

ABOVE & BEYOND

OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY
ANNUAL REPORT 2013



Contents

Chairman's Remarks	1
President's Remarks	2
2013 In Review	4
Corporate Governance, Accountability and Transparency	11
2013 Financial Review	16
Financial Statements	21
Notes to the Financial Statements	27

Above and Beyond

The following were developed jointly by the Authority's Board of Directors and the senior management team, in the fall of 2013, and will determine the course for 2014 and beyond.

Mission

The Authority is a leader in providing quality, safe, secure, sustainable and affordable air transportation services to the airport's customers and communities and is a driver of economic growth within Canada's Capital Region.

Vision

To be the world class gateway to Canada's Capital Region and an economic engine that drives prosperity for our community.

Organizational Values

The Authority conducts its business with:

- Responsibility;
- Sustainability;
- Accountability; and
- Integrity.

Strategic Directions

- To grow strategically
- To increase the economic footprint of the airport within the National Capital Region
- To optimize operational performance, ensuring safe and secure operations
- To pursue excellence
- To provide additional flight frequencies and destinations

Chairman's Remarks

It's such a privilege to serve as the Airport Authority's Chairman; it gives me a front row seat to the accomplishments of the Authority team as they operate a first class facility. Their achievements and commitment to excellence continues to impress me.

2013 was a year of transition for the Authority, with the departure of Paul Benoit at the end of February, after nearly 17 years at the helm, and the arrival of Mark Laroche at the beginning of March. Such change can disrupt an organization's momentum, however in our case, the transition was incredibly smooth. I commend Mark and the Authority's senior management team for the fine job they did adapting to the new environment; the team's airport experience coupled with Mark's extensive experience leading large organizations, confirmed that the right choice was made by the CEO Selection Committee last year.

The transition period offered the Board the opportunity to do some self-reflection in an effort to further improve its transparency, communication and overall effectiveness and in anticipation of the Authority's migration to the *Canada Not for Profit Corporations Act*. Articles and by-laws were reviewed; Board committees were reorganized and transformed with new mandates and charters to ensure that important items in the area of finance, governance, human resources, major infrastructure and environmental stewardship would be afforded the focus they require. Board, committee and chair nomination procedures were reviewed and improved to ensure that the right mix of talent is present on the Board going forward.

We had some typical board movement during the year as well, as some member terms were completed. I would like to say a special few words of thanks to Peter Vice, who joined the Board in 2003, served as Chairman from 2007 to 2010 and chaired the CEO Selection Committee that was responsible for hiring Mark. Peter's guidance and wisdom will be sorely missed, however, the mark he left will not soon be forgotten – under his leadership, the airport enjoyed great financial results, completed major projects and received many awards for customer service and business leadership.

We also said farewell to Mike Skrobica and Philippe Marion, the former whose term was completed, and the latter whose change in career path took him in a different direction. On behalf of the Board, I would like to thank them for so generously sharing their time and talent with the Airport Authority, and wish them well in their future endeavours.

We also welcomed two new members during the year. Janice Traversy and Scott Eaton joined us in April, bringing their respective accounting and legal expertise to the boardroom table. Both became immersed in the airport's affairs very quickly and are already having a positive impact on our governance activities.

A key responsibility of a Board of Directors is to review, discuss and approve the strategy and objectives that guide an organization. True to that theme, our Board was involved in an in-depth analysis of the airport and industry, which resulted in the development of a new Strategic Plan, including new Mission and Vision statements, confirmation of our Organizational Values and a concise list of Strategic Directions.

As an organisation the vision statement is how we see ourselves in the future and serves to inspire us. It did not take long for the Board to reach consensus on the following new Vision:

To be the world class gateway to Canada's Capital Region and an economic engine that drives prosperity for our country.

And our new Mission statement confirms the purpose of our organisation:

The Authority is a leader in providing quality, safe, secure, sustainable and affordable air transportation services to the airport's customers and communities and is a driver of economic growth within Canada's Capital Region.

The Vision and Mission bring a renewed focus to the importance of the contribution the airport makes in our community. Airport activities, including its payroll, taxes and resulting downstream spending, generate more than \$1 billion each year in economic value in the region without any government subsidies or assistance. Our focus, going forward, will be on further developing that contribution through providing the best airport service and experience possible, growing our business and leveraging the airport to support activities in the tourism and business sectors. In other words, we think that helping to strengthen the region's competitive advantage and creating opportunities for prosperity in our community are vital to our collective success.

Mark will tell you more about what the Strategic Plan is and how it will be achieved in the coming years, but I would like to acknowledge the collaboration between the Board and senior management. I am very pleased with the degree of the industry and the operation in the short, medium and long terms, and how together, we have set a course for the future.

As Jack Welch, a famous Chairman said, "Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion". I know I speak for all members when I say that the airport is in the capable hands of a strong team that has set some impressive goals and we look forward to seeing them come to fruition.

President's Remarks

I am very pleased to have the opportunity to share the highlights of my first year at the airport, and to report on the Airport Authority's results for last year.

As the Chairman remarked, the transition was a smooth one for me and for the team and, although the industry is new to me, the organization has a very successful track record, so there were no major issues to tackle at the outset. Rather, I was able to study and absorb every aspect of the operation to determine where there were good opportunities for change and get to implementing them accordingly.

As you are no doubt aware, the economy slowed late in 2012, and remained at the same pace for most of 2013. The National Capital Region was particularly hard hit with civil service job cuts and the related cost cutting efforts for many households in our region. Volumes shrunk as a result, with a total of 4,578,591 passengers travelling during the year, representing a decline of 2.3% over 2012. Fewer passengers meant lower revenues overall as well; we generated \$104,139,000 through areas such as parking, rent, terminal fees and landing fees, which was 2% lower than total revenues in 2012. Thanks to a concerted effort by the entire Authority team to keep a close eye on expenses, we earned \$24,273,000 before depreciation. I am pleased to say that these funds will be reinvested in the airport, and unlike the airport improvement fee (AIF), which is used to pay for major infrastructure projects, these funds will pay for day to day operations and maintenance. The good news is that the economic picture improved towards the end of 2013, and we look forward to better results in 2014.

We accomplished a lot during the year with respect to operations. Arguably one of the most important projects happened in August when we grooved Runway 07/25. Grooving is an effective technique for improving drainage and providing increased friction, and while it is common practice in the United States, it has not been adopted at major airports in Canada, nor is it a requirement of Transport Canada, the airport's regulator. We are very proud of the leadership position we have taken, first with the reconstruction of the runway, the addition of runway end safety areas (RESAs) and finally with grooving. We will start a similar process on the airport's longest runway, 14/32, this summer.

Work continued on many other projects, including the massive baggage-handling system upgrade. The multi-million dollar project will double the capacity of both the domestic/international and transborder outbound systems and includes the addition of a new inbound domestic carousel. The new technology is extremely energy efficient,

and will require no additional electricity despite its increase in size, capacity and capability.

Our customer service was recognized by the Airport Service Quality customer service benchmarking program again in 2013, and we maintained 2nd place in North America and 3rd place in the world among airports that serve between two and five million passengers per year. These awards recognize the efforts of the entire campus, so I would like to extend my thanks to everyone who contributed to the great service that our customers received. Our success in the program would not be possible without the participation of our clients who complete the surveys, so we extend our thanks and appreciation to each and every passenger who took the time to answer the survey.

One of my personal priorities for 2013 was to engage the Board of Directors with the senior management team to develop a new roadmap for the airport's future in the form of a new Strategic Plan. We put a lot of thought and effort into designing a document that would not just gather dust on a shelf, but would provide our entire team with a list of the priorities that will require their attention during the short, mid and long term. We were successful in doing just that.

Gilles provided an overview of the new Vision and Mission statements that were adopted, so let me tell you about the Strategic Directions that were developed to support these statements – there are five in all.

1. To grow strategically:
History shows that the aviation industry can expand and contract for various reasons. As such, it is critical that airports find new and innovative ways to generate non-aeronautical revenues to complement aeronautical revenues. It's also critical that we have the right sized terminal, which has sufficient capacity to meet demand, while not overbuilding. Building the right infrastructure at the right time will ensure that the Authority is balancing the needs of the community while remaining cost-competitive.
2. To increase the economic footprint of the airport within the National Capital Region:
Airports are more than simply a runway and a terminal building. They are major employers that pay several levels of tax, facilitate tourism and have a significant impact on the communities they serve as well as the quality of life for those who live there. The converse is true – economic prosperity in the region has a direct relationship for demand for air travel. It is important, then, that the airport act as a spark plug for economic development in the region.
3. To optimize operational performance, ensuring safe and secure operations:
The safety and security of our passengers, employees and facilities are key priorities for the Authority. We also strive to be an example of efficiency in an effort to maintaining cost

competitiveness. It is important to balance operational efficiency in the context of safety and security, and we feel that a calculated approach facilitates that balance best.

4. To pursue excellence:
Excellence comes in many forms, but is most important when it is determined by our clients and stakeholders. From curb to cabin, the Authority has little direct control over the various client touchpoints. That said, we plan to play a bigger role in facilitating the best possible customer service in areas we don't control, and will ensure that the highest standards are maintained in the areas we do.
5. To provide additional flight frequencies and destinations:
The airline industry is very sophisticated when it comes to determining the profitability of routes. The effort to attract new destinations is ongoing, but it doesn't happen overnight. We need to be able to demonstrate strong market evidence and be active in the community to stimulate the market. More air service helps us and it also helps the community by bringing more tourism and business and downstream economic benefit as well.

The foregoing is a mere snapshot of the plan. In reality, it contains pages of objectives, performance measures, baseline measurements, targets and timelines. The plan will be used as a reporting tool that will keep us on track to accomplish some lofty goals. Perhaps as important, we will be reporting on the plan semi-annually so it will keep us accountable to the Board and ultimately to the community.

We plan to communicate the plan to our stakeholders and interested parties. We want there to be transparency in our operations so that when we are required to embark on a construction project, the reasons and plans will be clear. Similarly, if we need to raise a rate or charge, the reason will be understood in the context of the plan.

These Strategic Directions also complement our Organizational Values perfectly. Our values confirm that we will conduct business with responsibility, transparency, accountability, and integrity. By holding true to all of these values as we fulfill on our Strategic Plan, we feel we will be managing and caring for the public trust that is the airport, in the best possible way.

I would like to thank the Board for their support and guidance over the past year. They have been in lock-step with my team throughout the process of redefining how we do business. I appreciate the time and effort they devoted to examining their own committees and activities to ensure that they are structured to best support our priorities.

I would like to say a special thanks to the Authority team, both for welcoming me so warmly, and for taking the time to share their knowledge and experience with me. Change can be a challenge, but this team embraced it and handled it with grace and good cheer.

My final words of thanks are for the community. We're just getting to know each other, but one thing I learned very quickly is that what happens at the airport, regardless of whose responsibility it is, affects how you perceive the airport and the Authority. Going forward, I am going to do everything possible to make sure that you receive the service levels that you have come to expect from our airport. That will mean continuing to work with our partners on the campus, and further afield, to provide a curb to cabin airport experience that is second to none. We're all in it together, and I look forward to hearing how you feel about your experience and the changes we make to serve you better.

In closing, I invite you to have a look at a video we created to tell the story of 2013 and to provide more information about our airport. You can find it on our website at www.ottawa-airport.ca and online at www.youtube.com/flyYOW.

2013 in Review

Introduction

The Ottawa International Airport Authority went through significant change in 2013, most notably, its first change in leadership since the Authority was established in 1997. With a new course mapped out, the Authority continued to gain altitude as it moved through the year, planning for the future when passenger volumes resume their growth, as we approach terminal and gate capacity and as legacy systems reach their end of life and must be replaced.

This document, which accompanies the Authority's first ever Annual Report video, discusses results and provides a glimpse into the future as the Authority tackles some of the most challenging projects it has taken on since the opening of the new terminal in 2003, and which will position us to soar in the future.

Financial

Results for the Authority continued at the same reduced pace that was first experienced in the latter part of 2012, when the business pages were filled with news of economic uncertainty in the United States and the Government of Canada's deficit cutting plans, and when the civil service cuts became a reality. As travellers continued to tighten their fiscal belts, 2013 passenger volumes suffered and came in at just under 4.6 million passengers. This reduction represents a decrease of 2.3% over 2012's figures.

Revenues in 2013 were impacted as a result of fewer passengers, coming in 2% lower at \$104.0 million as compared to \$105.8 million in 2012. The Authority finished 2013 by generating earnings before depreciation of \$24.3 million compared to \$27.6 million in 2012. As always, these earnings will be reinvested in airport operations and development.

Capital Plans

In the 2012 Annual Report, we mentioned completing several capacity studies, both inside the terminal and outside, with a view to working towards detailed expansion plans for the apron and terminal. The new philosophy determined by reduced passenger volumes and through the 2014 strategic planning process has caused us to pause and re-examine our projections for growth. As such, a new "just in time" approach to building will ensure that our current passenger base is not required to pay for excess capacity that would result from building/expanding too soon. We will continue to adjust forecasts in step with real passenger volumes and address any constraints as they present themselves until such a time as we must build/expand.

Governance

The introduction of a new President and Chief Executive Officer for the Airport Authority presented an opportunity to examine the structure and activities of the Board of Directors, and by extension, the priorities of the Authority going forward. Together with the Board and senior management, Mark Laroche undertook a process of self-assessment and prioritization which resulted in a new Mission, Vision and Organizational Values and a streamlined set of Strategic Directions. The priorities, as outlined in the 2014 Strategic Plan, will determine the course of action of the Authority for the next several years, and will be reported on regularly. Because they address near, medium and long-term timelines, they will be reviewed and updated on an annual basis, as required.

Operations

Safety permeates every aspect of airport operations. Whether reconstructing the runways or keeping them clean and clear in the winter months, every effort is directed at ensuring a safe environment for passengers, employees and aircraft. The following project highlights speak to our continuing goal of being leaders in airport safety.

Runway Grooving

The Ottawa International Airport Authority became the first major airport in Canada to groove a runway, and consequently take its safety standard to international levels.

As reported last year, Runway 07/25, the airport's 8,000 foot runway was completely reconstructed, including resurfacing, realignment of the runway crown, installation of new runway edge lighting, replacement of electrical wiring and NavCANADA's Instrument Landing System (ILS), and the creation of new Runway End Safety Areas (RESAs). Prior to the reconstruction, the runway met Transport Canada's standards and reconstruction brought the runway's standards in line with both the International Civil Aviation Organization (ICAO) and the United States Federal Aviation Authority (FAA). The final phase of the project, runway grooving, was completed in August.

Grooving is a proven and effective technique for improving drainage and providing increased runway friction. It involves saw cuts in the asphalt that are 6 mm deep by 6 mm wide and 38 mm apart, perpendicular to the runway centerline and over the entire length of the runway. Grooving is common practice in the United States however, it has not been adopted at major airports in Canada, nor is it a requirement of Transport Canada, the airport's regulator. The Authority is very proud to be leading the way to help make grooving the new standard in Canada.

AAAE Balchen/Post Award

The Authority's "Snow Team" was chosen as the 2012-2013 recipients of the Balchen/Post award for outstanding achievement

in airport snow and ice control for a medium size commercial airport (100,000-200,000 scheduled operations/movements annually). This award is presented by the International Aviation Snow Symposium and is sponsored by the Northeast Chapter of the American Association of Airport Executives. The purpose of the award is two-fold: to promote better snow and ice control; and to recognize those individuals who are responsible for outstanding performance.

De-icing Pad Upgrade

The de-icing pad was upgraded to increase capacity, improve operations and safety and to renew components that had reached end of life. This work was completed in the fall, prior to the 2013/2014 winter operation season. The pad area was expanded to allow for the simultaneous de-icing of four "Code C" aircraft such as the 737 or A319. Previously, the pad could handle two Code C aircraft. Design for the new pad was completed by Stantec Engineering and included new inset lighting to guide aircraft maneuvering on the pad, the addition of new pole lighting to improve visibility for both pilots and de-icing operators and new safety areas between the aircraft for the de-icing trucks. The asphalt surface was replaced and drainage was improved. Construction was completed by R. W. Tomlinson who was awarded the contract through a competitive tender.

Runway 14/32

In late 2012, the Board of Directors gave its approval to complete the design of a full upgrade to our second major runway. The design is now nearing completion construction and is set to proceed in the summer of 2014. The design for the upgrade to Runway 14/32 is being completed by WSP Group (formerly Genivar) and includes expanded Runway End Safety Areas (RESAs), realignment of the runway crown to improve surface drainage, new storm water sewer upgrades, new runway edge lighting and the re-alignment of two adjoining taxiways to improve efficiency. When complete, the runway will meet or exceed Transport Canada standards and recommendations, and will bring the runway in line with both ICAO and FAA standards, as was done with Runway 07/25 in 2012.

Again, similar to Runway 07/25, following a curing period for the asphalt, the runway will also be grooved to improve drainage and significantly reduce the risk of hydroplaning in high rain events. This final phase of the project is planned for the summer of 2015.

Inside the terminal, the Authority aims to provide efficient services in a safe environment. The following project highlights discuss improved service and enhanced security.

Baggage System Upgrade

Work continued on the major project to upgrade the baggage handling system. The scope includes a doubling of capacity of both the domestic/international and transborder outbound systems, including screening provided by Canadian Air Transport Security Authority (CATSA) and the addition of a new inbound domestic baggage carousel in the arrivals hall. 2013 was a year of design development, equipment manufacturing and "enabling works".

The contract for the design and supply of the new system was awarded to Beumer Group. The new system is a highly energy efficient, modular system that will draw no additional electricity, in spite of the significant increase in capacity and capability. Enabling works, required to create space for new baggage equipment within the terminal, were completed in 2013. This work included the construction of a new maintenance building for the Authority and two new buildings to support air carrier operations. The new equipment has started to arrive on site and installation will be done in phases with ultimate completion scheduled for 2015.

Canine Unit

Effective security is as much about what you can't see as what you can. In that spirit, one very visible piece of the security program is the airport's Canine Unit. In June 2013, the team grew with the addition of Bak and his handler, Russell Fox. Bak and his canine friends, Benny and Samson, are first responders to investigate unattended items and they complete regular foot patrols throughout the terminal and parkade buildings.

Summary of Amounts Spent in the Ottawa Region (\$ 000)

	2009	2010	2011	2012	2013	Total
Wage bill	\$ 15,628	\$ 16,885	\$ 17,922	\$ 18,605	\$ 20,093	\$ 89,133
Payments in lieu of municipal taxes	4,486	4,560	4,788	4,982	5,048	23,864
Operations costs	21,000	25,000	26,000	27,000	27,000	126,000
Capital costs	12,000	21,000	27,000	24,000	30,000	114,000
	\$ 53,114	\$ 67,445	\$ 75,710	\$ 74,587	\$ 82,141	\$ 352,997

Notes:

Wage bill includes benefits;

Payments in lieu of municipal taxes (PILT) - paid to the City of Ottawa; and

Operations costs do not include rent, PILT, payroll, depreciation and interest expenses.

Airport Watch

Airport Watch, which was officially born in Ottawa in 1999, continues to be an important part of the Authority family. Members have become more integrated in the airport's security program by performing regular patrols of the perimeter, parking lots and in the terminal. In 2013, they logged more than 3,400 volunteer hours.

Government Relations

The Authority recognizes the importance in fostering good relationships with government – whether at the national, provincial or municipal level. To that end, much effort was focused on

activities with the National Capital Commission (NCC) and the City of Ottawa during the year:

Discussions concerning the Greenbelt spanned the entire year, which ultimately resulted in having the airport lands removed from the Greenbelt. As part of this agreement, a Greenbelt link was designated through the airport's southern lands, and an agreement was reached with the NCC concerning a framework for future development on airport lands.

The City of Ottawa's announcement of its new Transportation Master Plan (TMP) in October sparked much feedback from airport users and the general public. The Authority had been working with the

Five-year Review (\$ 000)

	2009	2010	2011	2012	2013
Revenues	\$ 83,798	\$ 89,723	\$ 103,058	\$ 105,845	\$ 104,139
Expenses before depreciation	69,039	72,226	75,167	78,232	79,866
Earnings before depreciation	14,759	17,497	27,891	27,613	24,273
Capital expenditures	12,085	31,816	27,079	24,403	30,390
AIF revenues	27,261	28,254	37,732	39,379	38,370

Five-year Forecast

	Passengers	Annual Growth	Aircraft Movements	Annual Growth	Rent to Transport Canada	Annual Growth
1997	3,046,368	6.6%	67,867		\$ 3,977,000	
1998	3,110,548	2.1%	77,202	13.8%	\$ 5,301,000	33.3%
1999	3,211,607	3.2%	81,808	6.0%	\$ 5,948,000	12.2%
2000	3,434,345	6.9%	78,301	-4.2%	\$ 6,145,000	2.6%
2001	3,391,295	-1.3%	72,630	-7.2%	\$ 8,840,000	43.9%
2002	3,216,886	-5.1%	68,499	-5.7%	\$ 11,005,000	24.5%
2003	3,262,345	1.4%	69,798	1.9%	\$ 11,329,000	2.9%
2004	3,609,885	10.7%	69,626	-0.2%	\$ 11,643,000	2.8%
2005	3,735,433	3.5%	66,146	-5.0%	\$ 12,958,000	11.3%
2006	3,807,756	1.9%	65,396	-1.1%	\$ 12,487,000	-3.6%
2007	4,088,528	7.4%	72,342	10.6%	\$ 11,546,000	-7.5%
2008	4,339,225	6.1%	79,777	2.0%	\$ 10,134,120	-12.2%
2009	4,232,830	-2.5%	81,120	1.7%	\$ 7,310,208	-27.9%
2010	4,473,894	5.7%	86,009	6.0%	\$ 6,118,244	-16.3%
2011	4,624,626	3.4%	90,949	5.7%	\$ 7,341,116	20.0%
2012	4,685,956	1.3%	90,697	-0.3%	\$ 7,592,000	3.4%
2013	4,578,591	-2.3%	83,567	-7.9%	\$ 7,420,000	-2.3%
2014	4,697,315	2.6%	85,078	1.8%	\$ 8,000,000	7.8%
2015	4,827,645	2.8%	87,073	2.3%	\$ 8,500,000	6.3%
2016	4,982,777	3.2%	89,303	2.6%	\$ 8,900,000	4.7%
2017	5,147,333	3.3%	91,519	2.5%	\$ 9,200,000	3.4%
2018	5,313,147	3.2%	93,720	2.4%	\$ 9,500,000	3.3%

Notes:

Federal Government Net Book Value at time of transfer: \$75M

Total rent projected 1997-2017: \$192M

Forecast passenger volumes are as provided by outside consultants.

For financial planning purposes, the Authority forecasts on a more conservative basis.

City prior to the announcement, and we were happy to see that the TMP included the addition of high occupancy vehicle lanes on the Airport Parkway between Brookfield and Hunt Club roads, which will help reduce congestion during peak vehicle traffic periods. After the announcement, we renewed our commitment to seeing an affordable rail solution that includes a link to the airport terminal. Due to these efforts, we were successful in negotiating an agreement with the City to undertake a joint Environmental Assessment for the extension of the O-Train, including service to the airport. We will continue to pursue the needs of the airport, both current and future, to ensure that they are considered as the City proceeds with its plans, and to ensure that the airport's significant contribution to the economic fabric of the region is understood and supported.

Community Engagement

It is vital to the Authority's continued success that we take care of the community we serve. Whether supporting charitable initiatives through Project Clear Skies, hosting the annual Plane Pull Challenge or donating our welcome kiosks to events and groups that are greeting their arriving guests, we strive to play a role in supporting and promoting our region.

Plane Pull Challenge

The 2013 edition of the Plane Pull was the most successful yet, with 29 teams competing for bragging rights and the Plane Pull Cup during an action-packed, family-friendly Saturday at the airport. When the sponsorships, donations and pledges were tallied, the event raised \$80,000 for Project Clear Skies and its charitable partner, the Sens Foundation.

Junior Plane Spotters

We haven't forgotten about our younger passengers. We created a Junior Plane Spotter Program, targeted at kids 3-8 years of age, to entertain and engage them while they travel through the airport during the winter months, especially during the winter break period. Kids were encouraged to visit the ICE Currency kiosk in both the domestic and transborder holdrooms, where they were given a kit containing a pair of airport-branded binoculars, a membership card, and an activity card that encouraged them to "spot" various items in and around the airport. In a short, 6-week period, 2500 kits were distributed. Based on photos posted on Twitter, the binoculars were a hit!

Volunteers

Our Infoguide volunteers continue a longstanding tradition of welcoming the world to Ottawa. They provide invaluable guidance and assistance to arriving passengers 365 days per year. In 2013, they logged 6,960 volunteer hours to the airport.

Human Resources

The Authority has been focused on ensuring that all employees are engaged, motivated, and above all, happy. Recognizing that team members regularly go above and beyond the call of duty, whether assisting passengers, helping each other or finding better ways of doing the day to day, the Human Resources department developed and launched a recognition program called Top Flight.

Top Flight is a peer-driven program that provides all Authority employees with the opportunity to recognize their fellow colleagues in the following categories:

- Customer Service;
- Commitment;
- Safety or Security Consciousness;
- Innovation & Creativity; and
- Teamwork.

Once per quarter, Human Resources features all of the nominees and their stories in an employee newsletter. At the end of the year, all employees vote on the nomination they deem to be the most worthy to determine the recipient of the annual Employees' Choice Award. The inaugural award winner, Shawn Scullion, was recognized at our annual Christmas lunch.

Customer Service

Over the better part of a decade, the Authority has shared yearly news about its Airport Service Quality awards for providing outstanding customer service. We have maintained the enviable position of top three in our categories, and have reached the pinnacle of 1st in North America in our size category of airports that serve 2 to 5 million passengers per year. While we could rest on our laurels and bask in the ranks achieved, we have instead renewed our commitment to improving the actual scores we are awarded with an aim to pleasing our customers again and again. Here are some of the activities to this end.

Parking

The Authority acquired a new parking system from Chantry, a leading service provider of on-line reservations, which will make parking at the Ottawa Airport stress-free and convenient. This solution for advanced booking of parking and other travel related products will allow the Authority to position its parking offering on-line, where today's consumers are planning their journey and booking their travel arrangements. In addition to this streamlined and convenient booking process, the Chantry system will also enable the Authority to be more flexible with its pricing policy and to offer strategic discounts and special offers to its customers throughout certain times of the year. Development work and system testing was completed in 2013, and the service will go live early in 2014.

To aid our customers who have used any of our parking lots, new Pay on Foot parking pay stations were installed, including additional units and replacement units. Replacement technology was required to accommodate the new polymer bills that are in circulation in Canada.

Information Technology

In response to growing demand, and an increasing airline shift towards self-ticketing and self-bag tagging, the Authority deployed five new self-serve kiosks in departures. These kiosks processed a total of 879,012 transactions during the year: 1,051,096 tickets were processed; and 423,868 bag tags were printed.

The demand for free Wi-Fi is growing significantly, and has become a customer service expectation in food and beverage establishments and especially in airports. It is no surprise, then, that demands on the system required several upgrades to available bandwidth. In 2013, there were 3,120,399 unique page views and 764,422 unique visitors who enjoyed their wait time in the airport courtesy of our free Wi-Fi service. If we contrast that figure with the fact that *ottawa-airport.ca* had 1.2 million unique visitors, it is easy to understand why websites are increasingly catering to a mobile audience.

Official Languages Training

In September 2013, our master food and beverage concessionaire, HMS Host, took advantage of the retail-specific language training offered by the French-language business association, Regroupement des gens d'affaires (RGA). Through these low-cost courses, which

included on-site instruction for small group sessions, HMS Host was able to provide basic training to over 120 front-line employees and managers.

Electronic System Travel Authorization (ESTA)

International visitors, who require completed ESTA application forms to travel from Canada to the US, can now make use of a special computer that was installed after we learned that many passengers were not aware of the requirement until presenting themselves at the transborder check-in counters.

U.S. Customs and Border Protection Hours of Operation

The airport enjoys several peak periods throughout the day, with the most significant one happening at start-up. With many flights leaving at 6 am, it is critical that passengers get checked-in, through pre-board screening and through U.S. preclearance. Discrepancy in CATSA's start-up hours versus U.S. Customs and Border Protection (U.S. CBP) posed a challenge. After considerable discussion and an impressive level of cooperation, U.S. CBP announced in the fall that it would adjust its hours to ensure that passenger and airline needs would be met for the morning peak.

To further improve the transborder travel experience, new signage has been installed to direct passengers accordingly.

Baggage

The memories of a wonderful vacation can be erased very quickly if arriving passengers are required to wait for an extended period of time for their luggage. To monitor baggage issues, and follow-up as needed,

Passenger Growth by Sector

	Domestic	%	Transborder	%	International	%	Total	%
actual	1996	2,223,941		529,602		104,295	2,857,838	
	1997	2,435,534	9.51%	502,072	-5.20%	108,762	3,046,368	6.60%
	1998	2,414,355	-0.87%	563,085	12.15%	133,108	3,110,548	2.11%
	1999	2,426,288	0.49%	628,203	11.56%	157,116	3,211,607	3.25%
	2000	2,562,282	5.61%	719,200	14.49%	152,863	3,434,345	6.94%
	2001	2,625,630	2.47%	618,694	-13.97%	146,971	3,391,295	-1.25%
	2002	2,445,770	-6.85%	600,365	-2.96%	170,751	3,216,886	-5.14%
	2003	2,491,691	1.88%	588,088	-2.04%	182,566	3,262,345	1.41%
	2004	2,736,779	9.84%	641,157	9.02%	231,949	3,609,885	10.65%
	2005	2,779,895	1.58%	719,150	12.16%	236,388	3,735,433	3.48%
	2006	2,807,377	0.99%	735,753	2.31%	264,626	3,807,756	1.94%
	2007	3,052,813	8.74%	746,435	1.45%	289,280	4,088,528	7.37%
	2008	3,255,540	6.64%	740,369	-0.81%	343,315	4,339,225	6.13%
	2009	3,141,812	-3.49%	682,822	-7.77%	408,196	4,232,830	-2.45%
	2010	3,303,170	5.14%	725,781	6.29%	444,943	4,473,894	5.70%
	2011	3,429,310	3.82%	750,486	3.40%	444,830	4,624,626	3.37%
2012	3,454,387	0.73%	775,040	3.27%	456,529	4,685,956	1.33%	
2013	3,363,685	-2.63%	772,678	-0.30%	442,228	4,578,591	-2.29%	
forecast	2014	3,451,009	2.60%	792,733	2.60%	453,572	4,697,315	2.59%
	2015	3,538,037	2.52%	818,802	3.29%	470,805	4,827,645	2.77%
	2020	4,070,220	2.70%	975,722	3.19%	597,419	5,643,361	2.98%
	2025	4,576,198	2.27%	1,135,763	2.98%	742,746	6,454,708	2.61%
	2030	5,108,747	2.15%	1,307,923	2.65%	905,565	7,322,235	2.44%

Total Nonstop Destinations

1997	20
1998	21
1999	25
2000	26
2001	29
2002	30
2003	32
2004	25
2005	39
2006	44
2007	49
2008	49
2009	49
2010	50
2011	49
2012	49
2013	49

Aircraft Movements

1997	68,000
1998	77,202
1999	81,808
2000	78,301
2001	72,630
2002	68,499
2003	69,798
2004	69,626
2005	66,146
2006	65,396
2007	72,342
2008	79,777
2009	81,120
2010	86,009
2011	90,949
2012	90,697
2013	83,567

in this regard like the Airport Service Quality survey that a cross-section of our departing passengers completes each quarter. The survey scores the airport on 36 areas of the travel process, including cleanliness of the terminal, speed of processing through the various checkpoints, value for money in our food and beverage outlets, and overall ambiance.

We are very pleased to report that in 2013, we maintained our 2nd place finish in North America and 3rd place worldwide in the two to five million passenger per year category. Our heartfelt thanks to everyone who contributed to our continued customer satisfaction success!

Air Service Development

Efforts to attract new destinations and increased frequencies to the Ottawa offering are constant. Despite the overall decline in demand in 2013, the air service development efforts paid off with new First Air service to Iqaluit and WestJet service to Fort Myers. Plans were also confirmed with Sunwing Airlines for a new destination, Grand Bahama, for 2014, and we were happy to welcome a new airline, Air North, that launched service to Whitehorse in February. WestJet also announced new service to St. John's, beginning in summer 2014.

Daily Nonstop Flights

	Domestic	Transborder	International (Weekly)
1997	82	21	3
1998	88	23	6
1999	101	39	7
2000	93	43	7
2001	84	30	7
2002	80	35	8
2003	81	35	7
2004	71	35	7
2005	60	32	9
2006	60	29	9
2007	70	31	11
2008	77	32	13
2009	80	29	14
2010	86	30	17
2011	93	30	22
2012	91	31	25
2013	84	27	22

Origin and Destination

91% of traffic (estimated)

the Authority implemented a special email address where passengers can identify problem flights where corrective action is required.

Airport Service Quality (ASQ) Program

The Authority strives to provide each and every client with an excellent travel experience. Nothing lets us know how we're doing

Commercial Development

Hilton Garden Inn

The Hilton Garden Inn, which originally opened in August 2007 with 167 guest rooms, embarked on an expansion in 2013 which will add an additional 128 guest rooms. This necessitated the lease by the hotel's developer, BONA Building and Management Corp., of an additional 5,140 m² (1.27 acres) of land from the Authority. Construction is due to be completed by June 2014.

Food, Beverage and Retail

The Authority has successfully negotiated a multi-year extension of the existing master retail concession agreement with LS travel retail, which included new capital investment and several new brand offerings. The first of these new brands, the iStore Boutique, opened in October 2013. The Authority also concluded an extension of the duty-free concession agreement with Aer Rianta International, and reached the final stages of negotiation for the extension of the master food and beverage concession agreement with HMS Host. The extended food and beverage contract will see several new brands as well as updated food offerings in the existing restaurants.

On-airport Development

The Authority's land tenant First Capital Realty added approximately one acre of expansion parking space at the Hunt Club Marketplace (T&T Plaza) to support their new Dollarama store, and made significant progress on the construction of their St. Hubert Express restaurant on Riverside Drive. The Authority held

significant discussions with potential development partners regarding future airside and groundside projects in the Limebank North and North Field employment areas.

Boutique iStore

In keeping with our commitment to bring the products and service that our customers want into the retail mix, the Authority was pleased to open a new iStore in the domestic/international holdroom. The store builds on the retail success of two iStore kiosks that opened over the past two years, and offers an impressive array of brands such as Apple, Bose, Monster Beats and Sony along with its own branded devices and accessories.

To support increased development on airport lands, changes were required to improve access and upgrade infrastructure service and capacity.

Paul Benoit Driveway

A much needed resurfacing of Paul Benoit Driveway (formerly Canadair Private), including new asphalt, curbs, sidewalks and grading, was completed in the fall. This secondary access road to the airport was at end of life. In addition to the resurfacing, the sanitary sewer system was also renewed and upgraded to increase the sanitary capacity for the airport by roughly 30%. A hydro service upgrade is also well underway and will be completed in early 2014. This upgrade was required to replace a roughly 50-year old 8kV service with a new 27kV service that will provide improved reliability and new capacity for existing tenants as well as any future growth on the lands in this area of the airport. Design was completed by J. L. Richards and Associates and civil construction was completed by R. W. Tomlinson. The hydro upgrade is being completed by Hydro Ottawa.

Environment

In 2011, the sluice gate at the Storm Water Management facility that was constructed by Transport Canada in 1988 became blocked. The water level rose to a level that jeopardized the integrity of Lester Road, and the change in water level became a bird attractant. Birds are a safety hazard due to the risk of bird strikes.

With safety and water quality in mind, the Authority decided to re-instate the facility to its original condition. In 2013, the ditch was realigned to eliminate the 90° bend in the channel to reduce both erosion and the suspended solids that were caused by the erosion. The banks were lined with erosion control mats and shrubs were planted to produce shade and control water temperature. This work was completed with approval of the Rideau Valley Conservation Authority, the Ontario Ministry of the Environment, The Ontario Ministry of Natural Resources, the City of Ottawa, the National Research Council and the NCC.

The civil work (ditch realignment) was completed in 2013 and the electrical work (installation of equipment that will open and close the sluice gate) will be completed early 2014.

Wrapping it all up

One event in 2013 brought representatives from almost every department in the Authority and many from across the campus together to respond when a severe storm hit Toronto on July 8, 2013 and resulted in dozens of diverted aircraft that carried passengers from around the world.

Initially, the aircraft were diverted under a typical “gas and go” premise, with aircraft waiting to be accepted in Toronto on a priority basis, once the storms had passed. As the storms in Toronto extended and more diverted flights were directed to Ottawa, we began advising concessionaires and agencies of the situation and airport employees began reporting in to lend a hand with apron management activities and customer care.

Several diverted aircraft cancelled their flights and offloaded their passengers in Ottawa. As hotel rooms became increasingly difficult to find, passengers from a Cathay Pacific flight from Hong Kong, were mostly left to spend the night in the terminal. As a result, the airport made the decision to deploy emergency supplies, including cots and blankets that are available to us through a mutual aid agreement with the Canadian Red Cross. Under the agreement, we store these supplies for the Red Cross at the airport at no charge and we have access to them if we need them. Following the event, the cots and blankets were cleaned, sterilized and repackaged. In addition to the Red Cross supplies, over 1200 water bottles were also distributed through the course of the evening and various infant and baby supplies were made available to the stranded passengers.

In all, the airport handled 24 diversions, with nine of the flights requiring terminal access and 1470 diverted passengers transiting through the terminal, over and above our regularly scheduled traffic, with roughly 400 plus passengers spending the night in the airport.

Breaking it down, the following represents the impact during the course of one night when nearly every gate was already occupied with our regularly scheduled operation:

- 24 diverted aircraft (approximately 7,700 passengers);
- many of our flights to Toronto Pearson and Toronto Billy Bishop Airport were delayed and/or cancelled;
- nine diverted flights (1,470 passengers in all) required terminal access, including three international flights that required Canada Customs processing;
- 15 diverted flights departed;
- 250 cots were assembled and deployed in the terminal;
- hundreds of hotel reservations were made for customers;
- hundreds of bottles of water distributed; and
- countless meal vouchers were distributed.

The effort to accommodate the diversions required a true team effort including involvement from the following organizations:

- Air Canada
- Airport Authority
- BeeClean
- Canada Border Services Agency
- Canadian Air Transport Security Authority
- Canadian Corps of Commissionaires
- Car Rental Companies (Airport)
- Garda
- Impark
- OC Transpo
- Ottawa Police Service
- PLH
- Servisair
- WestJet
- WestWay Taxi

Our thanks to everyone who was so kind to our unexpected guests; whether offering a bottle of water, allowing a passenger to use a cell phone or assembling a cot, every effort was appreciated.

Thanks also to members of the community who reached out to the Authority after the event to offer their assistance and even their homes to receive displaced passengers.

The patience and understanding of the passengers, especially those who travelled on Cathay Pacific, were remarkable; they deplaned into unfamiliar surroundings and reacted to their overnight accommodations with grace and a sense of appreciation for the assistance they received.

This is what community is all about!

Corporate Governance, Accountability and Transparency

The Ottawa International Airport Authority’s mission is to work with its partners to be a leader in providing safe, secure, sustainable and affordable transportation facilities and services to the airport’s customers and communities within the National Capital Region.

The Board of Directors

The adoption of the National Airports Policy in 1994 resulted in the creation of local airport authorities across the country. These authorities were first created with community-appointed Boards of Directors which were tasked with overseeing the management of their local facility.

The Ottawa International Airport Authority’s Board of Directors follows these guidelines, which are included in the Authority’s by-laws:

- includes professional representation nominated by all three levels of government as well as community and business organizations;
- Directors shall not be elected officials or government employees;
- each Director has a fiduciary duty to the Airport Authority;
- meets 8 to 10 times during the year;
- views its principal responsibility as overseeing the conduct of the business and supervising management to ensure that long-term goals and strategies are met; and
- must meet Conflict of Interest rules; adhere to the Code of Business Conduct, and the Public Accountability Principles.

Each Director has filed a conflict of interest declaration for 2013, as required by the Authority’s by-laws. Furthermore, all Directors are in compliance with the conflict of interest and code of conduct guidelines noted above.

Revised By-laws

The Authority established by-laws at incorporation in 1995, which were first amended in 2003 and further amended in 2010. Under the current by-laws the selecting bodies that provide nominees to the 14-member Board are as follows:

Selecting Bodies	Number of Directors nominated
Minister of Transport (Government of Canada)	2
Government of the Province of Ontario	1
City of Ottawa	2
City of Gatineau	1
Ottawa Chamber of Commerce	1
Ottawa Tourism	1
Chambre de commerce de Gatineau	1
Invest Ottawa	1
Ottawa Macdonald-Cartier International Airport Authority (at large)	4
TOTAL	14









Under the by-laws revised in 2010, the Air Transport Association of Canada (ATAC) ceased to be a selecting body. In 2013, at the end of the term of ATAC’s nominee, this Board seat became an “at large” position.

A Director's term of office is a maximum of three years, and each Director may serve up to three terms, thereby allowing a Director to serve a maximum of nine years. Amendments to the by-laws in 2010 permit one director to extend his maximum term by one year.

The qualifications required of a Director are included in the by-laws. Collectively, the Directors shall have experience in the fields of law, engineering, accounting and management, and air carrier management. In addition, the by-laws include restrictions to eliminate possible conflicts of interest arising from relationships

with selecting bodies, thereby ensuring the independence of Directors and reinforcing their fiduciary responsibilities to the Authority. The Governance Committee has the power to ensure that the selecting bodies provide candidates for nomination to the Board having the skills and expertise necessary for the Board as a whole to carry out its duties.

The following represents the composition of the Board of Directors as at December 31, 2013.

Director	Name and Position	Occupation	Selecting Body and Year Appointed
	Gilles Lalonde Chairman of the Board Chair, Executive Committee Chair, Governance, Human Resources & Compensation Committee	President and CEO, Provance Technologies Inc.	Ville de Gatineau 2008
	Patrick Kelly ^{(1) (2) (3)} Vice-Chair	President, Ottawa Convention Centre	Ottawa Tourism 2007
	Janice Traversy ⁽⁴⁾ Chair, Audit Committee	Retired	At Large 2013
	Ron Clifton ⁽³⁾ Chair, Major Infrastructure and Environment Committee	President, Clifton Group International Limited	Invest Ottawa 2007
	Craig Bater ⁽⁴⁾	Partner, Augustine, Bater & Binks LLP	Ottawa Chamber of Commerce 2012
	Thom Bennett ⁽¹⁾	President, Bennett Insurance Agency Limited	Minister of Transport (Government of Canada) 2012
	John Boyd ^{(1) (3)}	Partner, Professionals for Independent Planning	Province of Ontario 2010
	Chris Carruthers ⁽⁴⁾	Retired MD, Health Care Consultant	At large 2010

Director	Name and Position	Occupation	Selecting Body and Year Appointed
	Scott Eaton ⁽⁴⁾	Business Lawyer	At Large 2013
	Barbara Farber ^{(2) (3)}	President, Leikin Group Inc.	City of Ottawa 2010 At Large 2007
	Brendan McGuinty ^{(2) (3)}	President, Strategies 360 Inc.	City of Ottawa 2011
	Jacques Sauvé ⁽⁴⁾	Consulting Engineer	At Large 2012
	Susan St. Amand ⁽⁴⁾	President, Sirius Financial Services	Minister of Transport (Government of Canada) 2012
	Vacant Board position		Chambre de Commerce de Gatineau

- (1) Member of Audit Committee
(2) Member of Executive Committee
(3) Member of Governance, Human Resources & Compensation Committee
(4) Member of Major Infrastructure and Environment Committee

Board Member	Board Meetings Attended	Committee Meetings Attended while member of a Committee
Craig Bater	8 out of 9	5 out of 7
Thom Bennett	9 out of 9	3 out of 4
John Boyd	8 out of 9	9 out of 9
Chris Carruthers	8 out of 9	4 out of 5
Ron Clifton	7 out of 9	9 out of 9
Scott Eaton (note 1)	6 out of 7	3 out of 4
Barbara Farber	8 out of 9	7 out of 7
Pat Kelly	8 out of 9	11 out of 12
Gilles Lalonde	8 out of 9	18 out of 20
Brendan McGuinty	9 out of 9	9 out of 9
Jacques Sauvé	9 out of 9	6 out of 7
Susan St. Amand	9 out of 9	7 out of 7
Michael Skrobica (note 2)	3 out of 3	4 out of 4
Janice Traversy (note 1)	7 out of 7	6 out of 6
J. Peter Vice (note 2)	3 out of 3	5 out of 5
Philippe Marion (note 3)	5 out of 5	4 out of 4

Note 1 - new board member effective April 24, 2013

Note 2 - term ended on April 24, 2013

Note 3 - resigned effective August 27, 2013

Directors' Compensation in 2013

Annual Retainer	Chair	\$ 45,000
	Vice-Chair	\$ 15,000
	Committee Chairs	\$ 20,000
	All other Directors	\$ 12,000
Per meeting fee	\$ 550 per meeting	
	\$ 200 per teleconference	

Committees of the Board

Following is a list of Committees of the Board and the mandate of each:

Executive Committee

- annual review and assessment of the performance of the President;
- review the Annual Report as prepared by the President;
- recommend Directors for the Governance, Human Resources & Compensation Committee;
- recommend chairs of committees;
- review the Authority's commitment to corporate social responsibility; and
- oversee risk management.

Major Infrastructure and Environment Committee

- oversee the development and progress of major construction projects; and
- oversee the environmental program.

Audit Committee

- review matters relating to the appointment of external auditors, including fees, and recommend to the members the appointment of the external auditors. The external auditors report to the Audit Committee.
- annually review with the external auditors and management matters relating to conduct of the annual audit and any recommendations of the auditors regarding internal controls;
- annual review of proposed fiscal operating and capital budgets for recommendation to and approval by the Board;
- review the annual audited financial statements of the Authority for recommendation to and approval by the Board;
- review and approve quarterly financial statements of the Authority; and
- review matters having a material financial impact on the Authority, including financing requirements and options, and recommendation to the Board.

Governance, Human Resources & Compensation Committee

- establish the nomination procedures, the skill sets required for nominees and the length of term of selected nominees;
- evaluate nominees and report to the Board;
- review succession plans and provide advice on development and career planning for potential successors;
- recommend the remuneration plan to the Board;
- review the results of the tri-annual employee satisfaction survey;
- annual review of Board governance and compensation;
- oversee the application of Conflict of Interest rules to Board members and nominees;
- evaluate the performance of the Board and individual Directors;
- evaluate the communications flow between the Board and management;
- review the governance section of the Annual Report;
- study and adopt evolving best practices in corporate governance; and
- recommend to the Board the hiring of external advisors by individual Board members and establish circumstances when it is appropriate or inappropriate to do so.

Other ad-hoc committees may be formed from time to time that include members of the Board of Directors.

Accountability

The Authority's policy is to be accountable to the community and transparent in relations with business and customers. The Authority's mandate, as set out in its Letters Patent, establishes a

standard against which its performance can be measured.

The mandate of the Authority is:

- to manage, operate and develop the Ottawa International Airport, which is leased to the Authority by Transport Canada, and any other airport in the National Capital Region for which the Authority becomes responsible, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;
- to undertake and promote the development of airport lands, for which it is responsible, for uses that are compatible with air transportation activities; and
- to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

The Authority accounts for its actions to the community in a number of ways:

- by publishing an Annual Report;
- by hosting an Annual Public Meeting;
- by hosting an annual meeting with selecting bodies;
- by establishing and/or reporting to the following consultation committees:
 - Airport Noise Committee
 - Airline Consultative Committee
 - Airport Operators Committee
 - Community Consultative Committee
 - Airside Safety Committee;
- through meetings and/or consultations with local city officials;
- through extensive public consultations on the periodic renewal of the Airport Master Plan, which was updated in 1998 and again in early 2008, and the Land Use Plan, which was last updated in 2008, and approved by the Minister of Transport in 2009; and
- by maintaining a corporate website at www.ottawa-airport.ca.

In addition, a performance review must be conducted at least once every five years, in keeping with the Authority's Ground Lease with Transport Canada. This performance review was last completed in April 2012.

Transparency

Procurement and contracting

The Authority is transparent in its procurement practices. The Public Accountability Principles for Canadian Airport Authorities and the Authority's Ground Lease require that all contracts for the procurement of goods, services, and construction services with a value in excess of \$107,800 (\$75,000 in 1994 dollars adjusted for CPI), must be awarded through a competitive public tendering process, or be disclosed in the Authority's Annual Report together with the reasons why they were not awarded through a public competitive process.

Contracts in excess of \$107,800 that were not awarded on the basis of a public competitive process during 2013:

Contractor	Contract Description	Reason for Sole Source
IBM Corp.	\$147,125 Purchase of self-service kiosks	See A below
Chantry Corporation	\$300,000 Parking reservation system	See B below
Eagle Airfield	\$606,320 Purchase Claas multi-tool carrier	See C below
Carrier	\$130,000 Chiller maintenance and repairs	See D below
EMC Corporation of Canada	\$390,866 Data storage for PCI DSS, BHS, and IT equipment upgrade	See A and B below

A – Single source to ensure integration and functionality with existing systems and equipment originally purchased following a public competitive process.

B – Single source – specialized proprietary equipment available from only one supplier

C – Single source – exclusive Canadian dealer for this equipment. This equipment maintains a standard fleet of equipment to achieve operational efficiency.

D – Single source of service and maintenance of equipment originally purchased following a public competitive process.

Executive Management Salary Ranges

The base salary range for the President of the Authority in 2013 was between \$220,000 and \$300,000. The base salary range for each of the Vice Presidents in 2013 was between \$120,000 and \$220,000.

In addition, under the management incentive plan, the President and the Vice Presidents receive appropriate incentive payments based on achieving targets/objectives that are approved by the Board at the beginning of each year.

Fees and Charges

The Authority provides 60 days advance notice in local news media for all changes in user charges (excluding rent), together with an explanation for the noted increase. This includes parking rates, aeronautical fees charged to air carriers, and airport improvement fees (AIF).

While the Authority's goal is to keep the aeronautical fees it charges air carriers constant, it has been necessary to adjust these fees on a few occasions. The Authority's process for adjusting aeronautical fees and charges includes:

- prior to any change, consulting with air carriers through the Airline Consultative Committee, with necessary explanations and calculations showing how these fees were determined, at least 90 days in advance of the effective date of the change; and
- providing 60 days notice of the increase in fees to the airlines.

The Authority publicizes the reason for imposing an AIF, or for making changes to the fee. It last did this when it announced on December 14, 2013 that it is increasing its fee to \$23 effective on March 1, 2014. The purpose of the existing AIF is to pay for the construction of and the debt associated with the Airport Authority's major infrastructure construction programs.

The process for adjusting AIFs is similar to the process for adjusting aeronautical fees and charges, including public notice in the local news media.

Public Access to Documents

In accordance with Public Accountability Principles for Canadian Airport Authorities, the Ottawa Airport Authority makes available by appointment the following documents for examination, at no charge, during its usual business hours:

- the current Airport Master Plan;
- a summary of the Authority's current business and strategic plans;
- the most recent and the previous annual financial statements of the Authority, with the accompanying auditors reports (included in each year's Annual Report);
- its five most recent annual reports, each of which includes a general summary of the Authority's affairs during the previous fiscal year;
- summaries of the Authority's five most recent business plans;
- the Authority's Articles of Incorporation (its letters patent) and by-laws, including any amendments;
- all signed airport transfer agreements; and
- a summary of the Authority's Five-year Performance Review document.

Contacting the Authority

There are a number of methods available to the public to contact and provide input to the Authority:

- submit questions, comments or concerns through the Authority's website www.ottawa-airport.ca;
- complete a customer comment card which is available at both of the airport's information kiosks;
- call the general inquiries lines at 613-248-2125 or 613-248-2141;
- call the noise information line at 613-248-2023;
- call or write to individual Airport Authority departments at the following address:
Suite 2500, 1000 Airport Parkway Private,
Ottawa, ON Canada K1V 9B4;
- fax questions, comments or concerns to 613-248-2068;
- twitter.com/flyyow; and
- facebook.com/flyyow.

In addition, the Authority conducts quarterly customer satisfaction surveys in the terminal building.

The Authority's policy is to respond to all questions, comments and concerns as expeditiously as possible.

2013 FINANCIAL REVIEW

This Financial Review reports on the results and financial position of the Ottawa International Airport Authority (the Authority) for its year ended December 31, 2013. This review should be read in conjunction with the audited financial statements and related notes of the Authority. This review contains forward-looking statements, including statements regarding the business and anticipated financial performance of the Authority. These statements are subject to a number of risks and uncertainties that will cause actual results to differ from those contemplated in the forward-looking statements.

Overall Performance

Earnings before depreciation for the year ended December 31, 2013 were \$24.3 million compared to \$27.6 million for the year ended December 31, 2012.

The Authority recorded depreciation of \$23.0 million in 2013 compared to \$22.3 million in 2012, reflecting depreciation of the terminal building and related facilities over their estimated economic lives. After subtracting depreciation, the Authority generated net earnings of \$1.3 million in 2013 compared to \$5.3 million in 2012.

The Authority's net operating results for the three years ended December 31, 2013 are summarized as follows:

(\$ in millions)	2013	2012	2011
Revenues	\$ 104.1	\$ 105.8	\$ 103.1
Expenses before depreciation	79.8	78.2	75.2
Earnings before depreciation	24.3	27.6	27.9
Depreciation	23.0	22.3	22.2
Net earnings	\$ 1.3	\$ 5.3	\$ 5.7
Total assets	\$ 425.3	\$ 417.3	\$ 414.0
Total long-term debt	\$ 340.3	\$ 342.7	\$ 344.8

Results of Operations

Operating Activities

During 2013, the Ottawa Airport saw passenger volumes decline by 2.3% from 2012 volumes. The slowdown in passenger volumes started in May 2012, when previously strong year-over-year growth in monthly volumes flattened and, by September 2012, growth turned negative. Accordingly, the change in volumes in the last half of 2013 as compared to the last half of 2012 has not been

as large. A total of 4,578,591 enplaned and deplaned passengers moved through the airport in 2013 as compared to 4,685,956 passengers in 2012.

	2013	2012	2011	% change – 2013 versus	
				2012	2011
Domestic	3,363,685	3,454,387	3,429,310	(2.6%)	(1.9%)
Transborder	772,678	775,040	750,486	(0.3%)	(3.0%)
International	442,228	456,529	444,830	(3.1%)	(0.6%)
Total	4,578,591	4,685,956	4,624,626	(2.3%)	(1.0%)

Passenger volumes between Ottawa and domestic locations were 2.6% lower in 2013 than in 2012. All domestic carriers saw domestic volumes decrease in 2013. During the first half of the year, Ottawa Airport experienced greater decreases from the first half of 2012 when passenger volume growth was unusually high. Passenger volumes between Ottawa and domestic locations were 6.2% and 4.3% lower in the first and second quarters respectively than in the first and second quarters of 2012. In the second half of 2013, passenger volumes began to rebound and by the fourth quarter domestic passenger volumes were slightly higher than in the fourth quarter of 2012. The slowdown that occurred in the first half of 2013 reflected the persistently sluggish economic growth reported in Canada, but more specifically, local conditions in Ottawa where the threat of government job cuts and other cost cutting impacted travel plans.

Porter's promotional pricing strategy continued to stimulate some demand, especially during off-peak times, with other airlines competing to match this pricing. However this demand eased as economic fears took hold and travellers curtailed their travel plans. Service to Toronto Billy Bishop Airport continued to be a popular option for accessing Toronto, particularly for business travellers, but also for leisure travellers taking advantage of off-peak promotional pricing.

Transborder volumes were 0.3% lower than in 2012. Canadian vacationers continued to take advantage of favourable Canadian-US exchange rates and more attractive vacation deals in the U.S., as they did in 2012. Leisure travel to the U.S. driven by the strong Canadian dollar is believed to have reduced the decrease in transborder traffic that would have otherwise occurred.

With increased passenger volumes to U.S. destinations in lieu of international destinations, international volumes were lower than in 2012 by 3.1%, impacting charter operators to non-U.S. sunshine destinations.

By sector, each quarter of 2013 passenger volumes compared to comparable quarters in 2012 were as follows:

	Domestic	Transborder	International
Q1	Lower by 6.2%	Higher by 0.7%	Lower by 6.7%
Q2	Lower by 4.3%	Higher by 2.0%	Higher by 3.1%
Q3	Lower by 0.7%	Lower by 0.7%	Higher by 0.8%
Q4	Higher by 0.6%	Lower by 3.4%	Lower by 3.3%

By quarter, total passenger volumes were as follows:

	2013	2012	% change
Q1	1,185,870	1,249,065	(5.1%)
Q2	1,128,317	1,160,908	(2.1%)
Q3	1,149,693	1,156,801	(0.6%)
Q4	1,114,711	1,119,182	(0.4%)
Total	4,578,591	4,685,956	(2.3%)

The size (weight) of an aircraft and number of “landed” seats on an aircraft (regardless of whether those seats are occupied by passengers) are the most significant factors in the determination of aeronautical fees charged to airlines. In 2013, the number of landed seats decreased by 5.3% from 2012. The decrease was most pronounced in landed seats to transborder and international destinations with 11.9% and 5.5% decreases respectively. U.S. carriers in particular reduced capacity, partly as a result of consolidation in the US, but filled more seats and achieved higher load factors. In addition, the reductions in capacity serving domestic destinations seen in late 2012 continued through 2013. Air Canada reduced its domestic capacity from 2012 by 4.6%, mainly on routes to Toronto by using smaller aircraft on existing routes. In late 2012, Porter adjusted its frequency between Toronto and Ottawa slightly, in order to provide service to other destinations, while still maintaining convenient service for business travel. WestJet reduced frequencies to Vancouver and non-US sunshine destinations, and increased frequency to Fort Lauderdale in the U.S.

Revenues

Total revenues decreased by 1.6% to \$104.1 million in 2013 compared to \$105.8 million in 2012.

Revenues by category (\$ in thousands)	2013	2012	Change	%
Airport improvement fees	\$ 38,370	\$ 39,379	\$ (1,009)	(3%)
Terminal fees and loading bridge charges	23,738	23,978	(240)	(1%)
Landing fees	11,581	11,542	39	0%
Concessions	9,668	10,052	(384)	(4%)
Car parking	12,409	12,519	(110)	(1%)
Land and space rentals	5,699	5,732	(33)	(1%)
Other revenue	2,674	2,643	31	1%
	<u>\$ 104,139</u>	<u>\$ 105,845</u>	<u>\$ (1,706)</u>	<u>(2%)</u>

Airport improvement fees (AIF) at \$38.4 million in 2013 decreased by 2.6%, from \$39.4 million in 2012. This decrease was commensurate with the decrease in passenger volumes in the year, and minor fluctuations in the percentage of departing passengers originating in Ottawa (versus connecting through Ottawa). Passengers connecting through Ottawa are exempt from the AIF charged by the Authority. An average of approximately 91% of departing passengers originated in Ottawa (versus connected through Ottawa) in 2013. Under an agreement with the airlines, AIFs are collected by the airlines in the

price of a ticket and are paid to airport authorities on an estimated basis, net of airline collection fees of 6%, on the first of the month following the month of enplanement. Final settlement based on actual passenger volumes occurs at the end of the month following the month of enplanement. The Authority has announced an increase in its AIF from \$20 per enplaned passenger to \$23 per enplaned passenger effective for travel starting March 1, 2014.

At \$35.3 million in 2013, total aeronautical revenues, which include terminal fees, loading bridge charges and landing fees charged to air carriers, were 0.6% lower than revenues of \$35.5 million in 2012. The decrease reflects a 3.0% increase in landing fee and general terminal fee rates (February 1, 2013) that is offset by the impact of a 5.3% decrease in seat volumes in the year and minor changes in the fleet mix of aircraft sizes serving Ottawa. As the growth in airline volumes has not kept pace with inflation over the years since transfer, the Authority has increased its aeronautical fee rates by an average increase of 4.5% effective February 1, 2014. Despite these increases, the Authority's average aeronautical fee rates remain among the lowest in Canada.

Concession revenues decreased by 3.8% from \$10.0 million in 2012 to \$9.7 million in 2013 as a result of adjustments to minimum annual guarantees provided under these concession agreements, but also commensurate with decreased passenger volumes impacting concession revenues and the percentage paid by concessions to the Authority. The Authority has negotiated extensions to certain of its concession agreements beyond their November expiry resulting in immediate elimination of minimum annual guarantees from these agreements.

Car parking revenues decreased to \$12.4 million from \$12.5 million in 2012, a decrease of 0.9% that is commensurate with passenger volumes, the changing mix of passengers, and the availability of parking options. Parking revenues are believed to be most impacted by the mix of passengers. Domestic passengers tend to park for shorter periods of time for business purpose day-trips. Leisure travellers, transborder passengers, and international passengers park at the airport for longer periods of time.

Revenues from land and space rentals increased primarily as a result of inflation based adjustments to land lease and exclusive use space rental rates, offset by the loss of rent from one tenant who gave up space to meet the needs of Canada Border Services Agency (CBSA). Under the Authority's lease with the Government of Canada, CBSA is entitled to space at the airport free of charge.

Expenses

Expenses before depreciation increased to \$79.8 million in 2013 from \$78.2 million in 2012. Depreciation increased to \$23.0 million in 2013 from \$22.3 million in 2012. The increase in depreciation reflects depreciation on continuing investment in property, plant and equipment during 2013, including the Authority's investment in airside resurfacing projects in mid-2012.

Expenses by category (\$ in thousands)	2013	2012	Change	%
Interest	\$ 19,635	\$ 19,677	\$ (42)	0%
Ground rent	7,420	7,592	(172)	(2%)
Materials, supplies and services	27,670	27,376	294	1%
Salaries and benefits	20,093	18,605	1,488	8%
Payments in lieu of municipal taxes	5,048	4,982	66	1%
	<u>\$ 79,866</u>	<u>\$ 78,232</u>	<u>\$ 1,634</u>	<u>2%</u>

Interest expense reflected in the statement of operations results from borrowing to invest in the Authority's capital programs. Interest expense has fluctuated by minor amounts due to the Authority's bank borrowing against its credit facilities and repayments of principal on long-term bonds.

Ground rent payable to the Government of Canada decreased by 2.3% to \$7.4 million in 2013 due to lower revenues in 2013. The Authority operates the airport under the terms of a ground lease with the Government of Canada that sets out the formula for calculating annual ground rent. The amount reflected as ground rent expense is estimated based on that formula. The formula calculates rent as a royalty based on a percentage of gross annual revenues on a progressive scale. Ground rent is calculated as a percentage of gross annual revenues as defined in the lease, with no rent payable on the Authority's first \$5 million in annual revenue and an increasing rent percentage payable as revenue increases, on a cumulative basis. Rent is levied at a maximum 12% rate on annual revenues in excess of \$250 million as follows:

Gross revenues	Rent payable	Cumulative maximum ground rent
On the first \$5 million of revenues	0%	\$0
On the next \$5 million	1%	\$50 thousand
On the next \$15 million	5%	\$800 thousand
On the next \$75 million	8%	\$6,800 thousand
On the next \$150 million	10%	\$21,800 thousand
On revenues over \$250 million	12%	

Based on the Authority's projections, estimated ground rent payments under the ground lease for the next five years are as follows:

2014	\$8.0 million
2015	\$8.5 million
2016	\$8.9 million
2017	\$9.2 million
2018	\$9.5 million

The cost of materials, supplies and services increased from \$27.4 million in 2012 to \$27.7 million in 2013, an increase of 1.1%. The increase was primarily due to the additional costs of airfield materials and equipment rentals required as a result of freezing rain and snow events in January, April, and December 2013.

These events occurred more frequently than in 2012. In 2013 Ottawa experienced total accumulated snow fall of 216 cm, well above 2012 total snowfall of 139 cm. The 20 year average for Ottawa is 235 cm. The cost of materials, supplies and services also increased due to contracted rate increases for third party services including policing, security, building cleaning, and other outsourced services, but also due to the increased costs of fuel and utilities. To partially offset these increases, out of concern driven by weakened revenues, management implemented cost containment and cost deferral measures by deferring certain non-critical expenses.

The cost of salaries and benefits increased 8.0% from \$18.6 million in 2012 to \$20.1 million in 2013. Increases resulted from contracted rate increases, the cost of additional personnel hired to perform regular ongoing maintenance in place of more costly outside services, and the cost of additional overtime for airfield staff due to winter weather events which occurred more frequently in 2013.

The term of the renewed collective agreement for the emergency response personnel extended to, and expired on, June 30, 2011, coincident with the end of the term for the collective agreement covering the Authority's other unionized staff. The Authority has completed the collective bargaining process with its emergency response personnel and is proceeding towards binding arbitration. A three-year collective agreement covering the Authority's other unionized staff was settled in 2011.

Payments in lieu of municipal taxes have increased by 1.3% to reflect provincial legislation which dictates the calculation of this payment. Under this legislation, payments in lieu of municipal taxes are based on a fixed legislated rate for the Authority, multiplied by the previous year's passenger numbers, but to a maximum increase of 5% over the previous year's amount. The \$5.0 million paid for 2013 reflects this prescribed calculation. Payments in lieu of taxes will decrease in 2014 by 1.3% from the 2013 amount based on this legislation reflecting the decrease in passenger volumes that occurred in 2013.

Summary of Quarterly Results

The Authority's quarterly results are influenced by passenger activity, aircraft movements, maintenance project decisions, and other factors such as weather conditions and economic conditions and do not necessarily fluctuate consistently over time based on the season. Due to these external factors, the historic results on a quarterly basis cannot be relied upon as a predictor of future trends.

Selected unaudited quarterly financial information for the eight most recently completed quarters is set out below:

(\$ in millions)	2012				2013			
	Mar	June	Sept	Dec	Mar	June	Sept	Dec
Quarter ended								
Revenue	\$28.7	\$26.0	\$25.7	\$25.4	\$27.2	\$25.7	\$25.6	\$25.6
Expense	20.8	19.0	18.8	19.6	20.8	19.5	18.9	20.6
Earnings before depreciation	7.9	7.0	6.9	5.8	6.4	6.2	6.7	5.0
Depreciation	5.4	5.5	5.6	5.8	5.8	5.8	6.0	5.4
Net earnings	\$ 2.5	\$ 1.5	\$ 1.3	\$ 0.0	\$ 0.6	\$ 0.4	\$ 0.7	(\$ 0.4)

Capital Expenditures

In accordance with the Authority's mandate, all earnings are retained and reinvested in airport operations and development, including investment in property, plant, and equipment to meet ongoing operating requirements.

During 2013, the Authority made cash payments of \$29.1 million related to its capital expenditure programs. These included over \$17.0 million in expenditures on a project to renovate and expand the airport's baggage handling system to comply with new regulations for baggage screening. The Authority commenced this project in 2012 and the work will not be complete until early 2015. The total cost of this project and associated work, net of costs to be covered by the Canadian Air Transportation Security Authority, is expected to be approximately \$30 million. Other projects in 2013 included reconstruction of the airport's de-icing pad, roadway repaving projects and major additions to the airport's fleet of runway cleaning equipment. In 2014, the Authority plans to reconstruct its longest runway, runway 14/32, at a cost that is estimated at \$30 million.

Contractual Obligations

In addition to ground rent payments noted above, the Authority has operating commitments in the ordinary course of business requiring payments which diminish as contracts expire as follows:

(\$ in thousands)	Payments for years ending December 31						
	Total	2014	2015	2016	2017	2018	Thereafter
Long-term debt (Note 1)	\$340,287	\$ 2,747	\$ 3,111	\$ 3,271	\$ 3,695	\$ 4,152	\$ 323,311
Operating commitments	18,222	9,035	7,105	1,661	246	175	
Capital commitments	21,323	21,323					
Total contractual obligations	\$379,832	\$33,105	\$10,216	\$ 4,932	\$ 3,941	\$ 4,327	\$ 323,311

Note 1 - Further information on interest rates and maturity dates on long-term debt are provided in Note 7 to the financial statements.

Liquidity and Capital Resources

As a non-share capital corporation, the Authority funds its operating requirements, including debt service, through operating revenues and AIF revenue. The Authority manages its operations to ensure that AIF revenue is not used to fund regular ongoing expenses of operations or sustaining capital. AIF revenue is used to fund debt service costs and other expenses related to the Authority's major infrastructure construction programs, including the Airport Expansion Program (AEP). The Authority funds major infrastructure expenditures by borrowing in the capital markets and by using bank credit.

The Authority maintains access to an aggregate of \$118 million in committed 364-day revolving credit facilities with two Canadian banks. The current facilities have again been extended for another 364-day term expiring on October 17, 2014. Included in such facilities are a \$20 million operating credit to fund day to day financial requirements and an additional \$98 million in the aggregate to fund general corporate purposes, to provide liquidity support, and to fund major capital expenditures on a short term basis prior to securing longer term financing in the capital markets.

In 2002, during Phase I of the AEP, the Authority established a Capital Markets Platform under a Master Trust Indenture (MTI) setting out the terms of all debt, including bank facilities and revenue bonds. Under the MTI, the Authority is required to maintain with the Trustee a Debt Service Reserve Fund equal to six months' debt service. At December 31, 2013, the balance in the Debt Service Reserve Fund was just under \$10.9 million, which exceeds the amount required under the MTI. The MTI also requires that the Authority maintain an Operating and Maintenance Reserve Fund in an amount equal to 25% of defined operating and maintenance expenses for the previous year. This fund may be maintained in the form of cash and investments held by the Authority, or the undrawn availability of a committed credit facility. As at December 31, 2013, \$11.6 million of the Authority's credit facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund. At December 31, 2013, the Authority was in full compliance with the provisions of its debt facilities, including the MTI's provisions related to reserve funds, the flow of funds and the rate covenant.

The Authority has accessed its existing bank credit facilities to fund the costs related to its capital expenditure programs and expects to access these facilities on an ongoing basis to fund these programs. The Authority completed 2013 with bank indebtedness of \$19.0 million as a result of investing in its capital programs. Based on its current plans, the Authority's maximum borrowing requirements under these facilities is not expected to exceed \$70 million during 2014. From time to time, surplus cash is invested in short-term investments permitted by the MTI, while maintaining liquidity for purposes of investing in the Authority's capital programs.

During 2013 and early 2014, Moody's, Standard & Poors, and DBRS reaffirmed the Authority's credit ratings with stable outlooks in respect of the Authority's revenue bonds under the MTI at Aa3, A+ and A(high) respectively.

Risks and Uncertainties

Levels of Aviation Activity

The Authority will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition. Airport revenue is largely a function of passenger volumes. Passenger volumes are driven by air travel demand. The events of the past several years have emphasized the volatile nature of air travel demand and the impact of external factors such as economic conditions, health epidemics, geopolitical unrest (September 11, 2001), government regulation, the price of airfares, additional taxes on airline tickets and the financial uncertainty of the airline industry.

The financial uncertainty of the airline industry, although currently relatively stable in Canada, remains an ongoing risk to the Authority. This is mitigated by the fact that approximately 91% of the passenger activity at the airport originates or terminates at the Ottawa Airport, as opposed to connecting through Ottawa. Connecting passenger volumes are more vulnerable to fluctuation due to routing and scheduling changes by airlines. In addition, a greater percentage of the traffic through the airport is business travellers, whose travel decisions are less discretionary than those of leisure travellers.

Aviation Liability Insurance

The availability of adequate insurance coverage is subject to the conditions of the overall insurance market and the Authority's claims and performance record. The Authority participates with an insurance buying group that also includes airport authorities from Vancouver, Edmonton, Calgary, Winnipeg, Montreal, and Halifax. This group has been successful in placing all of its insurance needs. In previous years, there have been significant changes in the insurance markets for aviation, largely driven by the events of September 11, 2001. These events limited certain insurance products and resulted in higher pricing. The Government of Canada has extended an indemnification for third-party aviation war risk liability for all essential aviation service operators in Canada. The Government of Canada has indemnified the Authority for losses in excess of US \$50 million, the limit of insurance coverage which is currently available to airport operators on the market. The Government of Canada originally provided this indemnification in response to a decision by international insurers to withdraw third-party aviation war risk liability coverage that was available before September 11, 2001. The Government of Canada has given no indication that it will cease providing excess indemnity coverage.

Financial Statements of Ottawa Macdonald-Cartier International Airport Authority

December 31, 2013

Management's Responsibility for Financial Statements

Management of Ottawa Macdonald-Cartier International Airport Authority is responsible for the integrity of the accompanying financial statements and all other information in this Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, which for publicly accountable enterprises, and in the case of the Authority, require International Financial Reporting Standards. Their preparation necessarily involves the use of management's best estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the information and data contained in the financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements.

The Board of Directors discharges its responsibilities for the financial statements primarily through its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Authority. This committee meets periodically with management and the independent auditors to review performance and to discuss audit, internal control, accounting policy, and financial reporting matters. The Audit Committee reports its findings to the Board of Directors which reviews and approves annual financial statements. These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by PricewaterhouseCoopers LLP, who were appointed at the annual general meeting. Their report is presented below.



Mark Laroche
President and Chief
Executive Officer



John G. Weerdenburg, CPA, CA
Vice-President and
Chief Financial Officer

Ottawa Ontario Canada
February 26, 2014

Independent Auditors' Report

To the Directors of the
Ottawa Macdonald-Cartier International Airport Authority

We have audited the accompanying financial statements of the Ottawa Macdonald-Cartier International Airport Authority, which comprise the balance sheet as at December 31, 2013 and the statements of operations and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ottawa Macdonald-Cartier International Airport Authority as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Licensed Public Accountants
Ottawa Ontario
February 26, 2014

Balance Sheet

as at December 31

(in thousands of Canadian dollars)

ASSETS	Note	December 31, 2013	December 31, 2012
CURRENT ASSETS			
Trade and other receivables		\$ 7,646	\$ 7,813
Consumable supplies		1,959	1,733
Prepaid expenses and advances		<u>919</u>	<u>881</u>
		10,524	10,427
DEBT SERVICE RESERVE FUND	7(a)	10,863	10,747
PROPERTY, PLANT and EQUIPMENT	3	398,344	390,956
OTHER ASSETS	4	<u>5,577</u>	<u>5,219</u>
		<u>\$ 425,308</u>	<u>\$ 417,349</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness	5	\$ 19,039	\$ 9,385
Accounts payable and accrued liabilities		14,663	14,026
Current portion of long-term debt	7	<u>2,747</u>	<u>2,409</u>
		36,449	25,820
POST EMPLOYMENT BENEFIT LIABILITY	9	13,902	18,754
LONG-TERM DEBT	7	<u>334,968</u>	<u>337,465</u>
		385,319	382,039
Commitments and Contingencies	11		
EQUITY			
Retained Earnings	8	48,332	47,058
Accumulated other comprehensive income		<u>(8,343)</u>	<u>(11,748)</u>
		<u>\$ 425,308</u>	<u>\$ 417,349</u>

ON BEHALF OF THE BOARD



, Director



, Director

Statement of Operations and Comprehensive Income

years ended December 31

(in thousands of Canadian dollars)

	Note	2013	2012
REVENUES			
Airport improvement fees	8	\$ 38,370	\$ 39,379
Terminal fees and loading bridge charges		23,738	23,978
Landing fees		11,581	11,542
Concessions		9,668	10,052
Car parking		12,409	12,519
Land and space rentals	14	5,699	5,732
Other revenue		2,674	2,643
		<u>104,139</u>	<u>105,845</u>
EXPENSES			
Interest (net)	7(c)	19,635	19,677
Ground rent	11	7,420	7,592
Materials, supplies and services		27,670	27,376
Salaries and benefits	9	20,093	18,605
Payments in lieu of municipal taxes		5,048	4,982
		<u>79,866</u>	<u>78,232</u>
EARNINGS BEFORE DEPRECIATION		24,273	27,613
DEPRECIATION		22,999	22,307
NET EARNINGS		1,274	5,306
Other comprehensive income			
Remeasurements of defined benefit plans (loss) (that will never be recycled into net earnings)	9	<u>3,405</u>	<u>(1,395)</u>
TOTAL COMPREHENSIVE INCOME		\$ 4,679	\$ 3,911

(See accompanying notes to the financial statements)

Statement of Changes in Equity

years ended December 31

(in thousands of Canadian dollars)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Retained earnings, beginning of year		\$ 47,058	\$ 41,752
Net earnings for the year		<u>1,274</u>	<u>5,306</u>
Retained earnings, end of year		<u>48,332</u>	<u>47,058</u>
Accumulated other comprehensive income			
Remeasurements of defined benefit plans (that will never be recycled into net earnings)			
Balance, beginning of year		(11,748)	(10,353)
Other comprehensive income for the year	9	<u>3,405</u>	<u>(1,395)</u>
Balance, end of year		<u>(8,343)</u>	<u>(11,748)</u>
TOTAL EQUITY		<u>\$ 39,989</u>	<u>\$ 35,310</u>

(See accompanying notes to the financial statements)

Statement of Cash Flows

years ended December 31

(in thousands of Canadian dollars)

	Note	2013	2012
Cash provided by (used in) -			
Operating activities:			
Net earnings		\$ 1,274	\$ 5,306
Non-cash items:			
Depreciation		22,999	22,307
Amortization of deferred financing costs		250	240
Increase in other assets		(358)	(394)
Decrease in post employment benefit liability		(1,447)	(933)
Interest expense (net)		19,635	19,677
Interest paid		(19,517)	(19,548)
Changes in non-cash working capital related to operations	12	(825)	(2,501)
Total operating activities		22,011	24,154
Financing activities:			
Increase in debt service reserve fund	7(a)	(116)	(118)
Repayment of long-term debt		(2,409)	(2,097)
Total financing activities		(2,525)	(2,215)
Investing activities:			
Purchase of property, plant and equipment		(30,390)	(24,403)
Change in accounts payable and accrued liabilities related to investing activities		1,250	(246)
Total investing activities		(29,140)	(24,649)
Decrease in cash and cash equivalents		(9,654)	(2,710)
Bank indebtedness, beginning of year		(9,385)	(6,675)
Bank indebtedness, end of year		\$ (19,039)	\$ (9,385)

(See accompanying notes to the financial statements)

Notes to the Financial Statements

for the year ended December 31, 2013

1. Description of business

Ottawa Macdonald-Cartier International Airport Authority (the "Authority" or "Ottawa International Airport Authority") was incorporated January 1, 1995 as a corporation without share capital under Part II of the *Canada Corporations Act*. All earnings of the Authority are retained and reinvested in airport operations and development.

The objects of the Authority are:

- a) to manage, operate and develop the Ottawa International Airport, the premises of which are leased to the Authority by the Government of Canada (Transport Canada - see Note 11), and any other airport in the National Capital Region for which the Authority becomes responsible, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;
- b) to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities; and
- c) to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

The Authority is governed by a fourteen member Board of Directors, ten of whom are nominated by the Minister of Transport for the Government of Canada, the Government of the Province of Ontario, the City of Ottawa, the City of Gatineau, the Ottawa Chamber of Commerce, the Ottawa Tourism and Convention Authority, Chambre de commerce de Gatineau, and Invest Ottawa. The remaining four members are appointed by the Board of Directors from the community at large.

On January 31, 1997, the Authority signed a 60-year ground lease (that was later extended to 80 years in 2013) with the Government of Canada and assumed responsibility for the management, operation and development of the Ottawa International Airport.

The Authority is exempt from federal and provincial income tax, and Ontario capital tax. The Authority is domiciled in Canada. The address of the Authority's registered office and its principal place of business is suite 2500 - 1000 Airport Parkway Private, Ottawa, Ontario, Canada, K1V 9B4.

2. Basis of preparation and significant accounting policies

The financial statements were authorized for issue by the Board of Directors on February 26, 2014.

The financial statements and amounts included in the notes to the financial statements are presented in Canadian dollars, which is the Authority's functional currency.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Authority prepares its financial statements in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared on a historical cost basis, except, as required, for the revaluation of certain financial assets and financial liabilities to fair value.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short-term investments with original terms to maturity of 90 days or less. Such short-term investments are recorded at fair value.

Consumable supplies

Inventories of consumable supplies are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value, based on estimated replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of government assistance, if any, and include only the amounts expended by the Authority. These assets will revert to the Government of Canada upon the expiration or termination of the Authority's ground lease with the Government of Canada. Property, plant and equipment do not include the cost of facilities which are leased from the Government of Canada. Incremental borrowing costs incurred during the construction of property, plant and equipment are included in the cost.

Amounts initially recognized in respect of an item of property, plant and equipment are allocated to its significant parts and depreciated separately when the cost of the component is significant in relation to the total cost of the item and when its useful life is different from the useful life of the item. Residual values, the method of depreciation, and estimated useful lives of assets are reviewed annually and adjusted if appropriate.

Depreciation is provided on a straight-line basis over the useful lives of individual assets and their component parts as follows:

Buildings, building components, and support facilities	3 – 40 years
Runways, roadways and other paved surfaces	10 – 50 years
Land improvements	10 – 25 years
Furniture and equipment	3 – 25 years
Computer equipment and systems	2 – 25 years
Vehicles	3 – 20 years

Construction in progress is recorded at cost and is transferred to buildings and support facilities and other asset categories as appropriate when the project is complete and the asset is available for use, or is written off when, due to changed circumstances, management does not expect the project to be completed. Assets under construction are not subject to depreciation until they are available for use.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition (determined as the difference between net disposal proceeds and the carrying amount of the item) is included as an adjustment of depreciation expense when the item is derecognized.

Borrowing costs

Borrowing costs are capitalized during the construction phase of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the weighted average cost of capital of outstanding loans during the period, other than the borrowings made especially for the purpose of obtaining the asset. All other borrowing costs are recognized in interest expense on a net basis in the statement of operations and comprehensive income in the period in which they are incurred.

Impairment of non-financial assets

Property, plant and equipment and other assets are tested for impairment at the cash-generating unit level when events or changes in circumstances indicate that their carrying amount may not be recoverable, and in the case of indefinite life assets, at least annually. A cash-generating unit is the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets. An impairment loss is recognized when the carrying value of the assets in the cash-generating unit exceeds the recoverable amount of the cash-generating unit. The recoverable amount is the higher of the fair value of the cash-generating unit, less costs to sell, and value in use (represented by the total undiscounted cash flows expected from its use and eventual disposition). The amount of the impairment loss is determined as the excess of the carrying value of the assets over their recoverable amount. Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset.

Because of the Authority's business model that provides services to the traveling public, none of the assets of the Authority are considered to generate cash flows that are largely independent of the other assets and liabilities. Instead, all of the assets are considered part of the same cash-generating unit. In addition, the Authority's unregulated ability to raise its rates and charges as required to meet its obligations, mitigates its risk of impairment losses.

Deferred financing costs

Transaction costs relating to the issuance of long-term debt, including underwriting fees, professional fees, termination of interest-rate swap agreements, and bond discounts, are deferred and amortized using the effective-interest rate method over the term of the related debt. Under the effective interest rate method, amortization is recognized over the life of the debt at a constant rate applied to the net carrying amount of the debt. Amortization is included in interest expense. Deferred financing costs are reflected as a reduction in the carrying amount of related long-term debt.

Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases.

The Authority as lessee - Except for the ground lease, the Authority typically only enters into operating leases for minor items such as photocopy machines and printers. As these leases are classified as operating leases, the payments are amortized on a straight-line basis over the lease term.

Rent is a levy imposed under the ground lease with the Government of Canada and is calculated based on airport revenues for the year as defined in the lease. Accordingly, it is considered contingent rent and ground rent expense is accounted for as an operating lease in the statement of operations and comprehensive income.

The Authority as lessor – The Authority subleases land and space to other entities under operating leases. Lease income from these operating leases is recognized in income on a straight line basis over the term of the lease.

Revenue recognition

Landing fees, terminal fees, and parking revenues are recognized as the airport facilities are utilized. The Authority has a landing fee rebate incentive program which provides airlines with incentives, such as free landing fees, to operate flights to new destinations for a minimum duration of one year. These rebate obligations are recognized as a reduction of revenues until the expiry of the obligation.

Concession revenues are recognized on the accrual basis and calculated using agreed percentages of reported concessionaire sales, with specified minimum rent guarantees.

Rental revenues are recognized over the lives of respective leases, licences, and permits. Tenant inducements associated with leased premises, including the value of rent-free periods, are deferred and amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rental revenues.

Airport improvement fees ("AIF"), net of airline administrative fees, are recognized upon the enplanement of passengers using information from air carriers obtained after enplanement has occurred, together with historical experience in percentages of connecting and exempt passengers. Under an agreement with the airlines, airport improvement fees are collected by the airlines in the price of a ticket and are paid to airport authorities on an estimated basis, net of airline collection fees, on the first of the month following the month of enplanement. Final settlement based on actual passenger volumes occurs at the end of the month following the month of enplanement.

Pension plan and post-employment benefits

The Authority accrues its obligations under pension and post retirement benefit plans as employees render the services necessary to earn these benefits. The costs of these plans are actuarially determined using the projected unit credit method based on length of service. This determination reflects management's best estimates at the beginning of each fiscal year of the rate of salary increases, and various other factors including mortality, termination, retirement rates and expected future health care costs. For the purpose of calculating the net interest cost on the pension obligations net of pension plan assets those assets are valued at fair value.

The post employment benefit liability recognized on the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The accrued benefit obligation is discounted using the market interest rate on high-quality corporate debt instruments as at the measurement date, approximating the terms of the related pension liability.

During 2011, the International Accounting Standards Board issued new requirements under IAS 19, employee benefits, under which pension expense for the defined benefit pension plan includes current service cost and the net interest cost on the pension obligations net of pension plan assets calculated using the market interest rate on high-quality corporate debt instruments as determined for the previous balance sheet date. The Authority early adopted this new standard as of January 1, 2010 on a retrospective basis. Past service costs are recognized immediately in the statement of operations. Pension expense is included in salaries and benefits on the statement of operations and comprehensive income.

Actuarial gains and losses (experience gains and losses that arise because actual experience for each year will differ from the beginning of year assumptions used for purposes of determining the cost and liabilities of these plans) are recognized in full as remeasurements

of defined benefit plans in the period in which they occur, in other comprehensive income without recycling to the statement of operations and comprehensive income in subsequent periods.

Pension expense for the defined contribution pension plan is recorded as the benefits are earned by the employees covered by the plan.

Employee benefits other than post-employment benefits

The Authority recognizes the expense related to salaries, bonuses, and compensated absences such as sick leave and vacations as short-term benefits in the period the employee renders the service. Costs related to employee health, dental, and life insurance plans are recognized in the period that expenses are incurred. The liabilities related to these benefits are not discounted due to their short-term nature.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

The Authority currently has no contracts outstanding that have been designated as onerous contracts.

Estimation uncertainty and key judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, commitments and contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounting estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. These accounting estimates and assumptions are reviewed on an ongoing basis. Actual results could significantly differ from those estimates. Adjustments, if any, will be reflected in the statement of operations in the period of settlement or in the period of revision and future periods if the revision affects both current and future periods.

Key judgment areas, estimations and assumptions include the useful lives of property, plant and equipment, valuation adjustments including allowances for uncollectible accounts, the cost of employee future benefits, and provisions for contingencies.

Collectability of trade receivables – The Authority establishes a general allowance for uncollectible accounts that involves management review of individual receivable balances based on individual customer credit worthiness, current economic trends and the condition of the industry as a whole, and analysis of historical bad debts.

Useful lives of property, plant and equipment – Critical judgments are used to determine depreciation rates, and useful lives and residual values of assets that impact depreciation amounts.

The cost of employee future benefits – The Authority accounts for pension and other post employment benefits based on actuarial valuation information provided by the Authority's independent actuaries. These valuations rely on statistical and other factors in order to anticipate future events. These factors include discount rates, and key actuarial assumptions such as expected salary increases, expected retirement ages, and mortality rates.

Financial instruments

The Authority's financial assets including cash and cash equivalents, accounts receivable, advances (included with prepaid expenses), and the debt service reserve fund are classified as loans and receivables. As such, they are recorded at amortized cost which approximates fair value.

The Authority's financial liabilities including bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other liabilities and are accounted for at amortized cost.

Fair value measurements of assets and liabilities measured at fair value on the balance sheet or disclosed in the notes to the financial statements must be categorized according to the following hierarchy:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques with significant observable market parameters; and
- Level 3 – valuation techniques with significant unobservable market parameters.

As indicated above, none of the Authority's assets or liabilities are measured at fair value.

Comprehensive income

Comprehensive income is defined to include net income plus or minus other comprehensive income. Other comprehensive income includes actuarial gains and losses related to the Authority's pension plan and post retirement benefits. In addition, other comprehensive income includes changes arising from gains and losses in the fair values of certain financial instruments and hedges, which in the Authority's circumstances, are nil. Other comprehensive income is accumulated in a separate component of equity called accumulated other comprehensive income.

Future changes in accounting policies

The International Accounting Standards Board (IASB) has issued a number of amendments to standards that are effective for annual periods commencing after January 1, 2014, with earlier adoption permitted. The Authority has made a preliminary determination that these standards either do not apply to the Authority, or that their impact will not be material.

3. Property, plant and equipment

(tabular amounts in thousands of dollars)

	January 1, 2013	Additions	Disposals/Transfers	December 31, 2013
Cost:				
Buildings and support facilities				
Buildings and building components	\$ 371,086	\$ 4,007	\$ 525	\$ 374,568
De-icing facility	8,343	2,897	-	11,240
Pedestrian bridges	14,746	303	-	15,049
Utilities infrastructure	18,569	452	42	18,979
	412,744	7,659	567	419,836
Runways, roadways and other paved surfaces	72,130	1,629	-	73,759
Land improvements	9,314	176	5	9,485
Furniture and equipment	16,624	1,029	421	17,232
Computer equipment and systems	23,098	1,735	8,267	16,566
Vehicles	21,302	1,767	93	22,976
Construction in progress	3,555	16,395	-	19,950
	558,767	30,390	9,353	579,804
Less accumulated depreciation:				
Buildings and support facilities				
Buildings and building components	92,186	12,651	525	104,312
De-icing facility	4,077	635	-	4,712
Pedestrian bridges	7,501	1,087	-	8,588
Utilities infrastructure	4,137	811	42	4,906
	107,901	15,184	567	122,518
Runways, roadways and other paved surfaces	16,766	2,861	-	19,627
Land improvements	5,175	404	5	5,574
Furniture and equipment	11,612	1,593	421	12,784
Computer equipment and systems	19,065	1,581	8,267	12,379
Vehicles	7,292	1,376	90	8,578
	167,811	22,999	9,350	181,460
	\$ 390,956	\$ 7,391	\$ 3	\$ 398,344

(tabular amounts in thousands of dollars)

	January 1, 2012	Additions	Disposals/ Transfers	December 31, 2012
Cost:				
Buildings and support facilities				
Buildings and building components	\$ 368,784	\$ 3,372	\$ 1,070	\$ 371,086
De-icing facility	7,600	743	-	8,343
Pedestrian bridges	14,746	-	-	14,746
Utilities infrastructure	14,012	4,557	-	18,569
	405,142	8,672	1,070	412,744
Runways, roadways and other paved surfaces	62,000	10,130	-	72,130
Land improvements	9,246	183	115	9,314
Furniture and equipment	16,280	452	108	16,624
Computer equipment and systems	21,961	1,245	108	23,098
Vehicles	20,959	365	22	21,302
Construction in progress	199	3,356	-	3,555
	535,787	24,403	1,423	558,767
Less accumulated depreciation:				
Buildings and support facilities				
Buildings and building components	80,921	12,335	1,070	92,186
De-icing facility	3,643	434	-	4,077
Pedestrian bridges	6,390	1,111	-	7,501
Utilities infrastructure	3,487	650	-	4,137
	94,441	14,530	1,070	107,901
Runways, roadways and other paved surfaces	14,232	2,534	-	16,766
Land improvements	4,888	402	115	5,175
Furniture and equipment	10,015	1,705	108	11,612
Computer equipment and systems	17,370	1,803	108	19,065
Vehicles	5,981	1,333	22	7,292
	146,927	22,307	1,423	167,811
	\$ 388,860	\$ 2,096	\$ -	\$ 390,956

(tabular amounts in thousands of dollars)

	December 31, 2013	December 31, 2012
Net carrying amount		
Buildings and support facilities		
Buildings and building components	\$ 270,256	\$ 278,900
De-icing facility	6,528	4,266
Pedestrian bridges	6,461	7,245
Utilities infrastructure	14,073	14,432
	297,318	304,843
Runways, roadways and other paved surfaces	54,132	55,364
Land improvements	3,911	4,139
Furniture and equipment	4,448	5,012
Computer equipment and systems	4,187	4,033
Vehicles	14,398	14,010
Construction in progress	19,950	3,555
	\$ 398,344	\$ 390,956

4. Other assets

(tabular amounts in thousands of dollars)

	December 31, 2013	December 31, 2012
Interest in future proceeds from 4160 Riverside Drive, at cost	\$ 2,930	\$ 2,930
Tenant improvements and leasehold inducements, net of amortization	2,647	2,289
	\$ 5,577	\$ 5,219

In an agreement signed on May 27, 1999, the Authority agreed to assist the Regional Municipality of Ottawa-Carleton (now the City of Ottawa) in acquiring lands municipally known as 4160 Riverside Drive by contributing to the City of Ottawa 50% of the funds required for the acquisition. In return, the City agreed to place restrictions on the use of the lands to ensure the lands are used for purposes that are compatible with the operations of the Authority. In addition, the Authority will receive 50% of the net proceeds from any future sale, transfer, lease, or other conveyance of the lands.

During 2011, the Authority entered into a long-term lease with a subtenant that included a 3-year rent-free period and provided, as a tenant inducement, a payment in the amount of \$1.5 million towards the cost of utilities infrastructure and other site improvements. Tenant inducements associated with leased premises, including the value of rent free periods, are deferred and amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rental revenues. The value of these tenant inducements is being recognized as a reduction in rent during the first 20 years of the 47 year term of the lease.

5. Credit facilities

The Authority maintains credit facility agreements with two Canadian banks. Under these credit facilities the Authority is provided with a 364-day revolving operating facility in an amount of up to \$20 million plus 364-day revolving credit facilities up to \$98 million in the aggregate for general corporate purposes and for the financing of capital expenditure requirements associated with the Authority's infrastructure construction programs. These facilities are secured under the Master Trust Indenture (see Note 7) and are due on October 17, 2014, but are renewed annually. They are available by way of overdraft, Prime Rate Loans, or Bankers' Acceptances. Indebtedness under these facilities bears interest at rates that vary with the lender's prime rate and Bankers' Acceptance rates, as appropriate.

The bank indebtedness under these facilities as at December 31, 2013 bears interest at an average rate of 1.69% (December 31, 2012 – 1.75%).

As at December 31, 2013, \$11.6 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 7).

6. Capital management

The Authority is incorporated without share capital under Part II of the *Canada Corporations Act* and, as such, all earnings are retained and reinvested in airport operations and development. Accordingly, the Authority's only sources of capital for investing in airport operations and development are bank debt, long-term debt and accumulated earnings included on the Authority's balance sheet as Retained Earnings.

The Authority incurs debt, including bank debt and long-term debt, to fund development. It does so on the basis of the amount that it considers that it can afford and manage based on revenues from airport improvement fees (AIF) and to maintain a minimum AIF: debt service coverage ratio. This provides for a self-imposed limit on what the Authority can spend on major development of the airport, such as the Authority's major infrastructure construction programs.

The Authority manages its rates and charges for aeronautical and other fees to safeguard the Authority's ability to continue as a going concern and to maintain a conservative capital structure. It makes adjustments to these rates in light of changes in economic conditions and events, and to maintain sufficient net earnings to meet ongoing debt coverage requirements.

The Authority is not subject to capital requirements imposed by a regulator, but manages its capital to comply with the covenants of its Master Trust Indenture (see Note 7(a)) and to maintain its credit ratings in order to secure access to financing at a reasonable cost.

7. Long-term debt

(tabular amounts in thousands of dollars)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
6.973% amortizing Revenue bonds, Series B, due May 25, 2032, interest payable on May 25 and November 25 of each year until maturity commencing November 25, 2002, scheduled accelerating semi-annual instalments of principal payable on each interest payment date commencing November 25, 2004	\$ 139,822	\$ 141,999
4.733% Revenue bonds, Series D, due May 2, 2017, interest payable on May 2 and November 2 of each year until maturity commencing November 2, 2007	200,000	200,000
Deferred rent repayable to the Government of Canada, without interest in equal monthly instalments of \$19 thousand over a ten year period commencing in 2006	<u>465</u>	<u>697</u>
	340,287	342,696
Less: deferred financing costs	<u>2,572</u>	<u>2,822</u>
	337,715	339,874
Less: current portion	<u>2,747</u>	<u>2,409</u>
	<u>\$ 334,968</u>	<u>\$ 337,465</u>

(a) Bond Issues

In May 2002, the Authority completed its original \$270 million Revenue bond issue with two series, the \$120 million Revenue bonds, Series A at 5.64% due on May 25, 2007 and the \$150 million Revenue bonds, Series B at 6.973% due on May 25, 2032. In May 2007, the Authority completed a \$200 million Revenue bond issue, in part to refinance the Series A, Revenue bonds repaid on May 25, 2007. The \$200 million Revenue bonds, Series D at 4.733% are due on May 2, 2017 and are expected to be refinanced in 2017.

The net proceeds from these offerings were used to finance the Authority's infrastructure construction programs, and for general corporate purposes. These purposes included refinancing existing bank indebtedness incurred by the Authority in connection with these construction programs and funding of the Debt Service Reserve Fund.

Under the Master Trust Indenture entered into by the Authority in connection with the original debt offering in May 2002, all of these bond issues are direct obligations of the Authority ranking *pari passu* with all other indebtedness issued. All indebtedness, including indebtedness under bank credit facilities, are secured under the Master Trust Indenture by an assignment of revenues and related book debts, a security interest on money in reserve funds and certain accounts of the Authority, a security interest in leases, concessions and other revenue contracts of the Authority, and an unregistered mortgage of the Authority's leasehold interest in airport lands.

The Authority is unregulated in its ability to raise its rates and charges as required to meet its obligations. Under the Master Trust Indenture, the Authority is required to take action, such as increasing its rates, should its projected debt service coverage ratio fall below 1.0. If this debt service covenant is not met in any year, the Authority is not in default of its obligations under the Master Trust Indenture as long as the test is met in the subsequent year.

Pursuant to the terms of the Master Trust Indenture, the Authority is required to establish and maintain with a trustee a Debt Service Reserve Fund with a balance at least equal to 50% of annual debt service costs. At December 31, 2013, the Debt Service Reserve Fund included \$10.9 million in interest-bearing deposits held in trust. These trust funds are held for the benefit of the bondholders for use and application in accordance with the terms of the Master Trust Indenture. In addition, the Authority is required to maintain an Operating and Maintenance Reserve Fund equal to 25% of defined operating and maintenance expenses in the previous year (approximately \$11.6 million in 2013 based on 2012 expenses). The Operating and Maintenance Reserve Fund has been satisfied by the undrawn availability under a committed credit facility (see Note 5).

At December 31, 2013 the Authority was in full compliance with the provisions of its debt facilities, including the Master Trust Indenture's provisions related to reserve funds, the flow of funds and the rate covenant.

- (b) On July 16, 2003, the Minister of Transport announced short-term rent relief for airports. Under this program, the Authority was able to defer approximately 10% of its rent for the 2 year-period that started July 1, 2003 (a total of \$2.3 million). The deferral is to be repaid, interest-free, over a period of 10 years that started on January 1, 2006. Because this is a deferral and not a permanent reduction of rent, the full amounts of rent were recorded as a liability in the accounts.

(c) Interest expense (net)

	<u>2013</u>	<u>2012</u>
Bond interest	\$ 19,317	\$ 19,475
Interest expense – Other	435	320
	<u>19,752</u>	<u>19,795</u>
Less:		
Interest earned	<u>117</u>	<u>118</u>
Total interest expense (net)	<u>\$ 19,635</u>	<u>\$ 19,677</u>

- (d) The future annual principal payments for all long-term debt are as follows:

Within one year	
2014	\$ 2,747
One to five years	
2015	3,111
2016	3,272
2017	3,695
2018	4,152
After five years	323,310

(e) Deferred financing costs

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Deferred financing costs	\$ 4,398	\$ 4,398
Less: Accumulated amortization	<u>(1,826)</u>	<u>(1,576)</u>
	<u>\$ 2,572</u>	<u>\$ 2,822</u>

8. Airport improvement fees

(tabular amounts in thousands of dollars)

Airport improvement fees (AIF) are collected by air carriers under an agreement between the Authority, the Air Transport Association of Canada, and the air carriers serving the airport. Under the agreement, AIF revenues may only be used to pay for the capital and related financing costs of major airport infrastructure development. AIF

revenues are recorded net of collection fees of 6% withheld by air carriers of \$2,446 thousand (2012 - \$2,557 thousand).

	<u>2013</u>	Cumulative to date
Major infrastructure construction program expenditures:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	\$ 23,537	\$ 527,896
Interest capitalized	-	18,096
Interest expensed plus internal interest on funds provided by operations	<u>22,423</u>	<u>224,291</u>
	<u>45,960</u>	<u>770,283</u>
AIF cash receipts:		
AIF revenue – net of collection fees	38,370	367,630
Interest on surplus funds	<u>117</u>	<u>10,212</u>
	<u>38,487</u>	<u>377,842</u>
Decrease (increase) in accounts receivable	<u>101</u>	<u>(2,852)</u>
AIF revenue – net cash received	<u>38,588</u>	<u>374,990</u>
Excess of expenditures over AIF Receipts	<u>\$ 7,372</u>	<u>\$ 395,293</u>

The AIF will continue to be collected until the cumulative excess of expenditures over AIF receipts is reduced to zero.

Retained earnings of the Authority as at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Retained earnings provided by airport improvement fees:		
Accumulated airport improvement fees and interest on surplus funds	\$ 377,842	\$ 339,355
Less:		
Accumulated depreciation of infrastructure program assets	161,378	143,599
Interest and other expenses	<u>230,493</u>	<u>207,507</u>
	<u>(14,029)</u>	<u>(11,751)</u>
Retained earnings provided by other operations	<u>62,361</u>	<u>58,809</u>
Retained earnings, end of year	<u>\$ 48,332</u>	<u>\$ 47,058</u>

9. Pension plan and post retirement benefits

(tabular amounts in thousands of dollars)

The post employment benefit liability included in the balance sheet as a long-term liability is as follows:

	<u>December 31, 2013</u>	December 31, 2012
Defined benefit pension plan deficit	\$ 4,860	\$ 10,349
Other post-employment benefits payable	<u>9,042</u>	<u>8,405</u>
	<u>\$ 13,902</u>	<u>\$ 18,754</u>

The Authority sponsors and funds a pension plan for its employees, which has defined benefit and defined contribution components.

Under the defined contribution plan, the Authority pays fixed contributions into an independent entity. The Authority has no legal or constructive obligation to pay further contributions after its payment of the fixed contribution.

The defined benefit plan includes employees who were employees of the Authority on the date of transfer, including former Transport Canada employees, the majority of whom transferred their vested benefits from the Public Service Superannuation Plan to the Authority's pension plan. Pension benefits payable under the defined benefit component of the plan are based on members' years of service and the average of the best six years' consecutive earnings near retirement up to the maximums allowed by law. Benefits are indexed annually to reflect the increase in the consumer price index to a maximum of 8% in any one year.

Pension plan costs are charged to operations as services are rendered based on an actuarial valuation of the obligation.

In addition to pension plan benefits, the Authority provides other post-employment and retirement benefits to its employees including health care insurance and lump sum payments upon retirement or termination of employment. The Authority accrues the cost of these future benefits as employees render their services based on an actuarial valuation. This plan is not funded.

At the last actuarial valuation of the pension plan as at December 31, 2012 that was completed and filed in June 2013 as required by law, the plan had a deficit on a funding (going concern) basis of \$3,546,000 assuming a discount rate of 5.0% (\$1,813,000 as at December 31, 2011 assuming a discount rate of 5.75%). This amount differs from the amount reflected below primarily because the obligation is calculated using the discount rate that represents the expected long-term rate of return of assets. For accounting purposes, it is calculated using an interest rate determined with reference to market rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

The Pension Benefits Standards Act, 1985 requires that a solvency analysis of the plan be performed to determine the financial position (on a “solvency basis”) of the plan as if it were fully terminated on the valuation date due to insolvency of the sponsor or a decision to terminate. At the last actuarial valuation as at December 31, 2012, the plan had a deficit on a solvency basis of \$14,476,000 (\$15,810,000 as at December 31, 2011) before considering the present value of additional solvency payments required under the *Act*. In 2013, the Authority made additional solvency payments of \$2,526,900 (\$2,360,900 in 2012) to amortize this deficiency.

The next required actuarial valuation of the defined benefit pension plan as at December 31, 2013 is scheduled to be completed and filed by its June 2014 due date. The plan’s funded position and the amounts of solvency payments required under *The Pension Benefits Standards Act, 1985* are subject to fluctuations in interest rates. It is expected that, once the actuarial valuation is completed, the additional solvency payments that will be required for 2014 will be in line with the amounts paid in 2013 (\$2,526,900). In addition, the Authority expects to contribute approximately \$800,000 (2013 - \$715,000) on account of current service in 2014 to the defined benefit component of the pension plan for the year ending December 31, 2014.

The Authority’s defined benefit pension plans face a number of risks, including inflation, but the most significant of these risks relates to changes in interest rates (discount rate). The defined benefit pension plan’s liability is calculated for various purposes using discount rates set with reference to corporate bond yields. If plan assets underperform this yield, this will increase the deficit. A decrease in this discount rate will increase plan liabilities, although this will be partially offset by an increase in the value of the plan’s bond holdings. Based on calculations by the Authority’s actuaries included in the actuarial valuation as at December 31, 2012, the impact of a 1% increase in interest rates will decrease the funding (going concern) deficit by \$7.3 million and will decrease the solvency deficit by \$10.1 million. A decrease of 1% will have the same amount of impact on each calculation, but will increase the deficits.

The Authority’s pension and post-employment benefit plans are to provide benefits for the life of the member. Increases in life expectancy will result in an increase in the plans’ liabilities. This is particularly significant because inflation increases result in higher sensitivity to changes in life expectancy. The obligations for these plans as at December 31, 2013 have been estimated by the Authority’s actuaries using the most recent mortality tables available (CRM-RPP 2014 Combined Sector Mortality Table (draft July 2013)).

Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2012 and extrapolated to December 31, 2013 by the Authority’s actuaries, the estimated status of the defined benefit pension plan is as follows:

	<u>2013</u>	<u>2012</u>
Accrued Benefit Obligation, defined benefit pension		
Balance, beginning of year	\$ 50,644	\$ 43,887
Employee contributions	180	209
Benefits paid	(1,464)	(1,193)
Current service cost	830	837
Interest cost on accrued benefit obligation	2,037	2,070
Actuarial loss – change in demographic assumptions	3,016	-
Actuarial loss (gain) – change in financial assumptions	<u>(5,607)</u>	<u>4,834</u>
Balance, end of year	<u>49,636</u>	<u>50,644</u>
Plan Assets		
Fair value, beginning of year	40,295	34,971
Employee contributions	180	209
Employer contributions	715	684
Employer contributions, special solvency payments	2,527	2,361
Benefits paid	(1,464)	(1,193)
Interest on plan assets (net of administrative expenses)	1,582	1,612
Actuarial gain (loss) on plan assets	<u>941</u>	<u>1,651</u>
Fair value, end of year	<u>44,776</u>	<u>40,295</u>
Funded Status – plan deficit	<u>\$ 4,860</u>	<u>\$ 10,349</u>
The net defined benefit pension plan expense for the year ended December 31 is as follows:		
	<u>2013</u>	<u>2012</u>
Current service cost	\$ 830	\$ 837
Interest cost on accrued benefit obligation	2,037	2,070
Interest on plan assets	<u>(1,582)</u>	<u>(1,612)</u>
Defined benefit pension plan expense recognized in salaries and benefits expense in net earnings	<u>\$ 1,285</u>	<u>\$ 1,295</u>
In addition to pension benefits, the Authority provides other post-employment and retirement benefits to its employees. The status of post employment and retirement benefit plans as at December 31 is as follows:		
	<u>2013</u>	<u>2012</u>
Accrued benefit obligation, other than post-employment benefits		
Balance beginning of year	\$ 8,405	\$ 9,376
Benefits paid (employer contributions)	(307)	(184)
Current service cost	468	534
Interest cost	349	467
Actuarial loss – change in demographic assumptions	884	-
Actuarial loss (gain) – change in financial assumptions	<u>(757)</u>	<u>(1,788)</u>
Accrued benefit liability, end of year	<u>\$ 9,042</u>	<u>\$ 8,405</u>

The net expense for other post-employment and retirement benefits for the year ended December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Current service cost	\$ 468	\$ 534
Interest cost	<u>349</u>	<u>467</u>
Expense recognized in salaries and benefits expense in net earnings	<u>\$ 817</u>	<u>\$ 1,001</u>

The amount recognized in other comprehensive income for pension plans and post-retirement benefits for the year ended December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Defined benefit pension plans		
Actuarial loss – change in demographic assumptions	\$ 3,016	-
Actuarial loss (gain) – change in financial assumptions	(5,607)	4,834
Actuarial (gain) loss on plan assets	(941)	(1,651)
Other post-retirement benefit plans		
Actuarial loss – change in demographic assumptions	884	-
Actuarial loss (gain) – change in financial assumptions	<u>(757)</u>	<u>(1,788)</u>
Total loss (gain) recognized in other comprehensive income	<u>(\$ 3,405)</u>	<u>\$ 1,395</u>

The costs of the defined benefit component of the pension plan and of other post employment and retirement benefits are actuarially determined using the projected benefit method prorated on services. This determination reflects management's best estimates of the rate of return on plan assets, rate of salary increases, and various other factors including mortality, termination, and retirement rates.

The significant economic assumptions used by the Authority's actuaries in measuring the Authority's accrued benefit obligations as at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate to determine expense	4.00%	4.75%
Discount rate to determine year end obligations	4.75%	4.00%
Interest rate on plan assets	4.00%	4.75%
Rate of average compensation increases	3.75%	3.75%
Rate of inflation indexation post retirement (CPI)	2.50%	2.50%
Rate of increases in health care costs	3% to 7%	3% to 7%

In addition to the risks of fluctuations in interest rates (discount rate) outlined above, the Authority's pension plans are subject to a number of other risks. Relative to the assumptions noted above, it is estimated that a 1% increase in the rate of inflation, will increase the defined benefit obligation by \$7.3 million. A decrease of 1% will have the same amount of impact, but will decrease the obligation. It is estimated that a 1% increase in compensation will increase the defined benefit obligation by \$0.9 million. It is estimated that a one year increase in life expectancy will increase

the defined benefit obligation by \$1.0 million and increase the obligation for other post-employment benefits by \$0.2 million. A 1% decrease in the discount rate would increase the estimated obligation for post-employment benefits by approximately \$1.3 million; an increase in the discount rate would have the same amount of impact, but would decrease the obligation. A 1% increase in medical costs would increase the obligation for post-employment benefits by an estimated \$1.3 million.

The investment policy for the pension plan's defined benefit funds was revised in early 2012 to adopt a "glide-path" de-risking strategy to better match fluctuations in the accrued benefit obligation due to changes in interest rates. Under this strategy, the proportion of liability matching assets (fixed income funds) will be increased and the proportion of growth assets (equity and other funds) will be decreased over time as the average age of active members increases and as the plan's solvency ratio improves. The plan's solvency ratio is monitored monthly by the plan's actuaries. The defined benefit plan is a closed plan. As at the last actuarial valuation at December 31, 2012, the average age of the 37 active members was 52 years of age. The average age of the 46 retired members was 65 years of age.

Responsibility for governance of the plans including overseeing aspects of the plans such as investment decisions lies with the Authority through a Pension Committee. The Pension Committee in turn has appointed experienced independent experts such as investment advisors, investment managers, actuaries and a custodian for assets. In accordance with the investment policy for the pension plan's defined benefit funds, as at December 31, the plan's non-current, non-cash assets are invested in funds maintained by Standard Life Assurance Company of Canada and managed by various investment managers as follows:

	<u>2013</u>	<u>2012</u>
Fixed income fund	48%	40%
Equity funds – Canadian funds	11%	12%
Equity funds – US fund	5%	5%
Equity funds – International and Global funds	16%	19%
Emerging market fund	5%	6%
Real estate fund	10%	12%
Alternative investment fund that includes derivatives	5%	6%

The Authority's contribution to the defined contribution component of the pension plan is a maximum of 7% of the employee's gross earnings. Information on this component is as follows:

	<u>2013</u>	<u>2012</u>
Employer contributions, defined contribution plan	\$613	\$557
Employees' contributions, defined contribution plan	\$757	\$680
Net expense recognized in salaries and benefits expense	\$613	\$557

10. Financial instruments

(tabular amounts in thousands of dollars)

Fair values

None of the Authority's financial assets or liabilities are reflected in the financial statements at fair values (see Note 2).

The Authority's long-term debt, including Revenue bonds outstanding, is reflected in the financial statements at amortized cost. As at December 31, 2013, the estimated fair value of the long-term Series B and Series D Revenue bonds was \$172.0 million and \$ 217.5 million respectively (2012 - \$189.0 million and \$ 222.7 million respectively). The fair value of the bonds is estimated by calculating the present value of future cash flows based on year-end benchmark interest rates and credit spreads for similar instruments (level 2).

Risk management

The Authority is exposed to a number of risks as a result of the financial instruments on its balance sheet that can affect its operating performance. These risks include interest rate risk, liquidity risk, credit risk, and concentration risk. The Authority's financial instruments are not subject to foreign exchange risk or other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following financial instruments are subject to interest rate risk as at December 31:

	2013		2012	
	Carrying value	Effective year-end interest rate	Carrying value	Effective year-end interest rate
Debt service reserve fund (at floating rates)	\$ 10,863	1.10%	\$ 10,747	1.10%
Bank indebtedness (at floating rates)	\$ 19,039	1.90%	\$ 9,385	2.73%
Long-term debt (at fixed rates)	\$ 337,715	See Note 7	\$ 339,874	See Note 7

The Authority has entered into fixed rate long-term debt, and accordingly, the impact of interest rate fluctuations has no effect on interest payments until such time as this debt is to be refinanced. Changes in prevailing benchmark interest rates and credit spreads, however, may impact the fair value of this debt. The Authority's most significant exposure to interest-rate risk relates to its future anticipated borrowings and refinancing, which are not expected to occur in the near-term.

In addition, the Authority's bank indebtedness, cash and cash equivalents, and its debt service reserve fund are subject to

floating interest rates. Management has oversight over interest rates that apply to its cash and cash equivalents, and its debt service reserve fund. These funds are invested from time to time in short-term bankers' acceptances permitted by the Master Trust Indenture, while maintaining liquidity for purposes of investing in the Authority's capital programs. Management has oversight over interest rates that apply to its bank indebtedness and fixes these rates for short term periods of up to 90 days based on bankers' acceptance rates.

If interest rates had been 50 basis points (0.50%) higher/lower and all other variables were held constant, including timing of expenditures related to the Authority's capital expenditure programs, the Authority's earnings for the year would have increased/decreased by \$7 million as a result of the Authority's exposure to interest rates on its floating rate assets and liabilities. Management believes, however, that this exposure is not representative of the exposure during the year, and that interest income is not essential to the Authority's operations as these assets are intended for reinvestment in airport operations and development, and not for purposes of generating interest income.

Liquidity risk

The Authority manages its liquidity risks by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis, and by matching its long-term financing arrangements with its cash flow needs. In view of its excellent credit ratings, the Authority has ready access to sufficient long-term funds as well as committed lines of credit through credit facilities with two Canadian banks.

The Authority is unregulated in its ability to raise its rates and charges as required to meet its obligations. Under the Master Trust Indenture entered into by the Authority in connection with its debt offerings (see Note 7), the Authority is required to take action, such as increasing its rates, should its projected debt service coverage ratio fall below 1.0. If this debt service covenant is not met in any year, the Authority is not in default of its obligations under the Master Trust Indenture as long as the test is met in the subsequent year. Because of the Authority's unfettered ability to increase rates and charges it expects to continue to have sufficient liquidity to cover all of its obligations as they come due, including interest payments of approximately \$20 million per year. The future annual principal payment requirements of the Authority's obligations under its long-term debt are described in Note 7(e).

Credit and concentration risks

The Authority is subject to credit risk through its cash and cash equivalents, its debt service reserve fund, and its trade and other receivables. The counterparties of cash and cash and equivalents and the debt service reserve fund are highly rated Canadian financial institutions. The trade and other receivables consist primarily of current aeronautical fees and airport improvement fees owing from air carriers. The majority of the Authority's accounts receivable are paid within 35 days of the date that they are due. A significant portion

of the Authority's revenues, and resulting receivable balances, are derived from air carriers. The Authority performs ongoing credit valuations of receivable balances and maintains an allowance for potential credit losses. The Authority's right under *the Airport Transfer (Miscellaneous Matters) Act* to seize and detain aircraft until outstanding aeronautical fees are paid mitigates the risk of credit losses.

The Authority derives approximately 47% (46% in 2012) of its landing fee and terminal fee revenue from Air Canada and its affiliates. Management believes, however, that the Authority's long-term exposure to any single airline is mitigated by the fact that approximately 91% of the passenger traffic through the airport is origin and destination traffic, and therefore other carriers are likely to absorb the traffic of any carrier that ceases operations. In addition, the Authority's unfettered ability to increase its rates and charges mitigates the impact of these risks.

11. Commitments and contingencies

Commitments

On January 31, 1997, the Authority signed a 60-year ground lease with the Government of Canada (Transport Canada) for the management, operation and development of Ottawa International Airport. The ground lease contains provisions for compliance with a number of requirements, including environmental standards, minimum insurance coverage, specific accounting and reporting requirements, and various other matters that have a significant effect on the day-to-day operation of the airport. The Authority believes that it has complied with all requirements under the ground lease.

On February 25, 2013, the Minister of Transport for the Government of Canada signed an amendment to the ground lease to extend the lease term from 60 years to 80 years ending on January 31, 2077. At the end of the renewal term, unless otherwise extended, the Authority is obligated to return control of the airport to the Government of Canada.

In 2005, the Government of Canada announced the adoption of a new rent policy that has resulted in reduced rent for Canadian airport authorities, including Ottawa International Airport Authority. Under the new formula, rent is calculated as a royalty based on a percentage of gross annual revenues on a progressive scale.

Based on forecasts of future revenues (which are subject to change depending on economic conditions and changes in the Authority's rates and fees), estimated ground rent payments under this arrangement for the next five years are as follows:

2014	\$ 8.0 million
2015	\$ 8.5 million
2016	\$ 8.9 million
2017	\$ 9.2 million
2018	\$ 9.5 million

The Authority has operating commitments in the ordinary course of business requiring payments of \$ 9.0 million in 2014 and diminishing in each year over the next 5 years as contracts expire. At December 31, 2013, the total of these operating commitments amounted to \$ 18.2 million. These commitments are in addition to contracts for the purchase of property, plant, and equipment of approximately \$ 21.3 million.

Contingencies

The Authority is party to legal proceedings in the ordinary course of its business. Because these are not significant in amount and are covered by the Authority's insurance policies, management does not expect the outcome of any of these proceedings to have a material adverse effect on the financial position or results of operations of the Authority.

12. Changes in non-cash working capital related to operations

(tabular amounts in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Trade and other receivables	\$ 167	\$ (530)
Prepays and advances and consumable supplies	(264)	(184)
Accounts payable and accrued liabilities	(731)	(1,787)
Other	3	-
	<u>\$ (825)</u>	<u>\$ (2,501)</u>

13. Related party transactions

(tabular amounts in thousands of dollars)

Compensation paid, payable, or provided by the Authority to key management personnel during the year ended December 31 was as follows:

	<u>2013</u>	<u>2012</u>
Salaries and short-term benefits	\$ 2,122	\$ 2,011
Post-employment benefits	203	208
	<u>\$ 2,325</u>	<u>\$ 2,219</u>

Key management includes the Authority's fourteen directors and members of the executive team, including the President and CEO, and five vice-presidents.

The defined pension plan referred to in Note 9 is a related party to the Authority. The Authority's transactions with the pension plan include contributions paid to the plan, which are disclosed in Note 9. The Authority has not entered into other transactions with the pension plan and has no outstanding balances with the pension plan at the balance sheet date.

14. Leases – the Authority as lessor

The Authority leases out, under operating leases, space within its buildings and support facilities that are included in property plant and equipment, and certain parcels of land included under its ground lease with the Government of Canada. Many leases include renewal options, in which case they are subject to market price revision. The lessees do not have the possibility of acquiring leased assets at the end of the lease. Contingent rents representing the difference between the agreed-upon percentages of reported revenues and specified minimum rentals, form part of certain lease agreements. Contingent rents included in land and space rentals on the statement of operations, amount to approximately \$0.2 million each year. Contingent rents, included in concession revenue on the statement of operations, amount to the full amount of concession revenue of approximately \$9.7 million. Future minimum lease receipts (excluding contingent rent payments) from non-cancellable leases in place at December 31, 2013 amount to approximately \$5.5 million per year. Given the nature of these leases and the tenants, this amount is not likely to decline in any material way.

15. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and February 26, 2014 when the financial statements were authorized for issue.