International Airport Authority
Ottawa
Administration de l'aéroport international

ANNUAL REPORT 2014

YOW

Ottawa Macdonald-Cartier International Airport Authority

VISION

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

MISSION

The Authority provides a 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.

VALUES

- Responsibility
- Sustainability (financial and environmental)
- Accountability
- Integrity

STRATEGIC DIRECTIONS

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

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CHAIRMAN'S REMARKS

Welcome to the 2014 Annual Report, which will share the highlights of a very busy and productive year at the Ottawa International Airport. Since joining the Airport Authority's Board of Directors in 2008, I have seen many changes in our airport, the industry, and the region. I've watched the ups and downs of the local economy, and the related impacts on our business, but during that time, I've also watched major projects here move from the conception stage through to successful execution. As always, I marvel at the magnitude of what gets accomplished with the relatively small but focused team at our airport.

I had several goals when I took over the role of Chairman of the Board in 2012. The first was to ensure a smooth executive transition at the CEO level which was definitely achieved. The second goal was to take the opportunity presented to us by the need to review and amend our bylaws as per the *Canada Not-for-profit Corporations Act*, to initiate a complete review of the Authority's governance structure with a view to making a great Board of Directors even better. The Board members undertook a review of all committees and procedures, examined best practices, and updated our policies accordingly. Finally, together with senior management, we developed and adopted a comprehensive Strategic Plan that set us on a clear and solid course for the next four years and beyond. 2014 was very much about executing on that plan, which Mark will discuss in more detail in his remarks.

I am extremely proud of these accomplishments but recognize that they could not have been achieved without the engagement of the entire Board and senior management. It has been a true privilege to serve with everyone at the Airport Authority, and I look forward to watching the Airport Authority through the next chapter of its evolution. I am also grateful to our CEO, Mark, and his team for consistently stepping up to the challenges we set before them, as well as responding to the ever-changing economic and industry landscapes. I believe our team is one of, if not the best team in the country as confirmed by our standing as the only Canadian airport in the top five airports in North America and third in the world for airports serving 2 to 5 million passengers. My term as Chairman will come to an end in April, but I will stay on the Board as Past Chair and will continue serving the Authority in that role for the next few years.

In closing, I would like to thank the community for the consistent and constant support it has shown the airport and the Airport Authority for so many years. We are fortunate to live in

Canada's Capital Region and to enjoy the quality of life we have here. I firmly believe that our airport contributes to that quality of life but also believe that our success is thanks in large part to the communities we serve. I look forward to watching the relationship strengthen in the future as the airport continues to grow and connect more passengers with the world.

Gilles Lalonde,
Chairman

PRESIDENT'S REMARKS

It is difficult to imagine a year flying by as quickly as 2014 did. It is especially difficult when so much was accomplished in that short time.

One of the most visible projects was the complete reconstruction of the airport's longest runway. Yes, it was time to resurface Runway 14/32, and we could have completed a simple "shave and pave", as the operations team refers to a resurfacing project. Instead, we decided that the more prudent approach would be a comprehensive project including the replacement of runway lighting, installation of a new stormwater sewer system, and reprofiling the runway from a crossfall configuration to a centre crown configuration. Further, the Authority made a significant investment in safety by adding Runway End Safety Areas (RESAs) to each end of the runway. Ottawa became a leader in runway safety design when it reconstructed its other commercial runway, 07/25 in 2012, making it the only Tier 1 airport in the country with RESAs and a grooved surface. Were we required to make these safety enhancements? The answer is no. But making them was the right thing to do, and we think the investment was worth every penny.

One of our most complex projects continued throughout the year. The $58 million baggage handling system upgrade, which began in 2013, took significant strides forward. The transborder portion of the project was installed and will be ready for implementation in early 2015. A new carousel in the domestic arrivals area was also installed, although the associated back-of-house work will continue throughout 2015 with a planned implementation in 2016.

Ottawa Airport has more firsts to share. In late November, I was fortunate enough to be a participant in the first Active Shooter Training Exercise at a Canadian airport. Together with nearly 300 first responder participants from the Ottawa Police Service, Ottawa Paramedic Service, Ottawa Fire Services and many other organizations, the massive exercise featured a scenario that we must prepare for as the events of October 22nd sadly reminded us of. I was amazed at how comprehensive the planning was and how realistic the scenario was, and I am very proud of the way the various stakeholders came together to increase our collective preparedness for an event we hope to never experience in real life.

These and so many other projects kept the team extremely busy, but not so busy that we lost sight of one of our most important priorities – customer service. In fact, efforts to delight our passengers resulted in more Airport Service Quality awards. Remaining in third spot for airports that serve between two and five million passengers and in fifth place for all airports in North America is something to be proud of, and I am. I would like to say a big thank you to everyone who did a little extra to make our passengers' travel experiences more memorable.

Every infrastructure project or customer service initiative is undertaken with one goal in mind – to be a world-class airport. So it should come as no surprise that we want the city we serve to be world-class as well. We believe that a strong transportation system is needed if we are to achieve that status, which is why we are so focused on working with the city of Ottawa on two particular environmental assessment files: the O-Train extension to the airport; and the widening of the Airport Parkway. We believe that an airport link is vital to the future of Ottawa and feel that it needs to be implemented sooner than later. We also feel strongly that the Airport Parkway, the main access route to the airport, is running at capacity during peak hours and causing severe congestion that must be addressed. We look forward working with the City towards a comprehensive transportation plan that serves the needs of the airport and the entire community. It is not about one project over the other – it is about building a multi-modal system that meets the needs of our growing community well into the future.

The strategic plan that we developed last year and set in motion this year has kept us very focused on our goals. As I have mentioned many times, it's an ambitious plan, but with the support of the Board of Directors and the entire Airport Authority team, we are making tangible progress. I would like to express my appreciation for everyone's dedication to achieving our goals. I would particularly like to thank the Board of Directors for their confidence in the team, its ability to make sound decisions and to take decisive action; their trust is a testament to the strength of my team, and we will do our best to prove the trust is well-placed as we continue to move the plan forward.

Gilles Lalonde's term as Chairman of the Board is coming to a close, and I would like to take this opportunity to thank him for his guidance and leadership. Gilles was a part of the team that selected me to take the Airport Authority forward and has provided a level of support that, I believe, made the transition exceptionally smooth and successful. It has been a pleasure and a privilege to work with him, and I look forward to his continued involvement as a member of the Board. I also look forward to working with our new Chair and continuing the great work that was initiated under Gilles' leadership.

There are many signs that the local economy is healthier and our passenger volumes are growing again. With this growth comes opportunity. I look forward to seeing what the future has in store for the Ottawa International Airport and assure you that my team and I will be ready to embrace every opportunity. I hope the community will be right there with us, just as it has been since 1997.

Mark Laroche,
President and CEO

2014 IN REVIEW

Welcome to Ottawa International Airport Authority's review of 2014. Last year, we set the stage for a new approach to our business, in the form of a five-year Strategic Plan that we crafted with guidance and direction from the Authority's Board of Directors. After a thorough review of our business, the industry, and the challenges and opportunities we identified in pursuit of fulfilling our redefined Vision and Mission statements, we developed the plan based on the following five key strategic directions:

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

We know that for the plan to be executed successfully, we need to adapt to changes in the industry, in the local economy and in best practices, and the plan must evolve to accurately reflect the organization's priorities. We made a commitment to report on our progress each year, and this Annual Report will take you through the Authority's achievements and activities in 2014, in furthering the five strategic directions.

1. TO GROW STRATEGICALLY

As the industry contracts and expands, it's critical that we find new and innovative ways to generate revenues that are not directly associated with the number of available airline seats or passengers who fill them. From parking to concessions to advertising, non-aeronautical revenues can make a significant difference where airport development and investment are concerned. Developing property to maximize long term non-aeronautical revenue, enhancing the airport's core business, and leading economic development in the community are important components of this strategic direction.

The following projects represent some advancements made in the area of non-aeronautical revenue generation:

SUMMARY OF AMOUNTS SPENT IN THE OTTAWA REGION ($ 000)

	2010	2011	2012	2013	2014	TOTAL
Wage bill	$ 16,885	$ 17,922	$ 18,605	$ 20,093	**$ 20,885**	$ 94,390
Payments in lieu of municipal taxes	4,560	4,788	4,982	5,048	**4,933**	24,311
Operations costs	25,000	26,000	27,000	27,000	**29,000**	134,000
Capital costs	21,000	27,000	24,000	30,000	**54,000**	156,000
	$ 67,445	$ 75,710	$ 74,587	$ 82,141	**$ 108,818**	$ 408,701

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.

GROUND TRANSPORTATION

There was a lot of movement and change in the area of ground transportation in 2014. To start, new services for parking were introduced, including the opening of a much anticipated cell phone waiting lot, enhanced signage, and the successful launch of a new online parking reservation system. This new system better enables the Authority to compete for market share and revenue from passengers who choose to drive to the airport.

A number of parking partnerships were inaugurated during the year, with the objective of increasing parking usage and revenue. Some of the partners that we engaged in 2014 include the Hilton Garden Inn Ottawa Airport, the Ottawa Senators, Visa Canada and First Air.

The Authority entered into a new taxi service agreement with Coventry Connections, the parent company of BlueLine, DJ's Taxi, and Capital Taxi. The agreement with Coventry continues to utilize the dedicated services of the existing airport drivers and fleet, and includes a series of milestones which could lead to a longer term agreement beginning in the summer of 2015.

COMMERCIAL DEVELOPMENT

In early 2014, the Authority and master food/beverage concession partner HMS Host introduced two new quick-service brands in the post-security area: The Local and PZA, along with entirely new menus at two of its full-service restaurants: Rideau Bar and Grill and Byward Taps.

The Authority's master retail provider, LS travel retail, introduced the Hudson's Bay Company Trading Post in November 2014, and the Authority and LS continue to work toward introducing other new concepts in 2015.

The Authority concluded a request for proposals process for a number of retail and food/beverage locations in the terminal. This process resulted in leases for several exciting new concepts, all of which will open in the first half of 2015. Good Earth Café, a brand that is well known in Western Canada, will open its first Ontario location pre-security in March 2015. Canadian jewelry boutique Metalsmiths Sterling will open post-security in the domestic/international holdroom in February 2015. Tulip Bar and Wine Lounge, which will be operated by Delaware North Companies, will begin filling wine glasses across from Gate 16 in the second quarter of 2015.

A request for proposals was launched in early November 2014 for the in-terminal advertising concession, which is expected to conclude in February 2015 with the chosen operator in place by May 2015.

A request for proposals was issued for on-airport vehicle rental operators in late summer. All existing on-airport car rental operators were successful in re-obtaining vehicle rental concessions, including Avis-Budget, National-Alamo, Enterprise and Hertz. No new brands or operators were introduced through the competitive process.

2. TO INCREASE THE ECONOMIC FOOTPRINT OF THE AIRPORT WITHIN CANADA'S CAPITAL REGION

The Ottawa International Airport is more than simply three runways and a terminal building. It is a major employer that pays taxes to several levels of government, facilitates tourism and contributes more than $2.2 billion to the local economy each year. Included in the figure are direct, indirect and induced values of employment, gross domestic product, income and spending. The importance of increasing the impact that the airport has on Ottawa and Gatineau was the genesis of this strategic direction. We believe that Ottawa's airport should play a role in stimulating economic development in the region.

The economic prosperity here has a direct relationship with the demand for air travel, given the correlations between population growth, disposable income, and passenger growth. This underscores the need for the Authority to seek opportunities to grow the economic footprint of the airport. To this end, there were several developments during 2014 to report.

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	4.28%	3,046,368	6.60%
	1998	2,414,355	-0.87%	563,085	12.15%	133,108	22.38%	3,110,548	2.11%
	1999	2,426,288	0.49%	628,203	11.56%	157,116	18.04%	3,211,607	3.25%
	2000	2,562,282	5.61%	719,200	14.49%	152,863	-2.71%	3,434,345	6.94%
	2001	2,625,630	2.47%	618,694	-13.97%	146,971	-3.85%	3,391,295	-1.25%
	2002	2,445,770	-6.85%	600,365	-2.96%	170,751	16.18%	3,216,886	-5.14%
	2003	2,491,691	1.88%	588,088	-2.04%	182,566	6.92%	3,262,345	1.41%
	2004	2,736,779	9.84%	641,157	9.02%	231,949	27.05%	3,609,885	10.65%
	2005	2,779,895	1.58%	719,150	12.16%	236,388	1.91%	3,735,433	3.48%
	2006	2,807,377	0.99%	735,753	2.31%	264,626	11.95%	3,807,756	1.94%
	2007	3,052,813	8.74%	746,435	1.45%	289,280	9.32%	4,088,528	7.37%
	2008	3,255,540	6.64%	740,369	-0.81%	343,315	18.68%	4,339,225	6.13%
	2009	3,141,812	-3.49%	682,822	-7.77%	408,196	18.90%	4,232,830	-2.45%
	2010	3,303,170	5.14%	725,781	6.29%	444,943	9.00%	4,473,894	5.70%
	2011	3,429,310	3.82%	750,486	3.40%	444,830	-0.03%	4,624,626	3.37%
	2012	3,454,387	0.73%	775,040	3.27%	456,529	2.63%	4,685,956	1.33%
	2013	3,363,685	-2.63%	772,678	-0.30%	442,228	-3.13%	4,578,591	-2.29%
	2014	**3,434,209**	**2.10%**	**741,285**	**-4.10%**	**440,954**	**-0.30%**	**4,616,448**	**0.83%**
Forecast	2015	3,510,344	2.22%	766,430	3.39%	460,294	4.39%	4,737,069	2.61%
	2020	3,962,379	2.45%	898,604	2.89%	571,523	4.42%	5,432,506	2.72%
	2025	4,436,164	2.04%	1,033,093	2.74%	729,402	5.87%	6,198,659	2.59%
	2030	4,910,102	2.07%	1,180,039	2.62%	946,355	4.57%	7,036,497	2.49%

LAND DEVELOPMENT

Two new land leases were signed that will set the stage for employment growth on airport land.

First, our long-time hotel partners Bona Building and Management Co. Ltd. have signed a franchise agreement with the Marriott hotel chain, and will be constructing a new Fairfield Inn & Suites Ottawa Airport hotel. Ground is expected to be broken in 2015.

And, Otto's BMW has signed a lease for more land adjacent to their operation on Hunt Club Road. The extra space will be used to support their planned dealership expansion.

STUDIES FOR FUTURE DEVELOPMENT

Servicing studies were undertaken as part of the planning process required to begin developing a new airport business park on lands west of the airfield. The project that we are calling the "Limebank North Business Park" will be a mixed-use park, with some airport-related businesses and commercial/industrial employment uses. Dates for actual development have not yet been set.

O-TRAIN TRILLIUM LINE EXTENSION

The Authority is working with the City of Ottawa on the environmental assessment project associated with the extension of the O-Train Trillium Line, to the south. The Authority funded half the portion of the environmental assessment that pertains to an essential airport link, and which could include two stations on airport land. Linking the O-Train to the airport is important for a number of reasons: it will ensure efficient and reliable access to the airport and anywhere along the Confederation Line including downtown for residents, tourists, business visitors and employees; it will become a selling point for conferences and exhibitions in our city; and it will facilitate transit-oriented commercial development in and around airport land. In 2015, the Authority will be building a business case and funding model to support the implementation of this airport-rail link.

AIRPORT PARKWAY WIDENING

The Authority is participating in the City of Ottawa's environmental assessment project that deals with widening the Airport Parkway. As the primary gateway between the airport and the city centre, ensuring long term efficient access, improved capacity, and reduced travel time are critical as commuter traffic from neighbourhoods located south of the airport grows. The Authority is in support of the City's planning for both

FIVE-YEAR REVIEW ($ 000)

	2010	2011	2012	2013	**2014**
Revenues	$ 89,723	$ 103,058	$ 105,845	$ 104,139	**$ 112,271**
Expenses before depreciation	72,226	75,167	78,232	79,866	**83,074**
Earnings before depreciation	17,497	27,891	27,613	24,273	**29,197**
Capital expenditures	31,816	27,079	24,403	30,390	**54,752**
AIF revenues	28,254	37,732	39,379	38,370	**43,629**

the Airport Parkway widening and the construction of an airport-rail link to provide the best access and connectivity to the capital region.

LAND DESIGNATION

The Authority continues to work closely with the City of Ottawa to ensure that airport lands have the appropriate designations to facilitate ongoing commercial development which will ensure that the airport's long term economic contribution in the community can continue to grow. The Authority is participating as members of the working group on the 2014 Employment Land Review scheduled to be completed in 2015. The project was initiated by the City of Ottawa but partially sponsored by the local development community.

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, and enable the other parts of the business to be successful. Regular training, tabletop exercises, live exercises, and safety case reviews ensure full compliance of all policies and procedures where our operation is concerned. The Authority has taken a leadership position in safety and security through our infrastructure improvements and operational reviews, and is committed to continuing to do so.

Without compromising safety and security, the Authority also strives to be operationally efficient. It does so by maximizing resource potential, and maintaining a competitive cost of operation so that it can maintain a competitive fee structure relative to comparable airports. Wherever possible, we leverage technology to improve service levels and enhance the customer experience. The goal is to ensure that our clients receive world-class services that are cost-effective and befitting the capital of Canada.

Finally, strong financial management is key to ensuring that we have the resources necessary to achieve the overall objective. Care and prudence are required to manage our financial resources and keep our costs to carriers and passengers as low as possible. To that end, the following are some of the projects that we undertook in our pursuit of optimal performance in the three areas:

SAFETY AND SECURITY

Runway 14/32

Phase III of the Authority's runway rehabilitation project was completed on schedule and within the funding envelope of $30 million. The project, which focused on Runway 14/32, the airport's 10,000 foot runway, began in May and included the following:

- Removal of the surface layer of asphalt from the runway;
- Replacement of runway lighting and electrical wires;
- Removal and installation of a new storm water system;
- Reprofiling of the runway from a crossfall configuration to centre crown;
- Regrading and repaving; and
- Construction of a Runway End Safety Area (RESA) at both ends.

As was the case when Runway 07/25 was reconstructed in 2012, the RESAs were built to International Civil Aviation Organization (ICAO) and Federal Aviation Authority (FAA) standards, bringing this runway to the highest safety standards and recommendations in the industry, as well.

Active Shooter Training Exercise - A First in Canada

On November 28, nearly 300 first responders, Airport Authority employees, volunteers, and observers from across Canada gathered at the Ottawa International Airport to exercise the Airport's Active Shooter Response Plan, known as "Code Silver." Transport Canada mandates that major airports in this country must conduct operations-based security exercises every two years to test and validate their emergency plans.

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%	$ 7,700,000	4.9%
2013	4,578,591	-2.3%	83,567	-7.9%	$ 7,420,000	-3.6%
2014	**4,616,448**	**0.8%**	**78,073**	**-6.6%**	**$ 8,317,000**	**12.1%**
2015	4,737,069	2.6%	79,571	1.9%	$ 8,800,000	5.8%
2016	4,869,804	2.8%	81,247	2.1%	$ 9,100,000	3.4%
2017	5,006,552	2.8%	82,895	2.0%	$ 9,400,000	3.3%
2018	5,148,319	2.8%	84,580	2.0%	$ 9,700,000	3.2%
2019	5,288,415	2.7%	86,334	2.1%	$ 10,000,000	3.1%

Notes: Federal Government Net Book Value at time of transfer: $75M
Total rent projected 1997-2019: $203M
Forecast passenger volumes are as provided by outside consultants.
For financial planning purposes, the Authority forecasts on a more conservative basis.

We are proud to say that Ottawa Airport is the first in Canada to hold this type of exercise in an operational passenger terminal building. Participants and observers alike were impressed with how realistic the exercise was and how well the various stakeholders worked together to resolve the mock situation.

Non-Passenger Screening – Vehicle Screening

Transport Canada accelerated the deployment of a non-passenger screening program for vehicles, which covers all vehicles and occupants that access the critical restricted areas of the airfield of Class 1 airports, with a first implementation deadline of end of November 2014. One airside access point with a temporary facility was created at the Ottawa Airport with a second point to be opened by the end of January 2015. While the ICAO standard has been talked about for a few years, the sudden implementation was imposed on airports with only a few months' notice. The majority of the costs associated with the implementation are to be borne by the airports.

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
2014	**78,073**

PERFORMANCE

New State-of-the-Art Baggage Handling System

After the groundwork on this $58 million project was completed in 2013, the component installation of the new Baggage Handling System started in early 2014. The system that serves U.S.-bound (transborder) baggage is now fully installed and being prepared for implementation. The domestic/international system installation is progressing well.

The majority of the activity is "back of house" and is not visible to the public. But, it is a very large project that is required to replace aging equipment, that will double system capacity, and will incorporate new screening systems provided by the Canadian Air Transport Security Authority (CATSA). This is the first major system change since the new terminal was opened in 2003.

Visitors to the terminal will have noticed that a new domestic carrousel is now in place on level 1 arrivals, with the associated back-of-house work continuing on the feed conveyor system. Project completion is slated for early 2016.

New Passenger Boarding Bridges

Two of eight new passenger boarding bridges have been installed at two of the most-used gates in the domestic/international holdroom. Bridges at gates 15 and 16 were installed, tested and are now fully operational. These changes will improve reliability, increase ease of use by airline and ground handling staff, and will lower annual maintenance costs.

New Airport Operations Coordination Centre

After significant internal review, a reorganization was undertaken to amalgamate the airport's Security Operations Centre (SOC) and Airport Operations Response Centre (AORC) into a new and streamlined Airport Operations Coordination Centre (AOCC). The project resulted in revised job profiles, the creation of new positions with the intent of improving operational response and facilitating future growth, and will physically bring the teams together in a newly constructed operations centre that is slated to open in the first quarter of 2015.

FINANCIAL PERFORMANCE

Optimal performance requires strong finances. Revenue drivers continued at the same reduced pace that the Authority experienced in the latter part of 2012 and through 2013. Travellers to and from Ottawa continued to be affected by government restraints and tightened their own belts as well. 2014 passenger volumes came in at just over 4.6 million passengers, an increase of only 0.8% from 2013, and still below 2012 levels by 1.5%.

Revenues in 2014 were 8% higher at $112.3 million compared to $104.1 million in 2013, mainly because the Airport Authority increased the Airport Improvement Fee it charges passengers in order to pay for infrastructure improvements. These improvements included the reconstruction of Runway 14/32 and government-mandated changes to the airport baggage system. As a result of increased AIF revenues and increased fees charged to airlines, the Authority finished 2014 by generating earnings before depreciation of $29.2 million compared to $24.3 million for the year ended December 31, 2013. As always, these earnings will be reinvested in airport operations and development.

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
2014	**50**

4. TO PURSUE EXCELLENCE

Ensuring a positive customer experience has been a preoccupation of the Authority since it was created. The commitment involves everyone from the Board of Directors to each and every member of the Authority team. It also encompasses the entire airport campus, which requires the Authority to play the role of facilitator to communicate the feedback we receive through surveys, from social media and comments/letters. Together we can ensure that the curb to cabin experience is a great one.

CANADA NOT-FOR-PROFIT CORPORATIONS ACT/BY-LAWS

After a year-long process, the Authority successfully migrated to the new *Act* and is now operating under its new revised by-laws. The revised by-laws were approved by the Minister of Transport in early December and as the last step in migrating to the new *Act*, the by-laws were filed with Corporations Canada. The new by-laws were carefully reviewed by the Board and its Governance Committee and were amended to reflect best practices in corporate governance.

SERVICE LEVEL STANDARDS

The Authority has been keeping a close eye on several touch points that are important to our clients, and that generate much feedback. Security wait times and baggage delivery times can make or break a passenger's opinion of their airport experience. We have been working with CATSA with respect to security wait times. By monitoring throughput times and collaborating with CATSA, we can review any service level failures to track trends and determine root causes in an effort to prevent future occurrences.

With respect to baggage delivery, we work with our airline partners to share feedback from passengers who let us know when their wait for baggage exceeds 20 minutes. We do what we can to ensure that there are no Authority-related impediments to airline/ground handler operations that might contribute to any delays.

AIRPORT SERVICE QUALITY AWARDS

We are delighted to have been recognized for our excellent customer service again in 2014. When the passenger surveys were tabulated, we achieved 3rd place in the world for airports that serve between two and five million passengers per year, and 5th place for all airports in North America. The competition is increasingly fierce each year, as more and newer airports join the program, so we're very grateful to the entire airport team that helped us earn these accolades, and to our passengers who take the time to participate.

FLYCANADA

The Authority launched its new passenger facilitation mobile app called FlyCANADA on October 31st, 2014. Branded as "your airport concierge", FlyCANADA is the go-to app for airport information and tools that will make travel simple and enjoyable with flight information, online parking reservations, information concerning security wait times and push notifications. To date, over 2000 users have downloaded the app, and work continues on making it better and incorporating more features and benefits.

REDESIGNED WEBSITE

As more customers rely on online information when planning a trip and travelling, having a strong web presence is increasingly important. To ensure that we are presenting our information as comprehensively and clearly as possible, a complete redesign of the Authority's website was completed in 2014. The new website focuses on accessibility, easy mobile access, and current best practices in web design. The change was also driven by changing technology and customer feedback. We tracked the information that was most sought by our clients to ensure that those areas were improved.

ANOTHER SUCCESSFUL PLANE PULL EVENT

The Authority hosted a great, albeit wet, Plane Pull Challenge on September 13th. All 24 teams and many spectators showed up, despite the weather, and together with First Air, our aircraft sponsor, and the Sens Foundation, we raised $50,000 for Project Clear Skies and the Sens Foundation. This brings the total funds raised to date to $500,000.

THE PLANE PULL WINS!

The Plane Pull Challenge was recognized in April of 2014 by Ottawa Tourism, with its inaugural Community Spirit Award. This award recognizes an organization in the tourism industry that organized or participated in a fundraising activity for a charitable organization in Ottawa. The Plane Pull is a success due to the involvement and commitment of the Authority's employees, and this award is shared with them.

ORIGIN AND DESTINATION

92% of traffic (estimated)

AWARD - TOP EMPLOYER

In conjunction with the strategic direction, excellence in employee engagement, the Authority participated in the Canada's Top 100 Employers project, a national competition, hosted by MediaCorp Canada Inc., to determine which employers lead their industries in offering exceptional workplaces for their employees. Employers are evaluated using eight criteria, including physical workplace, work atmosphere and social, health, financial and family benefits, vacation and time off, employee communications, performance management, training and skills development, and community involvement. Employers are compared to other organizations in their field to determine which offers the most progressive and forward-thinking programs.

Employers that apply to the national project are also considered for regional and special interest competitions. The National Capital Region's Top Employers designation recognizes the Ottawa-area employers that lead their industries in offering exceptional places to work.

The Airport Authority was pleased to be selected as one of the National Capital Region's Top Employers in 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
2014	**80**	**24**	**23**

JUNIOR PLANE SPOTTER PROGRAM

The winter charter season brings a lot of families into the terminal. It also brings flight delays and creates a busier than normal terminal, which can be challenging for kids who want to get to their vacation destination. To help keep kids busy, the Authority introduced a Junior Plane Spotter Program which provides kids with a membership card, binoculars and a spotting card that they can check off as they find the noted items in and around the terminal. In 2014, more than 2,500 kits were given out between the Family Day holiday and Easter, bringing total distribution since the program was launched in 2013 to more than 5,000 kits.

JUNIOR PLANE SPOTTER PROGRAM – AWARD WINNER

When ACI-NA handed out its annual marketing awards at the Marketing and Communications Conference, the Junior Plane Spotter Program was recognized with a win in the “Creative Innovations – Promotional Items” category!

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, increased frequencies, and other changes in flight schedules is ongoing. The Authority works closely with airline partners to demonstrate the benefits of serving our market while providing the data they need to make decisions regarding the deployment of their costly assets. We also work closely with Ottawa companies and business groups to understand their needs for air service, and to ensure we can work together to attract valuable routes that the community supports. We must be able to offer evidence to airlines that a market exists and we must be active in the community in order to stimulate the market. We do this by working with our community partners to encourage tourism, business growth and international events in our region.

More flights to more places directly impacts the local economy. But the right flights to the right places are also prerequisites to attract investment to the community, to generate employment, and to attract tourism and related visitor spending.

Here’s what happened on the flight schedule front in 2014:

While we were disappointed to learn that Air Canada would be reducing Frankfurt service to seasonal (summer), we were very pleased to learn that the airline planned increases in its service to sunny Florida, including seasonal service to Tampa and increasing its service to Fort Lauderdale to year-round.

Ottawa’s offering to the north increased with the addition of new carrier, Air North, which launched non-stop service to Yellowknife and direct service to Whitehorse, in February of 2014.

Celebrity Cruises amped up their marketing effort by introducing dedicated non-stop flights for their passengers. They launched service to Fort

Lauderdale, where passengers can easily board their ships. They will be providing the same non-stop service to Miami in 2015.

The strength of the market to the sunny south was confirmed with several announcements by Sunwing for increased service to southern hot spots Fort Lauderdale, St. Pete-Clearwater, and St. Martin.

Other announcements included WestJet summer service to St. John's and Delta non-stop holiday service to Atlanta.

The news wasn't all good, however, with a few losses including Air Transat and Sunwing service to Orlando, American Airlines service to Chicago, and Bearskin service to Kitchener-Waterloo and North Bay.

The Business Development and Marketing team will continue to advocate on behalf of the Ottawa market to ensure that our clients continue to benefit from increased choice in airlines and destinations.

CORPORATE GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

The Ottawa International Airport Authority's mission is to be a leader in providing quality, safe, secure, sustainable and affordable transportation services to the airport's customers and communities and be a driver of economic growth within Canada's 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 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 2014, 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

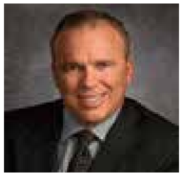
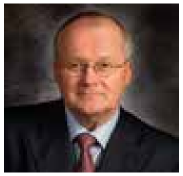
The Authority established by-laws at incorporation in 1995, which were amended in 2003, in 2010 and again in 2014 following its continuance under the *Canada Not-for-profit Corporations Act*. Under the current by-laws the selecting bodies that provide nominees to the 14-member Board are as follows:

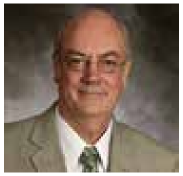
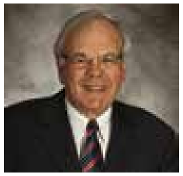
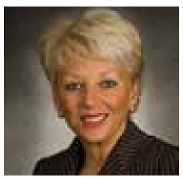
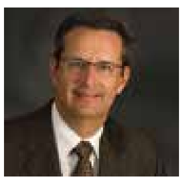
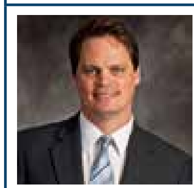
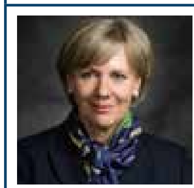
Selecting Bodies	Number of Directors nominated
Minister of Transport (Government of Canada)	2
Government of the Province of Ontario	1
City of Ottawa	2
City of Gatineau	1
Ottawa Chamber of Commerce	1
Ottawa Tourism and Convention Authority	1
Chambre de commerce de Gatineau	1
Invest Ottawa	1
Ottawa Macdonald-Cartier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

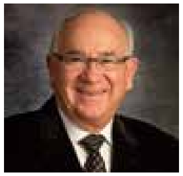
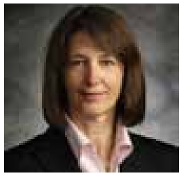
A Director's term of office is a maximum of three years. Each Director may be re-elected for additional terms, but may not serve as a Director for more than nine years.

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, 2014:

Director	Name and Position with Authority	Occupation	Selecting Body and Year Appointed
	**Gilles Lalonde** Chairman of the Board	President and CEO, Provance Technologies Inc.	Ville de Gatineau 2008
	**Craig Bater** (2) (4)	Partner, Augustine, Bater & Binks LLP	Ottawa Chamber of Commerce 2012
	**Thom Bennett** (3)	President, Bennett Insurance Agency Limited	Minister of Transport (Government of Canada) 2012

Director	Name and Position with Authority	Occupation	Selecting Body and Year Appointed
	**John Boyd** (1)	Partner, Professionals for Independent Planning	Province of Ontario 2010
	**Chris Carruthers** (2)	Retired MD, Health Care Consultant	At large 2010
	**Scott Eaton** (1)	Business Lawyer	At Large 2013
	**Barbara Farber** (2)	President, Leikin Group Inc.	City of Ottawa 2010 At Large 2007
	**Patrick Kelly** (3)	President, Shaw Centre	Ottawa Tourism 2007
	**Brendan McGuinty** (2) Chair, Governance Committee	President, Strategies 360 Inc.	City of Ottawa 2011
	**Carole Presseault** (3)	Principal Consultant Presseault Stratégies	Chambre de Commerce de Gatineau 2014

Director	Name and Position with Authority	Occupation	Selecting Body and Year Appointed
	**Jacques Sauvé** (4) Chair, Major Infrastructure and Environment Committee	Consulting Engineer	At Large 2012
	**Susan St. Amand** (1) (3) Chair, Human Resources and Compensation Committee	President, Sirius Financial Services	Minister of Transport (Government of Canada) 2012
	**Janice Traversy** (1) (4) Chair, Audit Committee	Retired Airline Executive	At Large 2013
	Vacant Board position		Invest Ottawa

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

DIRECTORS' COMPENSATION IN 2014

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

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Board Member	Board Meetings Attended	Committee Meetings Attended while member of a Committee
Craig Bater	9 out of 10	8 out of 8
Thom Bennett	10 out of 10	6 out of 6
John Boyd	10 out of 10	5 out of 6
Chris Carruthers	10 out of 10	6 out of 7
Ron Clifton (note 2)	2 out of 3	3 out of 3
Scott Eaton	9 out of 10	6 out of 6
Barbara Farber	9 out of 10	7 out of 7
Pat Kelly	10 out of 10	5 out of 6
Gilles Lalonde	10 out of 10	23 out of 25
Brendan McGuinty	8 out of 10	7 out of 7
Carole Presseault (note 1)	8 out of 8	3 out of 3
Jacques Sauvé	10 out of 10	6 out of 6
Susan St. Amand	10 out of 10	8 out of 8
Janice Traversy	10 out of 10	8 out of 8

Note 1- new board member effective April 30, 2014
Note 2- term ended on April 30, 2014

COMMITTEES OF THE BOARD

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

Governance Committee

- oversight and initiation of procedures to deliver best practices in the area of corporate governance;
- review the Annual Report as prepared by the President;
- establish the nomination procedures, the skill sets required for nominees and the length of term of selected nominees;
- evaluate and recommend nominees to the Board;
- oversee the application of Conflict of Interest rules to Board members and nominees;
- develop a process for nomination of Chair of the Board and oversee such process;
- review the annual Board evaluation process and any associated recommendations for change;
- review recommendations of the Chair of the Board regarding composition of Committees of the Board and appointment of Committee Chairs;
- review changes to Charters of all Board Committees and recommend changes for Board approval;
- review Director compensation and recommend any changes for Board approval; and
- review the Authority's structures and procedures to ensure the Board is able to function independent from management.

Major Infrastructure and Environment Committee

- oversee the Authority's major infrastructure projects; and
- oversee best practices in the area of environmental stewardship.

Audit Committee

- assist the Board in fulfilling its oversight responsibilities with regard to financial risk management, financial reporting and audit functions;
- review selection, appointment, compensation, retention, and termination and oversee the work of the Authority's external auditor. Recommend to the Members the appointment of the external auditor for approval. Monitor audit engagement partner rotation requirements. The external auditor reports 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;
- annually review 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;
- review the appointment and performance of the chief internal auditor and all matters relating to the work plan of the internal audit function, including significant reports prepared by internal audit together with management's response and follow-up to these reports;
- oversee the Authority's processes for enterprise risk management; and
- review matters having a material financial impact on the Authority, including financing requirements and options, and recommendation to the Board.

Human Resources and Compensation Committee

- review succession plans for senior management;
- review the competitiveness and appropriateness of the Authority's policies regarding management compensation, including the incentive plan, pension plans, benefits, and all other aspects of compensation;
- recommend to the Board the remuneration plan for excluded employees as well as changes to collective agreements for unionized employees; and
- review the results of the tri-annual employee satisfaction survey.

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 to be transparent in relations with its business and customers. The Authority's mandate, as set out in its Articles of Continuance, establishes a standard against which its performance can be measured.

The mandate of the Authority is:

- to manage, operate and develop the Ottawa Macdonald-Cartier International Airport, the premises of which will be 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.

In executing its objects, the Authority shall confer regularly with governments and community entities on matters affecting the operation and development of the airports for which it is responsible and shall engage only in those activities that are consistent with its objects.

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.yow.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 $109,000 ($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 $109,000 that were not awarded on the basis of a public competitive process during 2014 can be seen in the chart on the right.

Contractor	Contract Description	Reason for Sole Source
Dielbold	$209,183 C-Cure upgrade to security pass system	See A and B below
Electrical Safety Authority	$139,751 Continuous safety services	See B below
Johnson Controls	$132,103 Preventative maintenance, building control systems for 3 years	See A below
KONE	$128,926 Paint escalator steps – existing escalator contractor	See A below
Plan Group	$109,157 Transborder cabling	See A below
PCL	$300,000 Construction management on the project for the connecting corridor from gate 15 to 17 and the work on the fixed link bridges at gates 15 and 17	Experience in dealing with projects in an operating and airside environment plus space and staff efficiencies due to another contract awarded on a competitive basis
Searidge Technologies	$175,000 Enhanced Airport Vision Display System	See B below
Complete Entry Systems and Services	$141,559 Rehabilitation of fire doors	See D below
Eagle Airfield	$1,055,800 Purchase of one Oshkosh combo snow-clearing unit	See C below

A – Sole 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 – Sole source – exclusive Canadian dealer for this equipment. This equipment maintains a standard fleet of equipment to achieve operational efficiency.
D – Sole 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 2014 was between $250,000 and $300,000. The base salary range for each of the Vice Presidents in 2014 was between $130,000 and $215,000.

In addition, under the management incentive plan for non-represented employees, the President and the Vice Presidents receive appropriate payments for performance based on achieving targets/objectives that are consistent with the Authority's Strategic Plan.

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 would be 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 Bylaws, 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.yow.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 Passenger Terminal Building.

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

2014 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, 2014. 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, 2014 were $29.2 million compared to $24.3 million for the year ended December 31, 2013. An increase in the airport improvement fee from $20 per enplaned passenger to $23 per enplaned passenger effective March 1, 2014 was the most significant factor impacting earnings for the year.

The Authority recorded depreciation of $22.5 million in 2014 compared to $23.0 million in 2013, reflecting depreciation of the terminal building and related facilities over their estimated economic lives. After subtracting depreciation, the Authority generated net earnings of $6.7 million in 2014 compared to $1.3 million in 2013.

The Authority's net operating results for the three years ended December 31, 2014 are summarized as follows:

($ in millions)	2014	2013	2012
Revenues	$ 112.3	$ 104.1	$ 105.8
Expenses before depreciation	83.1	79.8	78.2
Earnings before depreciation	29.2	24.3	27.6
Depreciation	22.5	23.0	22.3
Net earnings	$ 6.7	$ 1.3	$ 5.3
Total assets	$ 461.9	$ 425.3	$ 417.3
Total long-term debt	$ 337.5	$ 340.3	$ 342.7

RESULTS OF OPERATIONS

Operating Activities

During 2014, the Ottawa Airport saw passenger volumes increase by 0.8% from 2013 volumes. A slowdown in passenger volumes had started in May 2012, when previously strong year-over-year growth in monthly volumes flattened and, by September 2012, growth turned negative. Volumes remained somewhat depressed until the second half of 2014 when passenger traffic started to track just slightly ahead of volumes seen in 2013 and also ahead of 2011, before the decline started. A total of 4,616,448 enplaned and deplaned passengers moved through the airport in 2014 as compared to 4,578,591 passengers in 2013.

				% change – 2014 versus	
	2014	2013	2012	2013	2012
Domestic	**3,434,209**	3,363,685	3,454,387	2.1%	(0.6%)
Transborder	**741,285**	772,678	775,040	(4.1%)	(4.4%)
International	**440,954**	442,228	456,529	(0.3%)	(3.4%)
Total	**4,616,448**	4,578,591	4,685,956	0.8%	(1.5%)

Passenger volumes between Ottawa and domestic locations were 2.1% higher in 2014 than in 2013. All domestic carriers saw domestic volumes increase in 2014. The slowdown in growth that started in May 2012 had been most noticeable in domestic volumes. Passenger volumes between Ottawa and domestic locations saw some growth from 2013 in the second, third, and fourth quarters after remaining flat from 2013 in the first quarter. Economic conditions in Canada have improved. Local conditions in Ottawa, where the threat of government job cuts and other government cost cutting impacted travel plans, have improved as well, although not as strongly as in the rest of Canada. Due to transborder capacity constraints (2014 transborder seat volumes were 7.3% less than in 2013), some U.S. bound passengers may now be reaching their destinations by other means, including connections through Toronto.

Porter's promotional pricing strategy continued to stimulate demand, especially during off-peak times, with other airlines competing to match this pricing. This demand returned in 2014 with Porter showing the greatest percentage increase in passengers among domestic carriers. 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 4.1% lower than in 2013. Passenger volumes have been impacted by transborder capacity cuts by U.S. carriers (American Airlines eliminated its service to Ottawa). In addition, since the second quarter of 2013 when charter carriers began to plan their packages, and leisure travellers began to book their winter vacations for the 2013/2014 season, the Canadian dollar has decreased in value against the U.S. dollar. Discretionary leisure travel decisions have been impacted by this weakness in the Canadian dollar.

International volumes decreased by 0.3% in 2014. Increased activity occurred primarily in the first half of 2014 during winter charter season, but the third and fourth quarter volumes were lower than in 2013. Air Canada temporarily eliminated its direct flight to Frankfurt during the second half of the year, providing explanation for a portion of this decrease.

By sector, each quarter of 2014 passenger volumes compared to comparable quarters in 2013 were as follows:

	Domestic	Transborder	International
Q1	Lower by 0.3%	Lower by 8.4%	Higher by 2.5%
Q2	Higher by 3.2%	Lower by 7.6%	Higher by 1.5%
Q3	Higher by 3.2%	Lower by 4.5%	Lower by 2.6%
Q4	Higher by 1.9%	Higher by 5.4%	Lower by 6.4%

By quarter, total passenger volumes were as follows:

	2014	2013	% change
Q1	**1,169,679**	1,185,870	(1.4%)
Q2	**1,142,470**	1,128,317	1.3%
Q3	**1,169,072**	1,149,693	1.7%
Q4	**1,135,227**	1,114,711	1.8%
Total	**4,616,448**	4,578,591	0.8%

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 2014, the number of landed seats decreased by 0.8% from 2013. The largest decreases in seats came during the first quarter, primarily due to flight cancellations due to worse than normal winter weather conditions in the first quarter of 2014. The total year decrease was most pronounced in landed seats to transborder and international destinations with 7.3% and 5.1% decreases respectively. U.S. carriers reduced capacity again in 2014, partly as a result of consolidation in the U.S., American Airlines eliminated its service to Ottawa as it faced a shortage of pilots for the smaller aircraft serving markets like Ottawa. In contrast, WestJet and Porter domestic volumes for Ottawa increased strongly in 2014.

Revenues

Total revenues increased by 7.8% to $112.3 million in 2014 compared to $104.1 million in 2013.

Revenues by category
($ in thousands)

	2014	2013	Change	%
Airport improvement fees	**$43,629**	$38,370	$ 5,259	14%
Terminal fees and loading bridge charges	**24,411**	23,738	673	3%
Landing fees	**12,134**	11,581	553	5%
Concessions	**9,982**	9,668	314	3%
Car parking	**13,454**	12,409	1,045	8%
Land and space rentals	**5,817**	5,699	118	2%
Other revenue	**2,844**	2,674	170	6%
	$112,271	$104,139	$ 8,132	8%

Airport improvement fees (AIF) at $43.6 million in 2014 increased by 13.7% from $38.4 million in 2013. The increase is commensurate with the increase in the rate from $20 to $23 per enplaned passenger effective March 1, 2014, a ramp up in the collection at this new rate, the passenger volumes in the period, and minor changes in the percentage of departing passengers originating in Ottawa (versus connecting through Ottawa). Passengers connecting through Ottawa are exempt from the airport improvement fee charged by the Authority. An average of approximately 92% of departing passengers originated their flight in Ottawa in 2014 as compared to 91% in 2013. Under an agreement with the airlines, AIF 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.

At $36.5 million in 2014, total aeronautical revenues, which include terminal fees, loading bridge charges and landing fees charged to air carriers, were 3.5% higher than revenues of $35.3 million in 2013. The increase reflects a 4.5% increase in landing fee and general terminal fee rates (February 1, 2014) that is offset by the impacts of a 0.8% decrease in seat volumes in the year, and changes in the domestic versus international and transborder mix of flights serving Ottawa. Terminal fee rates for transborder and international flights are higher than rates for domestic flights. As the growth in airline volumes has not kept pace with inflation over the years since transfer, the Authority has again increased its aeronautical fee rates by an average increase of 3.0% effective February 1, 2015. Despite these increases, the Authority's average aeronautical fee rates remain among the lowest in Canada.

Concession revenues increased by 3.2% from $9.7 million in 2013 to $10.0 million in 2014 as a result of revised concession agreements that eliminated minimum annual guarantees provided under these concession agreements in favour of percentage rents. Through late 2013, the Authority negotiated extensions to certain of its concession agreements beyond their November 2013 expiry resulting in immediate elimination of minimum annual guarantees from these agreements.

Car parking revenues increased to $13.5 million from $12.4 million in 2013, an increase of 8.4%. The increase is commensurate with a change in parking rates on February 1, 2014, and the change in 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.

Expenses

Expenses before depreciation increased to $83.1 million in 2014 from $79.9 million in 2013. Depreciation decreased to $22.5 million in 2014 from $23.0 million in 2013. Depreciation reflects depreciation on continuing investment in property, plant and equipment during 2014, including the Authority's investment in runway reconstruction in mid-2014. Total depreciation decreased as certain assets became fully depreciated in late 2013 (the 10-year anniversary of opening the terminal building) and have not yet been replaced or needed to be replaced.

Expenses by category

($ in thousands)	2014	2013	Change	%
Interest	**$ 19,708**	$ 19,635	$ 73	0%
Ground rent	**8,317**	7,420	897	12%
Materials, supplies and services	**29,231**	27,670	1,561	6%
Salaries and benefits	**20,885**	20,093	792	4%
Payments in lieu of municipal taxes	**4,933**	5,048	(115)	(2%)
	$ 83,074	$ 79,866	$ 3,208	4%

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 increased by 12.1% to $8.3 million in 2014 due to higher revenues in 2014. 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:

2015	$ 8.8 million
2016	$ 9.1 million
2017	$ 9.4 million
2018	$ 9.7 million
2019	$10.0 million

The cost of materials, supplies and services increased from $27.7 million in 2013 to $29.2 million in 2014, an increase of 5.6%. In the first quarter of 2014, utilities costs, including electricity, water, and natural gas, all increased significantly. Water costs included retroactive charges for water arising from installation of new meters by the service provider. Most of these additional water charges were charged back to tenants with these chargebacks included in other revenue. The cost of materials, supplies and services also increased due to increased repairs and maintenance costs and contracted rate increases for contracted services, including policing and building cleaning. The Authority reduced the cost of certain of its outsourced services by hiring full time staff to complete these services on a more cost effective basis, but incurred new costs for an outsourced internal audit function, and other professional services. Offsetting these increased costs were lower costs for airfield materials, insurance, repairs to operating equipment, and other items. The winter of 2014 was colder than the winter of 2013, and therefore, the number and duration of winter freezing rain events in the first quarter of 2014 were lower than in 2013. This resulted in costs of airfield materials that were lower in the first quarter of 2014 than in 2013.

The cost of salaries and benefits increased 3.9% from $20.1 million in 2013 to $20.9 million in 2014. Increases resulted from contracted rate increases and an increase in headcount in the Airport Operations Coordination Centre as the Authority replaced outsourced services with employees on a more cost effective basis. These costs were offset by a decrease in the average number of employees charged to regular operations.

The final determination of the Authority's collective agreement with emergency response personnel, which had expired on June 30, 2011, was settled through binding arbitration in the second half of 2014. The term of the renewed collective agreement for emergency response personnel extended to, and expired on June 30, 2014, coincident with the end of the term for the collective agreement covering the Authority's other unionized staff. The Authority is in the early stages of collective bargaining for a new contract with emergency response personnel whereas the collective agreement covering the Authority's other unionized staff was settled in the year with a five-year term that expires on June 30, 2019.

Payments in lieu of municipal taxes have decreased by 2.3% 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 2014 reflects this prescribed calculation. The number of passengers travelling through the Ottawa Airport in 2013 decreased from 2012 by 2.3%. Payments in lieu of taxes will increase in 2015 by 0.8% from the 2014 amount based on this legislation reflecting the increase in passenger volumes that occurred in 2014.

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)	2013				**2014**			
Quarter ended	Mar	June	Sept	Dec	**Mar**	**June**	**Sept**	**Dec**
Revenue	$ 27.2	$ 25.7	$ 25.6	$25.6	**$ 28.3**	**$ 27.4**	**$ 28.1**	**$28.5**
Expense	20.8	19.5	18.9	20.6	**21.1**	**19.4**	**19.3**	**23.3**
Earnings before depreciation	6.4	6.2	6.7	5.0	**7.2**	**8.0**	**8.8**	**5.2**
Depreciation	5.8	5.8	6.0	5.4	**5.5**	**5.5**	**5.4**	**6.1**
Net earnings	$ 0.6	$ 0.4	$ 0.7	($ 0.4)	**$ 1.7**	**$ 2.5**	**$ 3.4**	**($ 0.9)**

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 2014, the Authority made gross cash payments of $65.3 million related to its capital expenditure programs, and recorded $12.2 million as receivable (of which $11.7 million was received) from the Canadian Air Transportation Security Authority (CATSA) for CATSA's share in the cost of the airport's new baggage handling system. Before subtracting this amount from CATSA, the Authority spent over $22 million in 2014 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 late 2015. The total cost of this project and associated work, net of costs to be covered by CATSA, is expected to be approximately $37 million. In addition, in 2014, the Authority reconstructed the airport's longest runway, Runway 14/32, at a cost of $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:

	Payments for years ending December 31						
($ in thousands)	Total	2015	2016	2017	2018	2019	Thereafter
Long-term debt (note 1)	$ 337,540	$ 3,111	$ 3,272	$ 203,695	$ 4,152	$ 4,643	$ 118,667
Operating commitments	15,388	9,338	5,442	323	243	35	7
Capital commitments	13,251	13,251					
Total contractual obligations	$ 366,179	$ 25,700	$ 8,714	$ 204,018	$ 4,395	$ 4,678	$ 118,674

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 finances 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 16, 2015. 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. After subtracting draws against these credit facilities of approximately $49 million as at December 31, 2014, the Authority has approximately $69 million in available unused liquidity, of which approximately $12 million has been allocated exclusively to an Operating and Maintenance Reserve Fund. The Authority believes that this available unused liquidity is adequate to meet its future plans and requirements.

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 January 27, 2015, the balance in the Debt Service Reserve Fund was increased to $11.1 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, 2014, $12.0 million of the Authority's credit facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund. At December 31, 2014, 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 2014 with bank indebtedness of $48.7 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 $68 million during 2015. 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.

The Authority's accounts receivable increased by $3.5 million during the year as the result of the increase in AIF from $20 to $23, an increase in HST input tax credits resulting from the Authority's capital expenditure programs, and an amount receivable from CATSA of $0.5 million related to the baggage handling system costs. The post-employment benefit liability decreased by $2.5 million in the year. The change in this liability resulted from a number of offsetting factors. Pension solvency payments made during the period of $2.5 million, and investment returns in the year that were in excess of the 2013 year end discount rate of 4.75%, were offset by the impact of re-measuring the liabilities at a 2014 year end discount rate of 4.0%. $0.9 million has been recorded as other comprehensive income in the statement of operations and comprehensive income to reflect investment gains net of liability re-measurements.

During 2014 and early 2015, 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 A+ and A(high) respectively. Moody's reaffirmed the Authority's credit rating with a negative outlook at Aa3.

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 92% 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 U.S. $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, 2014

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 25, 2015

INDEPENDENT AUDITORS' REPORT

To the Directors of
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, 2014 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 information.

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 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, 2014 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 25, 2015

BALANCE SHEET

as at December 31
($ in thousands)

ASSETS	Note	December 31, 2014	December 31, 2013
CURRENT ASSETS			
Trade and other receivables		$ 11,117	$ 7,646
Consumable supplies		2,420	1,959
Prepaid expenses and advances		1,225	919
		14,762	10,524
DEBT SERVICE RESERVE FUND	7(a)	11,035	10,863
PROPERTY, PLANT and EQUIPMENT	3	430,571	398,344
OTHER ASSETS	4	5,520	5,577
		$461,888	$ 425,308
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness	5	$ 48,682	$ 19,039
Accounts payable and accrued liabilities		18,959	14,663
Current portion of long-term debt	7	3,111	2,747
		70,752	36,449
POST EMPLOYMENT BENEFIT LIABILITY	9	11,429	13,902
LONG-TERM DEBT	7	332,117	334,968
		414,298	385,319
Commitments and Contingencies	11		
EQUITY			
Retained Earnings	8	55,004	48,332
Accumulated other comprehensive income		(7,414)	(8,343)
		47,590	39,989
		$ 461,888	$ 425,308

ON BEHALF OF THE BOARD

, Director

, Director

(See accompanying notes to the financial statements)

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

years ended December 31
($ in thousands)

	Note	2014	2013
REVENUES			
Airport improvement fees	8	$ 43,629	$ 38,370
Terminal fees and loading bridge charges		24,411	23,738
Landing fees		12,134	11,581
Concessions		9,982	9,668
Car parking		13,454	12,409
Land and space rentals	14	5,817	5,699
Other revenue		2,844	2,674
		112,271	104,139
EXPENSES			
Interest (net)	7(c)	19,708	19,635
Ground rent	11	8,317	7,420
Materials, supplies and services		29,231	27,670
Salaries and benefits	9	20,885	20,093
Payments in lieu of municipal taxes		4,933	5,048
		83,074	79,866
EARNINGS BEFORE DEPRECIATION		29,197	24,273
DEPRECIATION		22,525	22,999
NET EARNINGS		6,672	1,274
Other comprehensive income			
Remeasurements of defined benefit plans (that will never be recycled into net earnings)	9	929	3,405
TOTAL COMPREHENSIVE INCOME		$ 7,601	$ 4,679

(See accompanying notes to the financial statements)

STATEMENT OF CHANGES IN EQUITY

years ended December 31
($ in thousands)

	Note	2014	2013
Retained earnings, beginning of year		$ 48,332	$ 47,058
Net earnings for the year		6,672	1,274
Retained earnings, end of year		55,004	48,332
Accumulated other comprehensive income			
Remeasurements of defined benefit plans (that will never be recycled into net earnings)			
Balance, beginning of year		(8,343)	(11,748)
Other comprehensive income for the year	9	929	3,405
Balance, end of year		(7,414)	(8,343)
TOTAL EQUITY		$ 47,590	$ 39,989

(See accompanying notes to the financial statements)

STATEMENT OF CASH FLOWS

years ended December 31
($ in thousands)

	Note	2014	2013
Cash provided by (used in) -			
Operating activities:			
Net earnings		**$ 6,672**	$ 1,274
Non-cash items:			
Depreciation		**22,525**	22,999
Amortization of deferred financing costs		**260**	250
Decrease (Increase) in other assets		**57**	(358)
Decrease in post employment benefit liability		**(1,544)**	(1,447)
Interest expense (net)		**19,708**	19,635
Interest paid		**(19,586)**	(19,517)
Changes in non-cash working capital related to operations	12	**(1,658)**	(825)
Total operating activities		**26,434**	22,011
Financing activities:			
Increase in debt service reserve fund	7(a)	**(172)**	(116)
Repayment of long-term debt		**(2,747)**	(2,409)
Total financing activities		**(2,919)**	(2,525)
Investing activities:			
Purchase of property, plant and equipment	3	**(54,752)**	(30,390)
Change in accounts payable and accrued liabilities related to investing activities		**1,594**	1,250
Total investing activities		**(53,158)**	(29,140)
Decrease in cash and cash equivalents		**(29,643)**	(9,654)
Bank indebtedness, beginning of year		**(19,039)**	(9,385)
Bank indebtedness, end of year		**$ (48,682)**	$ (19,039)

(See accompanying notes to the financial statements)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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* and continued under the *Canada Not for Profit Corporations Act* on January 17, 2014. 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 25, 2015.

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 were included in the original ground lease with 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 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.

Because the Authority's business model is to provide 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 of the Authority. 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 imposed under the ground lease with the Government of Canada 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 annual 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 other post-employment benefits

The Authority accrues its obligations under pension and other post-employment 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.

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. 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.

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 other post-employment 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, 2015, 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, 2014	Additions	Disposals/ Transfers	**December 31, 2014**
Cost:				
Buildings and support facilities:				
Buildings and building components	$ 374,568	$ 1,175	$ 4,836	**$ 380,579**
De-icing facility	11,240	123	-	**11,363**
Pedestrian bridges	15,049	2,276	(1,202)	**16,123**
Utilities infrastructure	18,979	9,173	-	**28,152**
	419,836	12,747	3,634	**436,217**
Runways, roadways and other paved surfaces	73,759	22,947	-	**96,706**
Land improvements	9,485	249	-	**9,734**
Furniture and equipment	17,232	462	-	**17,694**
Computer equipment and systems	16,566	3,144	-	**19,710**
Vehicles	22,976	1,517	-	**24,493**
Construction in progress	19,950	13,686	(4,836)	**28,800**
	579,804	54,752	(1,202)	**633,354**
Less accumulated depreciation:				
Buildings and support facilities:				
Buildings and building components	104,312	12,018	-	**116,330**
De-icing facility	4,712	694	-	**5,406**
Pedestrian bridges	8,588	1,353	(1,202)	**8,739**
Utilities infrastructure	4,906	926	-	**5,832**
	122,518	14,991	(1,202)	**136,307**
Runways, roadways and other paved surfaces	19,627	3,223	-	**22,850**
Land improvements	5,574	423	-	**5,997**
Furniture and equipment	12,784	946	-	**13,730**
Computer equipment and systems	12,379	1,599	-	**13,978**
Vehicles	8,578	1,343	-	**9,921**
	181,460	22,525	(1,202)	**202,783**
	$ 398,344	$ 32,226	$ -	**$ 430,571**

	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				
Vehicles	19,065	1,581	8,267	12,379
	7,292	1,376	90	8,578
	167,811	22,999	9,350	181,460
	$ 390,956	$ 7,391	$ 3	$ 398,344

	December 31, 2014	December 31, 2013
Net carrying amount		
Buildings and support facilities:	**$ 264,249**	$ 270,256
Buildings and building components	**5,957**	6,528
De-icing facility	**7,384**	6,461
Pedestrian bridges	**22,320**	14,073
Utilities infrastructure	**299,910**	297,318
Runways, roadways and other paved surfaces	**73,856**	54,132
Land improvements	**3,737**	3,911
Furniture and equipment	**3,964**	4,448
Computer equipment and systems	**5,732**	4,187
Vehicles	**14,572**	14,398
Construction in progress	**28,800**	19,950
	$ 430,571	$ 398,344

4. OTHER ASSETS

(tabular amounts in thousands of dollars)

	December 31, 2014	December 31, 2013
Interest in future proceeds from 4160 Riverside Drive, at cost	**$ 2,930**	$ 2,930
Tenant improvements and leasehold inducements, net of amortization	**2,590**	2,647
	$ 5,520	$ 5,577

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 16, 2015, 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, 2014 bears interest at an average rate of 1.77% (December 31, 2013 – 1.69%).

As at December 31, 2014, $12.0 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 the *Canada Not for Profit 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 finance 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)

	December 31, 2014	December 31, 2013
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 installments of principal payable on each interest payment date commencing November 25, 2004	**$ 137,308**	$ 139,822
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 installments of $19 thousand over a ten year period commencing in 2006	**232**	465
	337,540	340,287
Less: deferred financing costs	**2,312**	2,572
	335,228	337,715
Less: current portion	**3,111**	2,747
	$ 332,117	$ 334,968

(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, 2014, the Debt Service Reserve Fund included $11.0 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 $12.0 million in 2014 based on 2013 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, 2014 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)

	2014	2013
Bond interest	$ 19,157	$ 19,317
Interest expense – Other	672	435
	19,829	19,752
Less:		
Interest earned	121	117
Total interest expense (net)	$ 19,708	$ 19,635

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

Within one year	
2015	$ 3,111
One to five years	
2016	3,272
2017	203,695
2018	4,152
2019	4,653
After five years	118,657

(e) Deferred financing costs

	December 31, 2014	December 31, 2013
Deferred financing costs	$ 4,398	$ 4,398
Less: Accumulated amortization	(2,086)	(1,826)
	$ 2,312	$ 2,572

8. AIRPORT IMPROVEMENT FEES (AIF)

(tabular amounts in thousands of dollars)

Airport improvement fees 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 $2,794 thousand (2013 - $2,446 thousand).

	2014	Cumulative to date
Major infrastructure construction program expenditures:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	$ 46,970	$ 574,866
Interest capitalized	-	18,096
Interest expensed plus internal interest on funds provided by operations	22,862	247,153
	69,832	840,115
AIF cash receipts:		
AIF revenue – net of collection fees	43,629	411,259
Interest on surplus funds	121	10,333
	43,750	421,592
Decrease (increase) in accounts receivable	(1,171)	(4,023)
AIF revenue – net cash received	42,579	417,569
Excess of expenditures over AIF receipts	$ 27,253	$ 422,546

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:

	2014	2013
Retained earnings provided by airport improvement fees:		
Accumulated airport improvement fees and interest on surplus funds	$ 421,592	$ 377,842
Less:		
Accumulated depreciation of infrastructure program assets	178,829	161,378
Interest and other expenses	253,919	230,493
Total provided by airport improvement fees	(11,156)	(14,029)
Retained earnings provided by other operations	66,160	62,361
Retained earnings, end of year	$ 55,004	$ 48,332

9. PENSION PLAN AND OTHER POST-EMPLOYMENT 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:

	December 31, 2014	December 31, 2013
Defined benefit pension plan deficit	$ 970	$ 4,860
Other post-employment benefits payable	10,459	9,042
	$ 11,429	$ 13,902

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 to match certain employee contributions. 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, 2013 that was completed and filed in June 2014 as required by law, the plan had a deficit on a funding (going concern) basis of $4,259,000 assuming a discount rate of 5.0% ($3,546,000 as at December 31, 2012 assuming a discount rate of 5.00%). 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, 2013, the plan had a deficit on a solvency basis of $10,422,000 ($14,476,000 as at December 31, 2012) before considering the present value of additional solvency payments required under the *Act*. In 2014, the Authority made additional solvency payments of $2,520,000 ($2,526,900 in 2013) to amortize this deficiency.

The next required actuarial valuation of the defined benefit pension plan as at December 31, 2014 is scheduled to be completed and filed by its June 2015 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 2015 will be approximately $2,100,000 (2014 - $2,520,000). In addition, the Authority expects to contribute approximately $642,000 (2014 - $777,000) on account of current service in 2015 to the defined benefit component of the pension plan for the year ending December 31, 2015.

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, 2013, the impact of a 1% increase in interest rates will decrease the funding (going concern) deficit by $8.1 million and will decrease the solvency deficit by $9.4 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, 2014 have been estimated by the Authority's actuaries using the most recent mortality tables available (Canadian Pensioner Mortality 2014 Combined Sector Mortality Table).

Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2013 and extrapolated to December 31, 2014 by the Authority's actuaries, the estimated status of the defined benefit pension plan is as follows:

	2014	2013
Accrued Benefit Obligation, defined benefit pension		
Balance, beginning of year	$ 49,636	$ 50,644
Employee contributions	185	180
Benefits paid	(2,375)	(1,464)
Current service cost	807	830
Interest cost on accrued benefit obligation	2,325	2,037
Actuarial loss – change in demographic assumptions	443	3,016
Actuarial loss (gain) – change in financial assumptions	2,089	(5,607)
Balance, end of year	53,110	49,636
Plan Assets		
Fair value, beginning of year	44,776	40,295
Employee contributions	185	180
Employer contributions	777	715
Employer contributions, special solvency payments	2,520	2,527
Benefits paid	(2,375)	(1,464)
Interest on plan assets (net of administrative expenses)	2,051	1,582
Actuarial gain on plan assets	4,206	941
Fair value, end of year	52,140	44,776
Funded Status – plan deficit	$ 970	$ 4,860

The net defined benefit pension plan expense for the year ended December 31 is as follows:

	2014	2013
Current service cost	$ 807	$ 830
Interest cost on accrued benefit obligation	2,325	2,037
Interest on plan assets	(2,051)	(1,582)
Defined benefit pension plan expense recognized in salaries and benefits expense in net earnings	$ 1,081	$ 1,285

In addition to pension benefits, the Authority provides other post-employment benefits to its employees. The status of other post-employment benefit plans as at December 31 is as follows:

	2014	2013
Accrued benefit obligation, other post-employment benefits		
Balance beginning of year	$ 9,042	$ 8,405
Benefits paid (employer contributions)	(239)	(307)
Current service cost	467	468
Interest cost	444	349
Actuarial loss – change in demographic assumptions	(68)	884
Actuarial loss (gain) – change in financial assumptions	813	(757)
Accrued benefit liability, end of year	$ 10,459	$ 9,042

The net expense for other post-employment benefit plans for the year ended December 31 is as follows:

	2014	2013
Current service cost	$ 467	$ 468
Interest cost	444	349
Expense recognized in salaries and benefits expense in net earnings	$ 911	$ 817

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

	2014	2013
Defined benefit pension plans		
Actuarial loss – change in demographic assumptions	$ 443	$ 3,016
Actuarial loss (gain) – change in financial assumptions	2,089	(5,607)
Actuarial (gain) loss on plan assets	(4,206)	(941)
Other post-employment benefit plans		
Actuarial loss – change in demographic assumptions	(68)	884
Actuarial loss (gain) – change in financial assumptions	813	(757)
Total loss (gain) recognized in other comprehensive income	$ (929)	$ (3,405)

The costs of the defined benefit component of the pension plan and of other post- employment 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:

	2014	2013
Discount rate to determine expense	**4.75%**	4.00%
Discount rate to determine year end obligations	**4.00%**	4.75%
Interest rate on plan assets	**4.75%**	4.00%
Rate of average compensation increases	**3.25%**	3.75%
Rate of inflation indexation post retirement (CPI)	**2.00%**	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 $8.1 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 $0.8 million. It is estimated that a one year increase in life expectancy will increase the defined benefit obligation by $1.1 million and increase the obligation for other post-employment benefits by $0.3 million. A 1% decrease in the discount rate would increase the estimated obligation for post-employment benefits by approximately $1.6 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 $1.7 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, 2013, the average age of the 30 active members was 52 years of age. The average age of the 51 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:

	2014	2013
Fixed income fund	**49%**	48%
Equity funds – Canadian funds	**11%**	11%
Equity funds – US fund	**4%**	5%
Equity funds – International and Global funds	**16%**	16%
Emerging market fund	**5%**	5%
Real estate fund	**10%**	10%
Alternative investment fund that includes derivatives	**5%**	5%

The Authority's contribution to the defined contribution component of the pension plan is a maximum of 8% of the employee's gross earnings to match employee contributions. Information on this component is as follows:

	2014	2013
Employer contributions, defined contribution plan	**$ 727**	$ 613
Employees' contributions, defined contribution plan	**$ 868**	$ 757
Net expense recognized in salaries and benefits expense	**$ 727**	$ 613

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, 2014, the estimated fair value of the long-term Series B and Series D Revenue bonds was $178.7 million and $215.5 million respectively (2013 - $172.0 million and $217.5 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.

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:

	2014		2013	
	Carrying value	**Effective year-end interest rate**	Carrying value	Effective year-end interest rate
Debt service reserve fund (at floating rates)	**$ 11,035**	**1.19%**	$ 10,863	1.10%
Bank indebtedness (at floating rates)	**$ 48,682**	**1.97%**	$ 19,039	1.90%
Long-term debt (at fixed rates)	**$ 335,228**	**See Note 7**	$ 337,715	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 $ 52 thousand 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, cash 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% (47% in 2013) 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 92% 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 this 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:

2015	$ 8.8 million
2016	$ 9.1 million
2017	$ 9.4 million
2018	$ 9.7 million
2019	$ 10.0 million

The Authority has operating commitments in the ordinary course of business requiring payments of $ 9.3 million in 2015 and diminishing in each year over the next 5 years as contracts expire. At December 31, 2014, the total of these operating commitments amounted to $ 15.4 million. These commitments are in addition to contracts for the purchase of property, plant, and equipment of approximately $ 13.3 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)

	2014	2013
Trade and other receivables	$ (3,471)	$ 167
Prepaids and advances and consumable supplies	(767)	(264)
Accounts payable and accrued liabilities	2,580	(731)
Other	-	3
	$ (1,658)	$ (825)

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:

	2014	2013
Salaries and short-term benefits	$ 1,922	$ 2,122
Post-employment benefits	159	203
	$ 2,081	$ 2,325

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 $10.0 million. Future minimum lease receipts (excluding contingent rent payments) from non-cancellable leases in place at December 31, 2014 amount to approximately $5.6 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 25, 2015 when the financial statements were authorized for issue.