Statement, the detailed assumptions and calculations that demonstrate how the applicant arrived at the amounts. The supporting information may be submitted in any reasonable form. The Agency will use this information to determine if the amounts reported by the applicant within the Start-up Cost Statement are reasonable, and that the statement is complete and accurate.

Example

For *flight crew training costs*, in addition to providing the supporting calculations, relevant information that would help the Agency assess the reasonableness of the submission would include:

1. the number of required flight crew by position (i.e. captain, first officer, etc.)
2. their hourly, monthly, or annual salary
3. the appropriate employee benefits gross-up factor
4. any relevant per diems or other allowances
5. any required travel and accommodation costs
6. the cost of training, and
7. the duration of the training.

Acquisition costs and deposits

Disbursements made to acquire assets prior to the commencement of air service operations are to be reported as a start-up cost. The amount recorded as a start-up cost is limited to the acquisition cost, including any installment payments that are required prior to the commencement of the proposed air service. Any subsequent ongoing installment payments would be recognized as an operating cost.

Similarly, any deposit that may be required on the acquisition of an asset must also be reported as a start-up cost. However, where a deposit is applied against the first, second, or third month's installment payment, then it would not be reported as a start-up cost, but rather as an operating cost.

Example

Company A acquires an aircraft with a purchase price of \$2,500,000. Company A makes an initial payment of \$500,000 and is required to make \$30,000 monthly installments thereafter of principle and interest. Company A reports \$500,000 as a start-up cost in the Start-Up Cost Statement and \$90,000 [3 months x \$30,000 per month] as an operating cost on the 90-Day Operating Statement.

Incremental start-up costs

Where the applicant is already an Agency licensee and applies for a licence to supplement its existing operations, only the *incremental* costs that arise from the start-

up of the new air service are to be reported. The applicant's submission should include a detailed explanation where, for a particular cost category, no amount or a lower amount of start-up costs is estimated, as compared to what would normally be expected of a new company entering the marketplace.

Example

Company A, an existing licensee that holds a domestic air service licence, small aircraft, applies to add the authority to operate medium aircraft. Company A will use its existing hangar to house both the small and medium aircraft. Company A must report any incremental costs that are required to modify or expand the hangar to accommodate the medium aircraft. The applicant must indicate in its submission why, for hangar costs, it is reporting no amount or a lower amount than would normally be expected.

4.2 90-day operating statement

The 90-Day Operating Statement is used to identify the cost to operate the proposed air service, under conditions of optimum demand, for a 90-day period.

The 90-Day Operating Statement identifies the:

1. Number of each type of aircraft that will be operated during the first 90 days of operation;
2. Estimated number of block hours that each of the aircraft will be operated, assuming optimum demand, over a 90-day period; and
3. Estimated operating and overhead costs associated with operating the proposed air service for the estimated number of block hours over a 90-day period.

Number and type of aircraft to be operated (lines 101 and 102)

The number and type of aircraft the applicant intends to operate in its first 90 days of operation are used to determine the financial requirements and should be reported on the 90-Day Operating Statement.

Aircraft block hour utilization (line 103)

Block hours

Financial requirements are based on the estimated number of block hours that each aircraft will be operated on the proposed air service, over a 90-day period, assuming the use of the aircraft under conditions of optimum demand. The estimated number of block hours that *each* aircraft will be operated on the proposed air service must be reported on the 90-Day Operating Statement.

Key term

Block hour represents the total elapsed time from the moment the aircraft door closes at departure until the moment the aircraft door opens at the arrival gate following its landing.

Aircraft utilization under conditions of optimum demand

The total number of block hours that will be reported and used to determine the costs associated with operating the air service for a 90-day period is not necessarily the actual block hours that the applicant expects to operate the aircraft for the first 90 days of operation, but rather the number of block hours that the aircraft *could be operated* on the specified air service, over this 90-day period, assuming aircraft utilization under conditions of “optimum demand”.

The Agency generally expects aircraft utilization under conditions of optimum demand will result in flights being operated seven days a week and, within each day, the aircraft will be operated a reasonable number of block hours. The type of aircraft, age of aircraft, competitive environment, and the market place that the applicant intends to operate within are all considerations that influence the number of block hours that the aircraft can be utilized, under conditions of optimum demand, for the 90-day period.

Optimum demand for the applicant's air service is determined for the initial 90-day period. The operation of the aircraft for a 90-day period should not take into account future events after that time period, such as the potential market entry or exit of a competitor, economic forecasting, or other activities or events that can be expected to either stimulate or suppress future demand.

The applicant should provide the key assumptions it used to arrive at its expected aircraft utilization. The Agency will review the number of block hours the applicant proposes to operate each aircraft to determine whether the applicant's projections are reasonable, including comparing the proposed block hour operation per type of aircraft with Agency and industry data.

Example

Company A will launch its air service with one aircraft and forecasts, based on existing demand, it could profitably operate the aircraft between 300 and 600 block hours in a 90-day period. Company A forecasts it most likely will operate the aircraft for 400 block hours during its first 90 days of operation, but once it is established in the marketplace, it could operate the aircraft for approximately 600 block hours over the 90-day period. Company A would determine the operating and overhead costs, for financial requirements purposes, on the assumption that the aircraft will be operated for 600 block hours over the 90-day period.

Profitability

The operation of the aircraft, as measured in block hours and as attributed to the 90-day operating period, must be no less than that which is necessary for the air service to be profitable.

The applicant may forecast an initial operating loss even though it is proposing to operate its aircraft an optimal number of block hours. This may arise due to initially lower passenger loads. This is acceptable, as long as the applicant's business plan forecasts the air service to become profitable, at the stated aircraft utilization, as passenger loads increase over time. In this case, the applicant must submit a reasonable forecast to the Agency that supports a determination that the air service will be profitable.

Aircraft availability

The aircraft's utilization for the purposes of determining financial requirements must be based on the assumption that the aircraft will be operated "solely" in support of the specified air service.

In situations where the aircraft will not be retained at all times by the applicant or where the aircraft's availability is limited, the applicant can, under certain conditions, apply for an exemption from this requirement.

The request for exemption must be pursuant to section 80 of the *Canada Transportation Act*, S.C., 1996, c.10, as amended, and would need to satisfy the Agency that compliance with the provision is unnecessary, undesirable, or impractical. The Agency will consider the exemption request, if the applicant demonstrates that all of the following conditions are met:

1. The aircraft's primary purpose is not the provision of an air service, for which a licence is required;
2. There is clear indication that the goal is to maximize the aircraft's utilization when the aircraft is not being used for its primary purpose; and

3. The applicant can justify that the aircraft's availability will be limited to a maximum number of available hours and that this limitation on the aircraft's availability will continue into the foreseeable future.

It should be noted that even though the aircraft's availability may be severely limited, a submission providing for the aircraft to be operated only a nominal number of block hours would defeat the purpose of the financial requirements test and would not meet the intent of the regulatory requirement.

Example

Company A operates corporate aircraft to transport its employees to different work sites. To offset a portion of the aircraft's fixed ownership costs and to maximize aircraft utilization, Company A decides to offer an air service to the public and therefore applies to the Agency for the appropriate licence. The air service will be made available to the public only during periods when the corporate aircraft is not being used to transport its employees. Company A has clear fixed periods when the corporate aircraft is required to transport its employees to different work sites. Company A applies for an exemption from the requirement that financial requirements be based on the aircraft being utilized *solely* on the specified air service.

Domestic licence holder applies for international licence and intends to use existing aircraft on both air services

A licensee already operating a domestic air service may apply for a licence to operate an international air service using the same class of aircraft (i.e., medium aircraft) intending to split the use of its existing aircraft between its domestic and proposed international air services. For the purposes of determining financial requirements, the aircraft's utilization is to be determined based on the aircraft being operated solely or entirely in support of the proposed international air service.

Example

Company A, that holds a domestic licence authorizing the operation of medium aircraft, applies for a non-scheduled international licence also with the authority to operate medium aircraft. As the domestic licence was issued more than 12 months ago, Company A must meet the financial requirements for the proposed international air service.

Company A will use its existing aircraft to operate both the domestic and international air services. Company A forecasts that it will operate the aircraft, over a 90-day period for 400 block hours on the domestic air service and 300 block hours on the international air service. It estimates that if the aircraft were

operated solely on the international air service, it could operate the aircraft, under conditions of optimum demand, for 600 block hours over the 90-day period. Company A will develop its financial requirements on the assumption that the aircraft will be used solely in support of the proposed international air service and, as such, the financial requirements will be based on the applicant operating the aircraft 600 block hours over the 90-day period.

Applying for multiple licences

Where the applicant simultaneously applies for multiple licences within the same class (e.g., medium aircraft to be operated on domestic, scheduled international, and non-scheduled international), financial requirements will be based on the operation of the aircraft under conditions of optimum demand across all of the proposed air services, as to do otherwise would result in onerous and unnecessary requirements. In other words, operation of the aircraft under conditions of optimum demand does not mean that aircraft utilization is based on optimum demand for each air service, but rather on optimum demand for the proposed aircraft within the applied for licence authority. In this case, the financial requirements will be determined based on the utilization of aircraft across all of the proposed air services that will result in optimal aircraft utilization and profit.

Operating and overhead costs (lines 200 to 999)

Costs to be included

The financial requirements include the total costs to operate the proposed air service over a 90-day period under conditions of optimum demand. The applicant must include all operating and overhead costs in the 90-Day Operating Statement, including operational, maintenance, marketing, financing and administrative costs.

The operating and overhead costs must be detailed for each type of aircraft that the applicant proposes to operate. This level of detail is required to ensure that the financial requirements are developed with direct reference to the aircraft's specific operating cost profile and will also assist the Agency in its determination as to whether the applicant's projected operating costs are reasonable.

Purchase or lease payments

Where the acquisition of an asset is financed or paid through installments, the monthly installments and / or lease payments, including any interest, are included in the determination of the operating and overhead costs for the 90-day period. The deferral of payments to after the applicant's first 90 days of operation does not remove the requirement to include the purchase or lease cost that would typically be incurred over a 90-day period.

Depreciation and amortization

Depreciation and amortization of assets is not considered for financial requirements purposes, as the purchase or lease cost of an asset, including any required monthly installment payments, should already be reported within the Start-up Cost Statement and the 90-Day Operating Statement.

Reserves and accrued liabilities

Maintenance and other similar reserves are included in determining financial requirements, when they relate to actual expenditures that are expected to be incurred. Similarly, accruals that are normally made to capture an expected expenditure would also be included, as they provide for expenditures that are forecast to be required.

[Appendix 2](#) describes the operating and overhead cost categories included within the 90-Day Operating Statement.

4.3 Financial requirements statement

The Financial Requirements Statement is used to determine:

1. for applicants that are already in operation, the amount of owners' equity or deficit;
2. the financial requirement;
3. the portion of the financial requirement that **must** be funded by owners' capital; and
4. the balance of the financial requirement, which is not restricted to being funded by owners' capital.

Shareholders' or partners' equity / deficit (lines 1000 to 1003)

This section is to be completed **only** by applicants that are already in operation or were previously in operation and, therefore, would previously have had results from operations (i.e., profits and losses). These applicants could have a retained earnings or deficit position on their balance sheet.

Applicants that are already in operation, or were previously in operation, and are therefore not a new business will need to submit to the Agency a copy of their “audited” financial statements for their most recent fiscal year end.

The applicant must enter any equity or deficit (entered as a negative), as reported on its audited balance sheet, onto line 1001. The applicant must also enter any start-up costs that it has incurred and have been captured within its audited financial statements (i.e.,

incurred on or before the audited balance sheet's fiscal year-end date), onto line 1002. The equity or deficit, net of any start-up costs captured within these amounts, will be used to determine the financial requirements.

Financial requirement (lines 2000 to 2005)

The determination of the applicant's total financial requirement is equal to the sum of:

1. its start-up costs;
2. its operating and overhead costs associated with operating the business for a 90-day period under conditions of optimum demand; and
3. for businesses already in operation, any owners' deficit, as reported on the applicant's audited balance sheet. The deficit that is reported for financial requirements purposes should be net of any start-up costs that have already been incurred and were included in arriving at the owner's deficit (i.e., start-up costs incurred on or before the audited balance sheet's fiscal year-end date).

Example

The following examples illustrate how the financial requirement is determined for (A) a new start-up, (B) an applicant already in operation that has owner's equity, and (C) an applicant already in operation that has an owner's deficit.

Table 1: Computing financial requirement

		A	B	C
Start-up cost statement total	(1)	\$1,000,000	\$1,000,000	\$1,000,000
90-day operating statement total	(2)	3,000,000	3,000,000	3,000,000
Subtotal (line 1+ line 2)	(3)	\$4,000,000	\$4,000,000	\$4,000,000
Shareholder's or partners' deficit, if any	(4)	n/a	n/a	300,000
Start-up costs included within deficit	(5)	n/a	n/a	100,000
Financial requirement (line 3+ line 4 – line 5)	(6)	\$4,000,000	\$4,000,000	\$4,200,000

Capital funding requirement (lines 3000 to 3003)

A portion of the applicant's total financial requirement must be funded through owner's capital. The capital funding requirement is equal to 50 percent of the total start-up and operating costs.

For applicants that are already in operation, or were previously in operation, the capital funding requirement (i.e., 50 percent of the total start-up and operating costs) is adjusted as follows:

1. **Increased** by the amount of any owner's (i.e., shareholder's or partners') **deficit**, as reported on the applicant's latest "audited" balance sheet;

or
2. **Decreased** by the amount of any owner's' **equity**, as reported on the applicant's latest "audited" balance sheet;

and
3. **Decreased** by the amount of any start-up costs that were incurred on or before the fiscal year-end date for the latest "audited" financial statements, for which owners' equity or deficit was reported in lines 1000 to 2005.

It should be noted, that while owners' equity, as reported on the applicant's audited balance sheet, will reduce and may eliminate the need for additional owners' capital to be invested in the company, it does not reduce the total financial requirement that must be met through available liquid funds.

Acceptable sources of funds that can be used to meet the capital funding requirement are summarized in section 5.1 of the present guide.

Example

The following examples illustrate how the capital funding requirement is determined for: (A) a new start-up; (B) an applicant already in operation that has owner's equity; and (C) an applicant already in operation that has an owner's deficit.

Table 2: Computing capital funding portion of financial requirement (continued from Table 1)

		A	B	C
50% of start-up and operating costs (50% x Table 1, line 3)	(1)	\$2,000,000	\$2,000,000	\$2,000,000
Shareholders' or partners' equity (deficit), if any	(2)	n/a	1,500,000	(300,000)
Start-up costs reported within equity / deficit	(3)	n/a	100,000	100,000
Capital funding requirement (line 1 – line 2 – line 3)	(4)	\$2,000,000	\$400,000	\$2,200,000

Balance of funding requirement (lines 4000 to 4003)

The balance of the financial requirement that is not required to be met by owners' capital can be funded from other sources, such as available lines of credit, shareholder loan, or other available liquid assets. This amount can also be funded by owners' capital, should the applicant choose to do so.

Acceptable sources of funds that can be used to meet the balance of funding requirement, other than owners' capital, are summarized in section 5.2 of the present guide.

Example

The following examples illustrate how the balance of funding requirement is determined for: (A) a new start-up company; (B) an applicant already in operation that has owner's equity reducing the capital funding requirement; and (C) an applicant already in operation that has an owner's deficit increasing the capital funding requirement.

Table 3: Computing balance of funding requirement (continued from Table 1 and Table 2)

		A	B	C
Financial requirement (Table 1)	(1)	\$4,000,000	\$4,000,000	\$4,200,000
Capital funding requirement (Table 2)	(2)	2,000,000	400,000	2,200,000
Balance of funding requirement (line 1 – line 2)	(3)	\$2,000,000	\$3,600,000	\$2,000,000

5. Stage 2: Compliance with the funding requirement

In Stage 2, the applicant is required to satisfy the Agency that it has acquired or can acquire the necessary funding to meet the financial requirements.

The applicant must demonstrate that:

- It has, or can acquire, through a combination of equity and/or debt, funds in an amount at least equal to the financial requirements established in stage I;
- The funds are not encumbered and consist of liquid assets (i.e., readily convertible to cash); and
- The funds are available and will remain available to finance the air service.

5.1 Owners' capital

The capital funding requirement must be funded by a contribution of owners' capital.

Where the applicant is a corporation, it must demonstrate that the capital funding requirement has been met through the issuance of share capital. Where the applicant is a partnership or proprietorship, it must demonstrate that the capital funding requirement has been met by the investment of partners' or proprietor's capital.

The applicant must file documentation with the Agency confirming that the owners' capital has been injected into the business, including having been deposited into the applicant's bank account. The Agency will accept a copy of a bank statement confirming that the funds have been deposited in the applicant's bank account. Where the applicant is a corporation, it must also provide a copy of the minutes from the directors' or shareholders' meeting confirming that the shares have been issued and fully paid for.

Capital cannot be withdrawn or redeemed for 12 months

The owners' capital must be available and remain available to fund the applicant's operations and cannot be withdrawn or redeemed for a period of at least one year after the date of issuance or reinstatement of the licence.

Where the applicant is a corporation, it must provide a copy of the board of directors' resolution stating that the identified share capital will not be redeemed, or otherwise withdrawn, for at least one year after the issuance of the licence, as applicable.

Where the applicant is a partnership or a proprietorship, it must provide a written statement signed by each partner or the proprietor disclosing the amount of capital that has been invested in the partnership and that the invested amounts will not be withdrawn from the partnership or the proprietorship for at least one year after the issuance of the licence.

5.2 Debt and other funding sources

The portion of the financial requirement that is not required to be met through owners' capital can be funded from other sources, such as available lines of credit, shareholder loan, or other available liquid assets. This amount can also be funded by owners' capital should the applicant choose to do so.

Line of credit or other similar financial instrument

The applicant may fund any part of its financial requirement, which is not subject to the capital funding requirement, through a line of credit, or other similar financial instrument, issued by a financial institution, where the terms and conditions under which those funds can be acquired are such that the funds will remain available to finance the proposed air service.

A copy of the line of credit agreement that discloses all of the terms and conditions of the line of credit must be provided to the Agency.

Shareholder or related party loans

The applicant may fund any part of its financial requirement, which is not subject to the capital funding requirement, through a shareholder or related party loan, provided the funds have actually been paid to and received by the applicant and obtained under terms and conditions that ensure they are available and will remain available to finance the proposed air service. A shareholder promissory note or other similar commitment cannot be used to meet the funding requirement.

A copy of the loan agreement that clearly discloses all of the terms and conditions under which the funds have been provided must be provided to the Agency. The applicant must also provide proof that the funds have been deposited into the applicant's bank account.

Businesses already in operation that have cash or other liquid assets

Businesses that are already in operation that have cash or other liquid assets that have been accumulated and/or generated from operations or through investment in the company can apply these amounts against part or all of the funding requirement. Liquid assets include cash and other assets that are readily convertible to cash.

Cash that is available, and will remain available, can be used to meet the funding requirement. The applicant must, however, demonstrate that the amount is and will remain available. Having a particular cash position at any one point in time is not sufficient for the amount to be considered as an available source of funds, as a business' cash position can fluctuate, at times significantly, from one month to another.

A cash balance that has been set aside or placed in a reserve account for future activities would be indicative of amounts that are and will remain available to fund the proposed air service. Demonstrating that a minimum amount of cash is consistently available, such as throughout the past twelve months, and that the amount will remain available, is another example of how the applicant can demonstrate that the cash balance is, and will remain, available.

Marketable securities, such as government bonds or shares in publicly-traded companies, are considered to be a liquid asset, when they can be readily converted to cash and there is no restriction preventing the securities from being quickly monetized. Marketable securities would be recognized at their market value.

Accounts receivable, less an appropriate allowance for doubtful accounts, would also be considered to be a liquid asset, when there is both an intent and expectation that they will be collected in the short-term, which would normally not exceed three months. Accounts payable would be offset against such accounts receivable, as they are normally payable over the same time period. These amounts would be grouped with cash and any other liquid assets to arrive at a total amount and the applicant must demonstrate that the amounts will continue to remain available.

Inventory and physical assets, such as real property, are not considered to be liquid assets. Other assets would need to be evaluated on a case-by-case basis, with it being the applicant's responsibility to demonstrate why these other assets should be considered by the Agency as liquid assets.

The date that the applicant provides a snapshot of its existing cash and other liquid assets should be relatively close to the applicant's expected commencement of operations, as the amount of its cash and other liquid assets can be expected to change from month to month. It is the applicant's responsibility to demonstrate that any liquid assets are available, and **will remain available**, to meet the financial requirements.

All liquid assets or accounts, as at a particular point in time, must be considered together, as selecting certain liquid assets or accounts and excluding others, to the applicant's advantage, is not an acceptable approach. The applicant should file the necessary support with the Agency, including its most recent interim financial statements and copies of its bank statements.

5.3 Lengthy time period before applicant demonstrates it has acquired necessary funding

Where a significant amount of time has elapsed from the date when the Agency confirmed the financial requirements under stage 1 to when the applicant provides the Agency with proof of compliance with the financial requirements under stage 2 (i.e., the amount and type of funding obtained), the Agency may require the applicant to re-

submit certain financial information or to re-confirm whether previous stated assumptions continue to be valid.

The Agency may, in this case, re-assess the financial requirements. The Agency will evaluate, on a case-by-case basis, whether the applicant is required to re-submit certain information, taking into account the length of time that has elapsed since the Agency's stage I determination, the applicant's specific circumstances and its financial position.

For applicants that are already in operation, where a more current version of the applicant's audited financial statements has been produced, such must always be filed with the Agency. These financial statements will be used to re-compute the financial requirements, as required.

Appendix 1 – Start-up cost statement

The following describes the reportable line items on the Start-up Cost Statement.

All start-up costs, including operational, maintenance, marketing, and administrative costs that have been incurred (Column I) or are forecast to be incurred (Column II) prior to the commencement of air service operations are to be reported on the Start-up Cost Statement.

Aircraft (Line 10):

Disclose the costs related to the acquisition, lease, importation or refurbishment of aircraft, including its engines. Deposits that are not refundable by the end of the first three months of operation are to be included, as are any costs incurred to comply with Airworthiness Directives and Service Bulletins, as well as retooling, reconfiguring or upgrades to the aircraft and its engines.

Training (Line 20):

Disclose the costs related to the training of flight, cabin and maintenance crew, including costs for instructors, consultants, room rentals, course materials, travel expenses and flight simulation training.

Facilities (Line 30):

Disclose the costs related to the purchasing and leasing of office, airport, hangar and any other required facilities, as well as deposits with airports and other suppliers, including security deposits with Canadian and foreign airport authorities.

Inventory, equipment, and supplies (Line 40):

Disclose the costs associated with the purchase of fuel reserves, spare aircraft and engine parts, operational equipment, and other inventory and supplies, including the purchase of uniforms and the development of operations manuals.

Professional fees (Line 50):

Disclose the costs to incorporate the company or register the business, as well as legal, consulting and other associated professional fees.

Administrative (Line 60):

Disclose the costs related to the administration of the business, including salaries for non-operational personnel, the purchase of computer hardware and software, office equipment and furniture, marketing costs and general overhead.

Appendix 2 – 90-day operating statement

The following describes the reportable line items on the 90-Day Operating Statement.

All operational, maintenance, marketing, financing and administrative costs associated with operating the proposed air service for a 90-day period, under conditions of optimum demand are to be reported on the 90-Day Operating Statement.

General:

101 – “Aircraft type” refers to the type or model of aircraft that will be operated over the initial 90 days (e.g., Boeing B737-800, Airbus A319-100, etc.).

102 – “Number of aircraft” refers to the quantity of each type of aircraft that will be operated over the first 90 days of air service operations.

103 – “Block hours of operation” refers to the total number of block hours that each type of aircraft will be operated over the 90-day period (e.g., if two Boeing 737-800 aircraft are operated for 600 hours each, insert 1,200 block hours in the appropriate column).

Salaries and benefits (Line 200):

200 - “Salaries and benefits” includes all employee related compensation costs, including salaries, wages and employee benefits, as well as costs related to the detachment, interchange or lease of crew as part of a wet-lease arrangement.

Aircraft:

301 – “Acquisition and lease” includes purchase and lease payments, as well as the cost associated with the dry or wet lease of aircraft.

302 – “Fuel and oil” includes the cost of aviation fuel and oil used in flight operations.

303 – “Maintenance” includes all costs for the maintenance, repair and overhaul of aircraft, the purchase of spare parts and inventory, costs associated with maintaining the certificate of airworthiness in good standing, and any reserve payments.

304 – “Insurance” includes passenger, general hull, flight equipment and public liability insurance.

Passenger services:

401 – “Catering” includes all costs related to in-flight and ground catering services, including those provided at airport lounges.

402 – “In-flight entertainment” includes costs and subscription fees for items such as movies, music, live television and related audio-video equipment.

Airport and air navigation charges:

501 – “Air navigation fees” include those levied by NAV Canada and any other foreign air navigation authority.

502 – “Landing and terminal fees” includes all fees and charges for landing, terminal use, hangar use, security and parking of the aircraft.

503 – “Ground handling and loading” includes charges for cabin services, catering services, ramp service, luggage and cargo handling, terminal and gate customer service, and de-icing.

Sales and administration:

601 – “Office building” includes acquisition and lease payments, property taxes, repairs and maintenance, utilities and any other costs pertaining to administrative facilities.

602 – “Administration and overhead” includes the purchase of office furniture and supplies, banking charges, professional fees and any over general administrative overhead.

603 – “Information technology systems” includes hardware, software and any fees required to establish and maintain computers, networks, Web sites and reservation systems, including for services provided through third-party service providers.

604 – “Sales and marketing” includes commissions on ticket sales and costs incurred for advertising and promotion, including fees for travel agents, sales consultants and other service providers.

605 – “Interest charges” includes all financing charges.