

Ottawa Macdonald-Cartier International Airport Authority

2016 Annual Report

WHERE CONNECTIONS ARE MADE

YOW.CA

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 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

table of contents

LETTER FROM THE CHAIR..... 4

LETTER FROM THE PRESIDENT..... 6

2016 IN REVIEW..... 8

CORPORATE GOVERNANCE, ACCOUNTABILITY, AND TRANSPARENCY..... 32

2016 FINANCIAL REVIEW..... 42

FINANCIAL STATEMENTS..... 51

NOTES TO THE FINANCIAL STATEMENTS..... 58

Letter from the Chair of the Board of Directors



As Chair of the Ottawa International Airport Authority's Board of Directors, I have the opportunity to work with an incredible group of Directors who give their time and talent for the benefit of the airport and the community. Appointed by various organizations in Canada's Capital Region as well as all three levels of government, Directors offer diversity of ideas and important local insight that I believe serve us all well. I would like to thank each and every Director for sharing their time, their talent and for ensuring that the community is carefully considered in all governance activities.

As Board terms come to an end, we must say farewell to cherished colleagues. In 2016, we said goodbye to Barbara Farber, who was appointed At Large in 2007 and then by the City of Ottawa in 2010. Barbara, who served the maximum nine years, generously shared her extensive experience in land development, and we thank her for her contribution and service.

We had the opportunity to welcome two new Directors to the group in 2016 as well. We were joined by Dick Brown, who was appointed by Ottawa Tourism, and Lisa Stilborn, who was appointed by the City of Ottawa. Dick brings a long and distinguished career in hospitality and tourism to the Board, which complements the Authority's commitment to stimulating even greater local tourism and economic development. Lisa's background in public affairs is a valuable asset as the Authority further broadens its stakeholder engagement reach on important files in the coming months and years. I know I speak on behalf of the entire Board when I say I am looking forward to working with both Dick and Lisa in support of management's efforts to move the Strategic Plan forward.

When I am at meetings or events in the region, I inevitably hear from friends and colleagues how much they love our airport, which makes me enormously proud. I am always pleased to share, with confidence, how committed the entire airport community is to providing our passengers with an outstanding travel experience, each and every time. While the anecdotal feedback is welcome, it's also gratifying to understand it in more quantifiable terms. Again in 2016, the airport participated in Airports Council International's Airport Service Quality Customer Service Benchmarking Program with approximately 250 airports worldwide, and I am delighted to share the results. For the 10th year in a row, the Ottawa International Airport was recognized – this time in two categories: 2nd place - Best Airport by Region (North America serving more than

2 million passengers) and 3rd place - Best Airport by Size (worldwide serving 2-5 million passengers). What an incredible testament to the entire airport team!

As mentioned, stimulating economic development and tourism are priorities for the Authority. In that regard, the management team is working on a few files that are critical to the future of the airport and the region. Light Rail Transit (LRT) is one that has been active in various forms since 2003, but has been in the spotlight again for the past few years as the team has been advocating for an airport link in LRT Stage 2. Their efforts have been generating positive results, and I am thrilled that the airport has been included.

Another critical file that you will read more about in Mark Laroche's remarks deals with airport "profitization". For several months, the federal government has been contemplating selling airports to for-profit entities with the goal of raising funds for non-aviation-related projects across the country. After many years of building world class, safe and secure airport facilities that generate tremendous regional economic activity, the sale of our lands and dismantlement of the current not-for-profit model would not be in the best interest of the Authority or its stakeholders.

The Authority's Vision is to be the world class gateway for Canada's Capital Region and an economic engine that drives prosperity for our community. We make decisions and take action with our community's interest in mind, and we want that level of commitment to continue. Maintaining the current governance model will ensure that the Authority can continue to play a leadership role in areas such as airport safety and security, environmental stewardship, and employee engagement. It will also ensure that your airport continues to act in the best interest of your community in the future, rather than focusing on shareholder return.

Speaking of community, 2017 is going to be an amazing year as Canada turns 150 years old. The region will play host to many exciting events throughout the year, and the Ottawa Airport will be the premier gateway for visitors from across the country and further afield. To mark this year-long celebration, the Authority entered into an in-kind partnership with Ottawa 2017 to provide a vast array of real estate in and around the terminal to display pageantry in support of the various events that will come to our city throughout the year. We look forward to welcoming our visitors, and trust they will discover what makes Ottawa-Gatineau an amazing place to live, work, and play. Of course, they will want to plan a return visit with family and friends in the future.

Letter from the Chair of the Board of Directors

I have barely scratched the surface of what was accomplished in 2016 thanks to the commitment and dedication of the entire Authority team. On behalf of the Board of Directors, I would like to thank Mark and his management team for their leadership, and I look forward to their continued success in 2017 as the files I mentioned continue to evolve and shape the future of the airport.

The Ottawa International Airport is the gateway into Canada's Capital, and it has provided the backdrop to so many wonderful reunions, photos and stories over the years. We have tried to capture a few of those stories in this report to give you a peek into the kinds of things that happen at the airport on any given day and what they mean to the people involved. I hope you enjoy them, and that you have the opportunity to create some special memories of your own at our airport – perhaps you already have.

A handwritten signature in black ink, reading "S. St. Amand". The signature is fluid and cursive, with the first name "S." and the last name "St. Amand" clearly legible.

Susan St. Amand,
Chair of the Board of Directors

Letter from the President and Chief Executive Officer



2016 was a year of growth renewal for the Ottawa International Airport. We served 4,743,091 passengers, which is 1.9% higher than 2015, and the highest in the history of the airport. Revenues also grew by 3.1%, thanks in large part to growth in ground transportation and concession revenues. Our goal of increasing non-aeronautical revenues has been a success, allowing us to keep aeronautical fees as low as possible.

Throughout the Year in Review pages, you will read about a great deal of activity and project work that was undertaken during the year as we fulfilled commitments made in our Strategic Plan and our 2016 Action Plan. While all noteworthy, one in particular stands out.

The Baggage Handling System Upgrade, which began in 2013, was completed in late summer. Arguably one of the most complex in the past decade, the new state-of-the-art Beumer system added a baggage carousel in domestic arrivals, more than doubles the size and throughput of the old system (up to 2,000 bags per hour domestic and 1,000 bags per hour transborder), uses far less power, and accommodates new screening requirements from both the Canadian Air Transport Security Authority (CATSA) and U.S. Customs and Border Protection (U.S. CBP). From a customer service point of view, passengers who are transferring from a domestic to a U.S. bound flight are no longer required to reclaim their checked bags for connection because the new system processes them right through to their destination.

Remarkably, the new system was completely assembled and installed while the old system was still operational, and in a very constricted space. The project has been compared to changing the tires on a vehicle while it's moving at 100 km per hour.

If I were to ask our passengers if they knew that this \$60 million project had been ongoing for the better part of three years, most would have said no. That, in my estimation, is one of the greatest indications of the success of this project; maximum scope with minimal disruption. It goes without saying that the results are impressive.

Much thanks and credit go to the entire Authority team, campus and construction partners who worked hard to bring the system on-line so efficiently, and with no customer impact. To learn more about the BHS upgrade project, have a look at the video we created - it is posted online at www.youtube.com/flyYOW.

There were a few high priority files that we focused on in 2016, both of which will have a major impact on the airport, the Authority and the community, for years to come.

The first is the City of Ottawa's Light Rail Transit (LRT) plan. The Authority has been a vocal advocate for an airport link in LRT Stage 2 (Trillium Line) for the benefit of the entire region. An effective multimodal transit system that includes the airport will make Ottawa-Gatineau an even better destination for conferences, the hospitality sector, and general tourism. And tackling the airport link in Stage 2 is the right time in order to take advantage of the economies of scale and cost savings associated with the larger project.

Our advocacy efforts were successful, and the City has indeed included the airport in its Stage 2 plans. Further, the Province of Ontario has committed funding to the project. We anxiously await the federal government's commitment so that the project can move to the detailed design and procurement phases. The Authority also stands by its commitment to fund the terminal station portion of the link. It is worth noting again that an airport link does not provide financial benefit to the Airport Authority, but it will benefit the City and the Region.

With respect to the current plan for a spur line that requires a transfer at South Keys, we trust that in time, ridership will merit direct access. Like other commuters on the Trillium Line, business and leisure travellers going to and from the airport need predictability, reliability and frequency, if they are going to use the link to and from the downtown area. In the meantime, we look forward to the first day of operation, as well as to the train extending to the City of Gatineau in the near future.

The second, and perhaps most important file in the history of the Authority pertains to the *Canadian Transportation Act* Review, and a report entitled *Pathways: Connecting Canada's Transportation System to the World* that was released by former Member of Parliament, David Emerson, in February 2016. The report contained a series of recommendations for the aviation sector, most of which make sense. One, however, causes me grave concern. It involves selling Canada's major airports to private, for-profit enterprises in order to raise funds for an infrastructure bank that would fund major non-aviation related projects across the country. The recommendation also claims that greater competitiveness in the Canadian aviation sector would result.

The Authority has studied the recommendation intensively, and concluded that the promises of greater cost competitiveness and better service for passengers simply cannot be kept if the current not-for-profit model becomes a for-profit capital share

corporation. We have also studied similar airport sell-offs in places like the United Kingdom and Australia where proponents of the model anticipated significant tax revenues that did not materialize. In fact, the staunchest supporter of privatization in Australia, Rod Sims, Australian Competition and Consumer Commission Chairman, has since declared that it has been severely damaging to their economy¹. In his experience, costs rose and service levels fell, and we have every reason to believe the same would happen in Canada's case.

We have been very vocal in our support of the current governance model for Canada's airports. With the full support of the Authority's Board of Directors, we collaborated with the Calgary and Vancouver airport authorities to launch a campaign to educate Canadians about the success of the current model and the risks associated with selling airports to organizations that will be solely focused on shareholder return rather than reinvestment in airport operations or local economic development and community interests. We are pleased to have received support for the current model from the major carriers and many elected officials from all orders of government.

We anticipate gaining clearer understanding of the government's intention in time and will continue to speak out and intensify our activity on the file as needed. For more information about the campaign, please visit www.noairportselloff.ca.

As we look forward to 2017, we will undertake our fourth Five-year Review per a requirement in our Ground Lease with Transport Canada. The exercise is a high-level management, governance, operational and financial performance review covering the period of February 1st, 2012 to January 31st, 2017 and includes a third-party assessment of the extent to which, and how well, the Authority fulfilled the objects set out in the Lease.

We will also be preparing a new Airport Master Plan which is updated every 10 years to ensure continued operational and service excellence in the management of the airport. Planning involves anticipating future transportation conditions, needs and opportunities and strategic thinking about future directions and options. These activities are also done in accordance with our Ground Lease which stipulates timing and prescribed analytics, along with the requirement for public and stakeholder consultation. We will finalize and submit our plan to Transport Canada in 2018 for approval and report back.

We could not have accomplished what we did throughout the year without the unwavering support of the Board of Directors. I would like to thank them for their engagement in some very critical files, and their trust in my team to take measured but

appropriate action as we fulfill the Strategic Plan and tackle other issues and projects as they arise.

Ensuring that these projects are completed on-time, on-budget, and with minimal disruption to our clients is a credit to the entire Airport Authority team and all of our partners. Their collective dedication to the success of the organization, to our passengers, and to the community we serve is second to none, and it is why we continue to receive recognition and Airport Service Quality Awards as our Chair mentioned in her remarks.

Everyone has an airport story to tell, and as you peruse through this report, you will read a few that stood out to us. As we celebrate Canada's 150th birthday, I hope you will have the opportunity to travel through our airport, to join in the festivities, and to create some wonderful stories of your own.



Mark Laroche,
President and CEO

¹ <https://www.theguardian.com/australia-news/2016/jul/27/acccs-rod-sims-says-privatisations-severely-damaging-economy>

2016 in Review

The Ottawa Airport was the setting for the two-week Canadian Police Canine Association “Train the Trainers” canine behavior shaping course for law enforcement canine teams from across the country. The dynamic and complex airport environment was ideal for specific training exercises, and the teams had the opportunity to hone their skills before taking their newfound tips and techniques back to their respective communities.



2016 in Review

Ensuring that the YOW piece of any travel story is memorable for all the right reasons is an important goal for the Airport Authority team. We invest extensive resources each year in improving operations and facilities to ensure a travel process that is safe, secure, functional, efficient, clean, and easy to navigate for our passengers and visitors. We do so in a fiscally responsible manner and stay true to the core values of our Mission, Vision, and Strategic Directions. Finally, we work closely with our partners on the airport campus to help facilitate their ability to serve their customers in the best manner possible. Here are some of the highlights of 2016 to that end.

TO GROW STRATEGICALLY

The Authority continues to focus on business activities that will expand our non-aeronautical revenue base, with the goal of keeping the cost of flying as low as possible for our customers.

Private Transportation Companies

YOW became the first Canadian airport to officially add a private transportation company (PTC) service to its ground transportation offering when it signed a contract with Uber Canada. On October 1st, Uber began serving airport customers, adding to the suite of first-class airport ground transportation options available to our passengers, including taxi, limousine, and hotel shuttle services.

In-terminal Advertising

Astral Media continued construction of the updated in-terminal advertising infrastructure throughout the year. The terminal is coming alive with digital “spectacular” boards, an interactive display, and other advertising assets that we will continue to activate through the first half of 2017, including baggage carousel signs and the “iconic” centrepiece display in the domestic arrivals hall.

SUMMARY OF AMOUNTS SPENT IN THE OTTAWA REGION

(in millions of Canadian dollars)

	2012	2013	2014	2015	2016	Total
Wage bill	\$18.6	\$20.0	\$20.0	\$21.5	\$22.6	\$103.8
Payments in lieu of municipal taxes	5.0	5.0	4.9	5.0	5.0	24.9
Operations costs	27.0	27.0	29.0	31.0	33.0	147.0
Capital costs	24.0	30.0	54.0	31.2	24.0	163.2
	\$74.6	\$82.1	\$108.8	\$88.7	\$84.7	\$438.9

Notes:

Wage bill includes benefits;

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

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

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

The Authority understands the role it plays in the community as an economic engine and major employer. That role includes enriching the community by supporting events and other initiatives that contribute to the financial and social well-being of Ottawa-Gatineau.

Meeting the National Capital Region Liberal Caucus

The Authority invited members of the National Capital Region Liberal Caucus to join the Senior Management team for a briefing session in the fall. Members were provided with an overview of the airport's major files, including financial results, capital projects, airport safety and security, light rail transit to the airport, and air service development, to name a few. We also provided a glimpse into the future regarding our growth and capacity projections and plans. After an engaging discussion, the members were taken on an airport tour, including visits to the baggage handling facility and the Hendrick Building, where they had the opportunity to experience the airport's Emergency Response Service facilities and equipment hands-on.



National Capital Region Liberal Caucus: Chandra Arya, Stéphane Lauzon, Karen McCrimmon, David McGuinty, Steve MacKinnon, Anita Vandenberg

Airport Planning and Municipal Affairs

Commercial airports are widely recognized as strong economic engines in the communities they serve, and collaboration with their local government is critical. Guided by the Shared Vision agreement we have discussed in previous reports, the Authority and the City of Ottawa continue to work together on joint initiatives, including, but not limited to, light rail transit, zoning, signage/wayfinding, and emergency planning, to name a few. The Authority remains fully committed to ensuring that the airport is well-served in the future with multimodal access between the airport and city centre.

Airport Master Plan

The Authority launched the 2018 master planning process in late 2016. The process involves a comprehensive review of the existing Airport Master Plan and Land Use Plan to ensure continued operational and service excellence in the management of the airport. The plan will take the airport through the next five- and ten-year windows and beyond. Primary objectives are to update aviation forecasts, identify support facility and service requirements to meet future needs, quantify utilities capacity and requirements, and propose development options to meet forecasted needs. A preferred development strategy will be identified through evaluation and consultation with airport stakeholders, government agencies, and the public. The update to both plans is expected to be finalized and submitted, in partnership with the community, to Transport Canada for approval in late 2017.

One Young World

Ottawa played host to 1,300 delegates, from over 196 countries, aged 18 to 30, for the One Young World Summit from September 28th to October 1st. The annual summit brought together some of the best and brightest from around the world who were joined by One Young World Counsellors such as Kofi Annan, Sir Bob Geldof, Cher, Emma Watson, and Mark Tewksbury. The Authority sponsored a conference delegate, provided in-kind promotional sponsorship, and assisted with security and VIP arrivals into Ottawa for this inspiring and important event.

Ottawa 2017

Canada's sesquicentennial celebrations promise to bring millions of tourists to Ottawa-Gatineau throughout 2017, as events are held across the region. As the only air transport gateway into the region and in recognition of the importance of this year-long celebration, the Authority has partnered with Celebrations Ottawa to showcase pageantry in the terminal to provide a fitting and festive welcome for all visitors. The agreement was launched with the first pageantry installation of 56 roadway banners and a media event in the terminal. It will build up through 2017, with the greatest intensity around the official birthday celebrations on July 1st.

ShopiFly

For two days in June, a retail space on level 3 was transformed into a pop-up shop for local Ottawa tech star, Shopify. The objective of the pop-up was to encourage entrepreneurial types to "quit their day job" and follow their passion by selling their wares to the world. Shopify had products from nine of their online retailers – most of whom had never sold merchandise in a storefront setting. Shopify had members of their staff on hand to talk with people, explain the online experience, and handle the retail transactions. The partnership was a social media hit, with more than 20,000 interactions on our social media channels.



PASSENGER GROWTH BY SECTOR

		Domestic	%	Transborder	%	International	%	Total	%
Actual	1996	2,223,941		529,602		104,295		2,857,838	
	1997	2,435,534	9.5%	502,072	-5.2%	108,762	4.3%	3,046,368	6.6%
	1998	2,414,355	-0.9%	563,085	12.2%	133,108	22.4%	3,110,548	2.1%
	1999	2,426,288	0.5%	628,203	11.6%	157,116	18.0%	3,211,607	3.3%
	2000	2,562,282	5.6%	719,200	14.5%	152,863	-2.7%	3,434,345	6.9%
	2001	2,625,630	2.5%	618,694	-14.0%	146,971	-3.9%	3,391,295	-1.3%
	2002	2,445,770	-6.9%	600,365	-3.0%	170,751	16.2%	3,216,886	-5.1%
	2003	2,491,691	1.9%	588,088	-2.0%	182,566	6.9%	3,262,345	1.4%
	2004	2,736,779	9.8%	641,157	9.0%	231,949	27.0%	3,609,885	10.7%
	2005	2,779,895	1.6%	719,150	12.2%	236,388	1.9%	3,735,433	3.5%
	2006	2,807,377	1.0%	735,753	2.3%	264,626	12.0%	3,807,756	1.9%
	2007	3,052,813	8.7%	746,435	1.5%	289,280	9.3%	4,088,528	7.4%
	2008	3,255,540	6.6%	740,369	-0.8%	343,315	18.7%	4,339,225	6.1%
	2009	3,141,812	-3.5%	682,822	-7.8%	408,196	18.9%	4,232,830	-2.5%
	2010	3,303,170	5.1%	725,781	6.3%	444,943	9.0%	4,473,894	5.7%
	2011	3,429,310	3.8%	750,486	3.4%	444,830	-0.0%	4,624,626	3.4%
	2012	3,454,387	0.7%	775,040	3.3%	456,529	2.6%	4,685,956	1.3%
2013	3,363,685	-2.6%	772,678	-0.3%	442,228	-3.1%	4,578,591	-2.3%	
2014	3,434,209	2.1%	741,285	-4.1%	440,954	-0.3%	4,616,448	0.8%	
2015	3,488,629	1.6%	735,755	-0.7%	431,976	-2.0%	4,656,360	0.9%	
	2016	3,679,232	5.5%	673,434	-8.5%	390,425	-9.6%	4,743,091	1.9%
Forecast	2017	3,789,609	3.0%	666,700	-1.0%	392,377	0.5%	4,848,686	2.2%
	2018	3,895,541	2.8%	666,700	0.0%	394,339	0.5%	4,956,579	2.2%
	2019	4,004,433	2.8%	673,367	1.0%	396,311	0.5%	5,074,111	2.4%
	2020	4,116,396	2.8%	683,535	1.5%	398,293	0.5%	5,198,223	2.5%
	2025	4,544,859	2.0%	754,738	2.0%	439,775	2.0%	5,739,372	2.0%
	2030	5,017,967	2.0%	833,341	2.0%	485,571	2.0%	6,336,880	2.0%



Travelling from Winnipeg was no small feat for Edith who had come to spend her first Christmas in Ottawa. Although this 90-year-old grandmother had looked forward to the trip to visit her son and his family (and to meet her granddaughter's new boyfriend), moving throughout the terminal with limited mobility had concerned her. The assistance she received and the accessibility of the airport made her passage from the gate to the arrivals area easy and comfortable. As Edith put it, "it's a lovely place to pass through, and the welcome has been wonderful."

Project Clear Skies

In 2016, the Authority completed another wave of Project Clear Skies funding and supported projects in Ottawa-Gatineau worth nearly \$140,000. Since we introduced the charitable giving program in 2004, more than \$1.4 million has been invested in worthy projects that have made a difference in the lives of residents of Canada's Capital Region.

Project Clear Skies 2016 Recipients

Organization	Project	Amount
AFIO (Association des femmes immigrantes de l'Outaouais)	Purchase of furniture	\$ 3,392
Breast Cancer Action Ottawa	Purchase of tables and chairs	\$ 583
Bronson Centre Inc.	Replacement of exterior entrance doors	\$ 19,160
CALACS francophone d'Ottawa	Purchase of appliances	\$ 1,712
Camp de l'Amitié	Purchase of appliances	\$ 3,555
Centre 507	New flooring on main floor	\$ 8,814
Le Centre Actu-Elle	Purchasing of play structures, swings, and picnic furniture	\$ 3,200
Centre alimentaire Aylmer	Purchase of a walk-in cooler	\$ 6,500
Collaborative Justice Program: Restorative Justice Ottawa	Purchase of desktops and audio equipment	\$ 5,538
Community Laundry Co-op	Purchase of washing machines	\$ 2,179
EcoEquitable Inc.	Purchase of sewing tools and equipment	\$ 7,725
Empathy House of Recovery	Brick and fence repair	\$ 9,840
Helping with Furniture (HWF)	Purchase of a defibrillator, a covered trailer, and lock systems	\$ 14,000
Kind Space	Purchase of an accessible automatic door	\$ 3,258
Maison Alcide-Clément	Foundation repairs	\$ 5,467
Maison de la famille de Gatineau	House renovations	\$ 4,550
Miriam Centre	Purchase of furniture, small appliances, and audio equipment	\$ 1,568
Nectar: New Edinburgh Community & Arts Centre	Full bathroom renovation	\$ 9,000
Nelson House of Ottawa-Carleton	Replacement of basement flooring	\$ 5,000
Olde Forge Community Resource Centre	Purchase of appliances, safety plexiglas, flooring, and kitchen upgrades	\$ 7,800
Parkdale Food Centre	Purchase of furniture, shopping carts, and window coverings	\$ 6,085
Patro d'Ottawa	Purchase of a tilt truck and carts	\$ 1,499
La Soupière de l'Amitié de Gatineau inc.	Purchase of various appliances	\$ 7,973
Total		\$ 138,398

KEY MEASUREMENTS

		Passengers	Annual Growth	Commercial Aircraft Movements	Annual Growth	Rent to Transport Canada \$	Annual Growth
Actual	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	4,656,360	0.9%	75,107	-3.8%	8,737,000	5.0%	
	2016	4,743,091	1.9%	74,345	-1.0%	8,994,000	2.9%
Forecast	2017	4,848,686	2.2%	76,724	3.2%	9,800,000	9.0%
	2018	4,956,579	2.2%	78,105	1.8%	10,100,000	3.1%
	2019	5,074,111	2.4%	79,667	2.0%	10,600,000	5.0%
	2020	5,198,223	2.4%	81,101	1.8%	11,000,000	3.8%
	2021	5,302,189	2.0%	82,723	2.0%	11,300,000	2.7%

Notes:

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

Total rent projected 1997-2021: \$226.1M

Forecast passenger volumes are as provided by outside consultants.

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

OPTIMIZE OPERATIONAL PERFORMANCE, ENSURING SAFE AND SECURE AIRPORT OPERATIONS

OPERATIONS

The project list for 2016 was as long as it was complex and required the collaboration of not only the Authority's various teams but also our campus partners whose help was invaluable. Here are a few of the projects that we focused on:

Baggage Handling System

The Authority completed one of the most complex projects it has undertaken since the construction of the terminal building. The \$60.0 million baggage handling system (BHS) upgrade project was fully commissioned in the summer, after an intensive 33-month construction schedule that included tenant moves and new building construction to accommodate them. A new maintenance building, water fill building, and new tug charging building were constructed, along with new space fit-ups for Air Canada and the Canadian Air Transport Security Authority (CATSA), before work on the BHS could begin.

In addition to capacity and aging technology issues, changing regulatory requirements in airport security necessitated the upgrade. The new system includes features such as the U.S. Baggage Weight Induction System, or BIWIS, which weighs and scans bags, among other important features required by U.S. Customs and Border Protection (U.S. CBP). It also accommodates new CATSA screening requirements.

Overarching all of the technical requirements, the Authority was keen to ensure that the new system would facilitate more efficient baggage delivery for our airline and ground handling partners, and ultimately provide better service to our customers. Two aspects of the project highlight the enhancements most prominently: first, for passengers connecting from domestic to transborder (U.S.), bags are seamlessly transferred without the need to reclaim and recheck; and second, arriving domestic passengers now have an additional carousel from which to retrieve their checked luggage. From a capacity perspective, the new system will process 2,000 domestic bags per hour and 1,000 transborder bags, which doubles the old system. From an energy perspective, while the system is physically more than double the size than the old system, it uses less power, which is great for the environment and our community.

Perhaps the most remarkable aspect of the project was that the entire new system was installed in the equivalent of a crawlspace over the existing system, was tested while the existing system was operational, and it was all completed with no system downtime.



Airport Authority President and CEO
Mark Laroche



If you asked our passengers if they were aware of this massive project, most would have said no. That is a testament to the effort of every organization and individual that played a role in the project and appreciated the unique requirements of a working airport.

The Authority invited every company that worked on the project, including Beumer Group, the company that supplied the BHS, and CATSA, who contributed \$25.0 million to the cost of the project, to a celebration to mark its official completion in the arrivals hall by the new carousel.

BHS Project Fun Facts

- A total of 168,807 labour hours were logged;
- 41,000 security hours were logged;
- The electrical installation took 17,000 hours;
- 933,266 kilograms of steel were installed;
- 29,000 kilograms of conveyor and 24,000 kilograms of Crisbag were installed;
- More than 100 kilometres of cable were installed; and
- 175 new bollards were installed.

IT Facts

- 14 core BHS servers;
- 56 virtual core processor units;
- Over 5 terabytes of hard disk space and 200 gigabits of RAM used; and
- Between 7,000 and 8,000 sortation messages come in every day.

ACI Carbon Accreditation Level 1

Airports Council International North-America's (ACI-NA) granted the Authority Level 1 of their four-level Airport Carbon Accreditation program on October 26th. The process for certification, which commenced in the spring, involved carbon footprint mapping for Authority-owned facilities and vehicles. Once completed, the calculations were verified by a third party, in keeping with program guidelines, and submitted for review. Achievement of this milestone sets the stage for the work required to reach Level 2 - greenhouse gas emission reduction. The program, which launched in Europe in 2009 and expanded to North America in 2014, independently assesses and recognizes airports' efforts to manage and reduce their CO₂ emissions. It certifies airports at four levels of accreditation including mapping, reduction, optimization, and neutrality.

Gate Upgrades

The Authority completed a multi-year project to upgrade several gates and replace the original passenger boarding bridges installed in 2003. All work to upgrade Gate 6 to accommodate larger aircraft was completed, and new bridges were installed on Gates 11, 12 and 16. As part of the upgrade of Gate 6 to accommodate larger aircraft, the existing smaller radial drive bridge was relocated from Gate 6 to Gate 2, providing bridged access for a gate that was previously ground-loading only.

Performance Based Navigation (PBN)

The United Nations-based Civil Aviation Organization (ICAO) introduced Performance Based Navigation (PBN) in 2015 as one of the essential tools required to improve global aviation safety and efficiency of future Communications, Navigation, Surveillance/Air Traffic Management (CNS/ATM) systems. Transport Canada is supportive of the ICAO's PBN initiative and the need for globally harmonized operations that will improve the safety, efficiency, and environmental impact of aircraft operations.

Operations at YOW have traditionally been a mix of Required Navigation Performance (RNP – performance-based navigation that allows an aircraft to fly between two 3D-defined points in space included in PBN) and Required Navigational Approach Procedure (RNAV – a method of Instrument Flight Rules that allows an aircraft to choose any course within a network of navigation beacons) using ground navigational aids. In 2016, NAV CANADA presented a plan to increase the use of RNP through improved landing approaches that will be utilized by more aircraft operators. The plan was developed with input from the Authority and introduced to the community through a joint public consultation program. The PBN plan was approved for implementation in the fall of 2016.

The effect of PBN is minimal at this time, as it is dependent on airlines to equip their aircraft with the necessary technology. Over time, however, the number of flights that use PBN will increase.

Primary Inspection Kiosks (PIK)

Canada Border Service Agency (CBSA) chose YOW as the inaugural airport to implement their new Primary Inspection Kiosk (PIK) technology in Q1 2017. Developed as a replacement for the Automated Border Control program, PIK will facilitate the Canada Customs process for all inbound passengers, regardless of their nationality or point of origin, via customer service kiosks. The Authority actively pursued inclusion in the project as a means of making the Customs process more efficient for our customers and optimizing the available space in the Canada Customs Hall to process more passengers. We are working closely with CBSA to ensure a smooth transition to the new program, including the addition of a team of customer service representatives who will aid our arriving passengers through the process.



Terminal Changes

The Authority implemented many changes in and around the terminal that have made a big difference for our clients. We added more receivers to the airport's free high-speed Wi-Fi network in various areas of the terminal where our passengers told us service was weak, to ensure that they can stay connected while travelling.

We made improvements to YOW's wayfinding system to make navigating the terminal easier, and to increase the contrast on all terminal signage for greater accessibility.

We launched a plan to upgrade restrooms to exceed accessibility standards and to meet the needs of our aging population.

And perhaps the most notable change is on approach to the terminal, where we installed a new YOW airport sign at the point where the arrivals and departures roadways split. Designed and built in partnership with Pattison, our outdoor advertising partner, the sign provides a much more attractive welcome for our visitors.



Our experienced airfield crews tackled the record-breaking 51.2 cm snowfall over an 18-hour period with careful planning and well-orchestrated teamwork. During normal seasonal snowfalls, it usually takes 24-32 hours to return all areas back to pre-event conditions. This incredible snow event had the operators, the foreman, and the heavy equipment mechanics working non-stop for more than five days. As usual, they got the job done, ensuring a minimal impact on flight operations, and of course, our passengers.



SAFETY

The entire YOW team is committed to safety in all aspects of airport operations and we work with our campus partners to ensure a safe environment for all passengers and employees.

Winter Operations

Winter 2016 dropped significantly more snow on the ground than we typically see in Ottawa, with a total snowfall of 314 cm. On average, over the past 25 years, Ottawa has received 235 cm each winter. Most snow events that occurred measured less than 10 cm; however, one record-breaking storm on February 16th dumped 51.2 cm on the region. We are very pleased to report that the airport remained operational, and the majority of flights continued to operate despite the challenging conditions.

The end of the year proved to be much more challenging as well. In December alone, 99.8 cm of snow fell, in contrast to the 10-year average of 58.4 cm, and the 25.4 cm that fell in December 2015. The airside crew handled it like the seasoned professionals they are.

Takeoff and Landing Performance Assessment (TALPA)

As discussed in 2015, ICAO has been working towards a TALPA methodology to standardize runway condition reporting globally, and set October 1st, 2016, as the date for full implementation in the U.S. With several carriers that serve YOW having adopted the new standards and the Federal Aviation Authority (FAA)-developed Runway Condition Assessment Matrix in 2015, the Authority had already taken the necessary steps to support the new standard. Despite record-breaking snowfalls in the region in 2016, the Authority met its TALPA targets and had a successful winter operation.

SECURITY

YOW continued to demonstrate aviation security leadership in 2016 in several areas, first among them being to exceed many of the standards set by Transport Canada within the Airport Security Program. YOW was a pilot airport for the Threat Risk Vulnerability Assessment requirement, in addition to introducing new industry-leading programs such as the Insider Threat Prevention training and an integrated Security Management System, to ensure the highest degree of security and safety for airport users. The airport also installed the first triple-layer anti-passback exit system, which achieves several goals: it enhances primary line security, prevents passengers from returning to the secure area, and reduces human resources costs which allows the Authority to reinvest in other security capabilities.



Other highlights in airport security that bear additional detail include the following:

No Drone Zone

Early in the year, the Authority initiated a counter-drone project in the interest of commercial aircraft security. The first phase focused on awareness with a joint Airport Authority/Transport Canada/Ottawa Police Service media awareness campaign during which the Minister of Transport announced new drone regulations, possible legal implications for misuse, and branded “No Drone Zone” airport perimeter signage.

The Authority is investigating a drone detection system for deployment in 2017. The solution will be complemented with mitigation and response strategies.



Airport Authority President and CEO Mark Laroche and Minister of Transport Marc Garneau

Very Important Passengers

As Canada’s Capital, Ottawa’s airport is uniquely required to welcome a significant number of guests whose visits have unique security requirements. In 2016, we supported visits from the U.S. President, Vice President, and Secretary of State, the Presidents of Mexico and France, the Premier of China, numerous special Ambassadors for the One Young World Summit, and several thousand other diplomats and government VIPs. Each of these visits was handled flawlessly with excellent collaboration with all law enforcement and government agencies.

Top Dogs

The Authority’s Canine Unit continued to raise its level of excellence in 2016. It started the year sharing its skills and expertise with other law enforcement canine teams from across Canada in an extensive workshop at YOW. It finished the year with a win at the Canadian Law Enforcement Detection Dog Championships against 20 other police, corrections, and customs dog teams.

Non-passenger Screening Vehicles (NPS-Vehicles)

In 2014, we reported that the NPS-Vehicles program was to be fully implemented at Class 1 airports in Canada for all vehicles and occupants that access the critical restricted areas of the airfield. The Authority complied with two NPS-V checkpoints on the airfield. The program was broadened by Transport Canada in 2016 to include 100% document verification, which was implemented at YOW in April by placing contracted security personnel at both checkpoints to carry out inspections. The financial requirements for NPS-V capital facilities, non-CATSA security, and operating costs are borne entirely by airport authorities.

Exercise Dark Knight

The Authority hosted a comprehensive security and emergency response exercise in October based on multiple simulated terrorist attacks on the terminal. The event tested all levels of the airport’s emergency response plan and the Authority’s senior management team, but also the City of Ottawa’s Police, Paramedic and Fire services, U.S. Customs and Border Protection, Global Affairs Canada, and First Air as the airline partner.

In addition to our regular Airport Emergency Management training program that includes planning and training sessions, regular tabletop exercises and Red Team tests, exercises such as this serve to evaluate our capabilities and readiness in the context of global security events.

The airport has become like a second home to Sheldon. He has loved airplanes since he can remember and dreams of becoming a pilot. He visits the observation areas at the airport every weekend to watch planes take off and land. The people in the shops have come to know him and enjoy his visits. Although he saw his mom off at the airport many times because she travelled for work, he was never sad to see her go. He was just happy he got to see the planes! It was a special day when he celebrated turning 4 at a party hosted in the Rideau Bar and Grill with a perfect view of the airfield. Sheldon even said that it was the best birthday ever.



FINANCE

The Financial Year at a Glance

While the Canadian economy experienced mixed growth patterns in the first half of 2016, the second half growth trends were more encouraging and had a positive impact on the 2016 results for the airport. 2016 passenger volumes again broke previous years' records, surpassing 4.7 million passengers, an increase of 1.9% over 2015. U.S. air carrier capacity continued to experience a decrease across most of Canada to their primary hubs, while domestic growth was strong as many transborder passengers were routed through Toronto and Montreal. Revenues in 2016 were 3.1% higher at \$121.9 million compared to \$118.3 million in 2015, mainly due to increased fees charged to airlines and higher passenger volumes which favourably impacted parking and ground transportation revenues. As a result, the Authority finished 2016 by generating earnings before depreciation of \$22.8 million compared to \$27.8 million in 2015 and a net loss after depreciation of \$5.3 million compared to net earnings of \$1.9 million in 2015. The Authority anticipated the year-over-year reduction in earnings due to the incremental interest impact from the Series E Bond issued in June 2015. As always, any earnings continue to be reinvested in airport operations and development in the interest of improving safety, efficiency, and the customer experience.

Five-year Review

(in thousands of Canadian dollars)	2012	2013	2014	2015	2016
Revenues	\$105,845	\$104,139	\$112,271	\$118,252	\$121,912
Expenses before depreciation	78,232	79,866	83,074	90,422	99,134
Earnings before depreciation	27,613	24,273	29,197	27,830	22,778
Capital expenditures	24,403	30,390	54,752	31,206	24,443
AIF revenues	39,379	38,370	43,629	45,434	46,920

TO PURSUE EXCELLENCE

The pursuit of excellence permeates everything we do at the airport. Whether adding services that our clients want or tweaking existing programs to reflect changes in our client profile, the Authority is committed to listening, evaluating, and effecting change where and when possible to ensure the best customer experience.

SAVM VIP Passenger Assistance Services

The Authority determined the need for a passenger assistance service, which was reinforced with the requirements identified during One Young World Summit planning. Coincident with the arrival of Summit Counsellors, the Authority introduced its Passenger Concierge Service. The service is provided by SAVM, a Canadian company operating at several major international airports, which offers clients a highly satisfying and stress-free travel experience by assisting them through every step of the airport process. Their services are available to arriving and departing domestic, international and transborder (U.S.) passengers. SAVM's bilingual customer service menu offers curbside greeting, check-in assistance and gate escort for departing passengers, disembarkation assistance, gate greeting, and other arrival support, among other services.

Infoguides

YOW's Infoguide volunteers continued to delight our clients with their outstanding customer service delivery and willingness to go above and beyond to solve problems. In all, they logged nearly 7,300 hours in 2016 in their pursuit of happy customers. The entire airport community is grateful for their time and commitment as they reinforce Ottawa-Gatineau's reputation as a great place to live, work, play, and visit.

Our clients express it best: *"I have travelled the world and been to many airports and I have to say that the Ottawa Airport is one of the best I have been through. It is very well designed and very user-friendly. I have also found the folks at the information desk to be very courteous, kind and helpful."*

Employee Excellence

The Authority knows that employees are key to its success. Making sure they understand that their commitment is recognized and that they are valued is critical to our continued success. To that end, we have several employee-focused programs in place that aim to properly introduce new team members to the organization and recognize outstanding contributions to the airport.

New Employee Onboarding

The Authority's new team member onboarding process is designed to aid in the engagement and development of a gratified employee from the onset.

The process conveys the Authority's Values, Mission, Vision, and Strategic Directions; it explains our people and our functional areas. The process will add to the employees' understanding of how they fit into the big picture. On day one, a new employee is presented with his or her New Team Member PASSPORT, which outlines the itinerary for their first few days, including meetings with executives, functional areas, training schedule, and tours.

Top Flight Peer Recognition Program

Top Flight aims to motivate, emphasize, recognize, and share the exceptional contributions of our colleagues. As a peer-driven program, Top Flight gives Authority employees the chance to recognize their colleagues in the following categories: customer service; commitment; safety or security consciousness; innovation and creativity; and teamwork.

As voted on by Authority employees, the 2016 Employee's Choice Award was presented to Lianne Degen, an Operational Responder, on December 16th, 2016. Lianne's nominator wrote:

"Her level of selflessness and commitment to YOW and the OMCIAA is completely outstanding. I have the privilege to be on the same rotation as her. She has never been down or frustrated on each and every shift, always brings a smile and cares absolutely about everyone. She deserves recognition. I cannot choose a category (specifically) she achieves them all, daily."

Congratulations to all nominees.

Service Quality Marks on the Rise

The enhancements mentioned previously are reflected in the surveys our passengers complete, and YOW continues to rate well. Scores in Airports Council International (ACI)'s Airport Service Quality program have increased over 2015, with a final overall satisfaction score for 2016 of 4.45 (+0.3%) out of 5. Increases of note include ease of making connections with other flights (+5.1%), waiting time at passport/personal ID inspection (+4.6%), courtesy and helpfulness of inspection staff (+4.4%) and value for money of parking facilities (+4.0%).

When the 2016 year-end results were announced by ACI, YOW was thrilled to again be recognized in two categories: 2nd place Best Airport by Region (North America) and 3rd place Best Airport by size (worldwide, 2-5 million passengers).

The continued focus on customer service that resulted in these awards is a tribute to every organization that contributes to the customer experience, regardless of how small it might be. Customers pay attention, and they remember.



Saying goodbye is never easy – especially when you're parting ways for as much as a year. The members of the 2016-2017 National Evangelization Team know that all too well, and the Ottawa Airport has been the back-drop for many of their bittersweet goodbyes as they head off to do their mission work. The youths are like a family, so their time spent together at the airport before they leave is very important to them, and like they put it, "one for the scrapbook".



Total Nonstop Destinations

	Total
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
2015	49
2016	46

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
2015	78	21	24
2016	80	20	23

Commercial Aircraft Movements

	Total
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
2015	75,107
2016	74,345

Origin and Destination

94% of Traffic (estimated)

TO PROVIDE ADDITIONAL FLIGHT FREQUENCIES AND DESTINATIONS

As the Canadian economy adjusts to a lower dollar and a stagnant economy, many of our airline partners have had to adjust to changing market conditions. Many have consolidated routes and upgauged aircrafts (deploying a larger aircraft on a route) at the expense of frequency to respond to the times. The number of domestic departing seats increased throughout the year with Air Canada, Air North, and WestJet. Porter Airlines' service to Toronto-Billy Bishop Airport also grew.

Air Canada's YOW-U.S. capacity increased, and Delta's Detroit service remained steady, while other airlines, particularly U.S.-based ones, have had to make tough business decisions concerning their Canadian routes. YOW has fared rather well, relatively speaking, with few destinations discontinued. That said, United Airlines decreased frequencies to Chicago and Washington-Dulles. American Airlines decreased capacity to Philadelphia. WestJet's seasonal service to Las Vegas was cancelled for 2017.

Beyond Canada and the U.S., Air Canada's year-round daily London-Heathrow (LHR) service remains successful, and their Ottawa-Frankfurt (FRA) service was back last year, from May to October, operating on a daily basis. FRA is a major Star Alliance hub that easily connects YOW to all of Europe, the Middle East, and South Asia. A multitude of leisure-oriented Mexican and Caribbean destinations continue to serve the National Capital Region well during the winter season.

Corporate Travel Survey

The Authority undertook a survey in 2015 designed to better understand the region's corporate travel community and their needs. One hundred ten firms were identified with 60 completing the survey from the technology, software, communications, finance, consulting, transportation, engineering, construction, education, and government sectors. This information, which was analyzed in early 2016, is valuable to airline network planners as they consider and evaluate future possibilities in the Ottawa market. The Business Development and Marketing team continues to meet with airlines using the information gleaned from the survey and other data to present the YOW opportunity.

Porter Celebrates 10 Great Years!

Porter Airlines marked ten years of flying refined on October 23rd. When Porter launched its business plan in 2006, it chose Ottawa as its inaugural market and commenced operating its Bombardier Q400 aircraft between YOW and YTZ-Billy Bishop Airport with

54 flights per week. Since then, Porter's business at YOW has grown to 140 flights per week to four destinations: downtown Toronto, Halifax, Moncton, and seasonally to Mont Tremblant.

We celebrated with Porter employees and key clients at a reception in arrivals on October 24th and welcomed their YTZ-based team with a water salute on the tarmac. We wish Porter continued success and look forward to celebrating many more milestones with them in the years to come.



City of Ottawa Councillor Michael Qaqish, Porter Airlines CEO Robert Deluce, Airport Authority President and CEO Mark Laroche, and members of the Porter team.

Maya and Clara thought that offering a stuffed animal to a child arriving at the airport would be the perfect way to say “Welcome to Canada”. The girls learned of the crisis in Syria and the impact it was having on Syrian children. When they found out that most families would be arriving in Ottawa by air, they decided to launch a ‘Stuffies for Syria’ campaign. They collected more than 700 stuffed animals and handed them out at the airport, along with a lot of compassion and reassuring smiles to some grateful newcomers.



Strategic Initiatives

The Authority's Strategic Plan determines the areas of focus for the Board of Directors and Senior Management Team.

The following identifies the strategic directions and some of the key projects within each for the 2017-2021 timeline:

1. To grow strategically

- to grow non-aeronautical revenues;
- to provide passengers and commercial airlines with world class airport facilities.

2. To increase the economic footprint of the airport within the National Capital Region

- to increase the economic impact of the airport by generating employment and economic activity on airport land;
- to ensure efficient transportation access to the airport through continued advocacy with the City of Ottawa concerning a Light Rail Transit (LRT) airport link.

3. To optimize operational performance, ensuring safe and secure operations

- to be recognized for strong financial management practices and strong financial performance among airports in Canada;
- to show continued leadership in airport safety and security;
- to show continued leadership in sustainable airport management and environmental practice.

4. To pursue excellence

- to continue to achieve consistently high customer satisfaction;
- to ensure excellence in employee engagement;
- to demonstrate leadership in corporate governance.

5. To provide additional flight frequencies and destinations

- to increase flight options through the implementation of an effective air service development strategy;
- to support tourism, business and convention development in Ottawa by stimulating demand for air travel.

2016 Actual vs. Business Plan

(in millions of Canadian dollars)

	Actual	Plan	Variance	
Revenue	121.9	121.7	0.2	Increase in landing and terminal fees and increase in ground transportation usage and revenues (parking, taxi, and Uber).
Expenses	127.2	127.1	0.1	Higher depreciation due to the baggage handling systems, apron refurbishment and boarding bridge replacement. Higher interest expense due to the new Series E Bond Financing.
Capital expenditures	24.4	32.0	-7.6	Completion/deferral of various initiatives into 2017 including completion of boarding bridge replacement, major vehicle purchases and terminal building enhancements.

Financial Projections 2017 - 2021

(in millions of Canadian dollars)

	2017	2018	2019	2020	2021
Revenue	126.5	130.4	134.6	139.1	142.0
Expense	128.0	126.9	130.8	134.9	127.9
Capital expenditures	38.4	56.2	58.5	63.7	36.3



Stittsville native Erica Wiebe was overwhelmed with the warm welcome she received in the arrivals area following her gold-medal win for wrestling at the Rio 2016 Olympics. She was greeted by Ottawa Mayor Jim Watson and City Councillor Marianne Wilkinson, and about a hundred friends, family, and fans. Having the group cheering and holding flags and signs as she came down the escalator, following a bagpiper, gave her a well-deserved hero's hometown welcome. She was very gracious and made her way through the crowd, greeting each person who had come out, signing autographs, posing for photos, and even letting people touch her gold medal.

Corporate Governance, Accountability, and Transparency

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 who 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 Authority's Code of Business Conduct and the Public Accountability Principles for Canadian Airport Authorities.

Each Director has filed a conflict of interest declaration for 2016, as required by the Authority's by-laws. Furthermore, to the Authority's knowledge, all Directors are in compliance with the conflict of interest and code of conduct guidelines noted above.

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 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
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, 2016.

	Name and Position with Authority	Occupation	Selecting Body and Year Appointed
	Susan St. Amand Chair of the Board	President Sirius Financial Services	Minister of Transport (Government of Canada) 2012
	Craig Bater ^{(2) (4)}	Partner Augustine, Bater, Binks LLP	Ottawa Chamber of Commerce 2012
	Thom Bennett ^{(3) (5)}	President Bennett Insurance Agency Limited	Minister of Transport (Government of Canada) 2012
	John Boyd ⁽¹⁾	Financial Advisor Client First Group	Government of Ontario 2010
	Dick Brown ⁽³⁾	Retired Executive	Ottawa Tourism 2016
	Chris Carruthers ^{(2) (3)} Chair, Human Resources & Compensation Committee	Health Care Consultant Corporate Director	At Large 2010

	Name and Position with Authority	Occupation	Selecting Body and Year Appointed
	Code Cubitt ⁽⁴⁾ ⁽⁵⁾	Managing Director Mistral Venture Partners	Invest Ottawa 2015
	Scott Eaton ⁽¹⁾ ⁽⁵⁾	Business Lawyer	At Large 2013
	Gilles Lalonde ⁽¹⁾ ⁽²⁾	President and CEO Provance Technologies Inc	Ville de Gatineau 2008
	Brendan McGuinty ⁽²⁾ Chair, Governance Committee	President Strategies 360 Inc.	City of Ottawa 2011
	Carole Presseault ⁽²⁾	Principal Consultant, Presseault Strategies+	Chambre de commerce de Gatineau 2014
	Jacques Sauvé ⁽⁴⁾ Chair, Major Infrastructure and Environment Committee	Consulting Engineer	At Large 2012
	Lisa Stilborn ⁽¹⁾	Public Affairs Executive	City of Ottawa 2016
	Janice Traversy ⁽¹⁾ ⁽⁴⁾ Chair, Audit Committee	Retired Airline Executive CPA, CMA	At Large 2013

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Governance Committee

⁽³⁾ Member of Human Resources & Compensation Committee

⁽⁴⁾ Member of Major Infrastructure and Environment Committee

⁽⁵⁾ Member of the Ad-Hoc Committee on Airport Profitization

Directors' Compensation in 2016

Annual Retainer	Chair	\$ 48,855
	Audit Committee Chair	\$ 23,885
	Committee Chairs	\$ 21,714
	All other Directors	\$ 13,028
Per meeting fee	\$ 598 per meeting	
	\$ 217 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 10
Thom Bennett	10 out of 10	4 out of 4
John Boyd	10 out of 10	9 out of 9
Dick Brown ⁽¹⁾	8 out of 8	2 out of 2
Chris Carruthers	9 out of 10	8 out of 9
Code Cubitt	9 out of 10	7 out of 8
Scott Eaton	9 out of 10	9 out of 9
Barbara Farber ⁽²⁾	3 out of 3	4 out of 4
Gilles Lalonde	9 out of 10	9 out of 11
Brendan McGuinty	10 out of 10	5 out of 5
Carole Presseault	10 out of 10	4 out of 4
Jacques Sauvé	10 out of 10	5 out of 5
Susan St. Amand	10 out of 10	21 out of 23
Lisa Stilborn ⁽³⁾	4 out of 5	2 out of 3
Janice Traversy	10 out of 10	11 out of 11

⁽¹⁾ New Board member effective April 27, 2016

⁽²⁾ Term ended April 27, 2016

⁽³⁾ New Board member effective June 15, 2016

Committees of the Board

The 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 the 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 the Committees of the Board and appointment of the Committee Chairs;
- review changes to the 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;
- oversee best practices in the area of environmental stewardship;
- review reports and other documents related to the design, cost, quality, schedule, risk, and construction of proposed major infrastructure projects;
- review updates to the Authority's Master Plan;
- review the infrastructure investment plans prepared as part of the annual Business Plan; and
- review the Authority's environmental management reports including issues related to noise.

Audit Committee

- assist the Board in fulfilling its oversight responsibilities with regard to financial risk management, financial reporting and audit functions;
- review and report to the Board with regard to the independence and performance of the external auditor;
- 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 & 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 \$112,339 (\$75,000 in 1994 dollars adjusted for CPI to December 31st, 2015), 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 \$112,339 that were not awarded on the basis of a public competitive process during 2016:

Contractor	Contract Description	Reason for Sole Source
Carrier Enterprise Canada	\$211,000 Supply of new variable speed drives for Carrier chilling units.	See A below
Embross North America Ltd.	\$289,058 Supply of Automated Passport Control kiosks	See B 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 and/or services available from only one supplier.

Executive Management Salary Ranges

The base salary range for the President of the Authority in 2016 was between \$292,400 and \$357,500. The base salary range for Vice-Presidents in 2016 was between \$114,008 to \$226,020.

In addition, under the management incentive plan for non-represented employees, the President and the Vice Presidents receive pay at risk following fiscal year end which payments are based on achieving performance 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 14th, 2013 that it was increasing its fee to \$23 effective March 1st, 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 Airport Authority makes available by appointment the following documents for examination, at no charge, during its usual business hours:

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



The Board of Directors

From left to right: Chris Carruthers, Lisa Stilborn, Code Cubitt, Scott Eaton, Dick Brown, Jacques Sauvé, Craig Bater, Susan St. Amand, Thom Bennett, Mark Laroche (President & CEO), Brendan McGuinty, Carole Presseault, John Boyd, Gilles Lalonde. Absent: Janice Traversy.

We're Here to Listen



**SUBMIT QUESTIONS,
COMMENTS OR CONCERNS**

www.yow.ca/contactus



EMAIL US

comments@yow.ca



**FILL OUT
A COMMENT CARD**

Available at the kiosks on Level 1 and 3



WRITE TO US

1000 Airport Parkway Private
Suite 2500
Ottawa, Ontario, Canada K1V 9B4



CALL US

General Inquiries: 613-248-2125
Noise Information: 613-248-2023
Airport Authority: 613-248-2000

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.

Connect with Us @flyYOW



www.facebook.com



www.instagram.com



www.twitter.com



www.linkedin.com



Our FlyCANADA app makes your travel experience simple and enjoyable.

Download it for free.





Each step that Boniface and Isaac took at the airport years ago was a step towards a new beginning and a promising future, filled with hope, freedom, and success. Originally from the Congo, they were welcomed at the Ottawa Airport as refugees. Nowadays, visiting the airport means something completely different to them. It bridges the distance between them and their brother and enables them to renew and maintain relationships abroad.

2016 Financial Review

2016 Financial Review

This Financial Review reports on the results and financial position of the Ottawa Macdonald-Cartier International Airport Authority (the "Authority") for its year ended December 31, 2016. 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, 2016 were \$22.8 million compared to \$27.8 million for the year ended December 31, 2015. Five million dollars in incremental interest expense associated with the \$300 million Amortizing Revenue Bonds which bear interest at a rate of 3.933% completed on June 9, 2015 was the most significant factor impacting earnings before depreciation for the year.

The Authority recorded depreciation of \$28.1 million in 2016 compared to \$25.9 million in 2015, reflecting depreciation of the terminal building, airfield facilities, and other assets over their estimated economic lives. After subtracting depreciation, the Authority generated a net loss of \$5.3 million in 2016 compared to net earnings of \$1.9 million in 2015.

The Authority's net operating results for the three years ended December 31, 2016 are summarized as follows:

(in millions of Canadian dollars)	2016	2015	2014
Revenue	121.9	118.2	112.3
Expense	99.1	90.4	83.1
Earnings before depreciation	22.8	27.8	29.2
Depreciation	28.1	25.9	22.5
Net earnings (loss)	(5.3)	1.9	6.7
Total assets	698.9	711.6	461.9
Gross - long-term debt	631.2	634.4	337.5

RESULTS OF OPERATIONS

Operating Activities

During 2016, the Ottawa Macdonald-Cartier International Airport (the "Airport") saw positive passenger volumes with increases of 1.9% over 2015 and 2.7% over 2014. While the Canadian economy experienced mixed growth in the first half of 2016, the second half growth trends were more encouraging. Economic indicators present positive trends for 2017 in GDP and employment growth. Federal government policy and infrastructure initiatives combined with fiscal and monetary measures designed to improve economic conditions should contribute to incremental passenger growth in 2017 and beyond. Nevertheless, the impact of the unpredictability in energy prices, variability in the Canadian dollar, and mixed economic and political trends in global markets will be monitored over the course of the year.

The following table summarizes passenger volumes for the last three fiscal years:

	2016	2015	2014	% change – 2016 versus	
				2015	2014
Domestic	3,679,232	3,488,629	3,434,209	5.5%	7.1%
Transborder	673,434	735,755	741,285	(8.5%)	(9.1%)
International	390,425	431,976	440,954	(9.6%)	(11.4%)
Total	4,743,091	4,656,360	4,616,448	1.9%	2.7%

Domestic passenger volumes were 5.5% higher on a year-over-year basis with increases in flows noted to Toronto, Montreal and Halifax. The reduction in frequencies to transborder destinations has resulted in more flow through to domestic hubs, predominantly Toronto Pearson. Year-over-year increases with the three major Canadian air carriers resulted primarily from higher load factors on domestic routes, more frequencies and, in some cases, use of larger aircraft.

Transborder volumes were 8.5% lower than 2015. U.S. air carrier capacity continued to experience a decrease across most of Canada to their primary hubs, including Chicago, Dulles, Newark, Detroit, Philadelphia, and Charlotte (discontinued in June 2015 when US Airways merged with American). A reduction in U.S. leisure service to Fort Lauderdale was offset by increases in capacity and flows to Orlando where frequencies were doubled during the summer months of 2016. Nonetheless, the overall reduction of nonstop transborder frequencies contributed to domestic increases as many transborder-bound passengers were rerouted via Toronto and Montreal.

International volumes declined 9.6% from 2015. The decline was due primarily to reduced Sunwing frequencies to Cancún, St. Maarten, and Varadero in the 2016 winter season as compared to 2015. Furthermore, the delay in the start of Air Canada's Frankfurt seasonal service to late May 2016 as compared to a March start in 2015 also contributed to the decline in volumes. Air Canada's daily year-round London (LHR) flight remains strong.

By sector, a quarterly view of 2016 passenger volumes compared to comparable quarters in 2015 is as follows:

	Domestic	Transborder	International
Q1	Higher by 6.0%	Lower by 9.9%	Lower by 7.5%
Q2	Higher by 3.4%	Lower by 10.4%	Lower by 24.1%
Q3	Higher by 5.8%	Lower by 6.4%	Lower by 3.6%
Q4	Higher by 6.8%	Lower by 6.4%	Lower by 4.1%
Total	Higher by 5.5%	Lower by 8.5%	Lower by 9.6%

By quarter, total passenger volumes were as follows:

	2016	2015	% change
Q1	1,191,350	1,182,767	0.7%
Q2	1,157,771	1,167,124	(0.8%)
Q3	1,218,575	1,176,548	3.6%
Q4	1,175,395	1,129,921	4.0%
Total	4,743,091	4,656,360	1.9%

The size of an aircraft (based on maximum takeoff weight) and the number of "landed" seats on an aircraft (regardless of whether those seats are occupied by passengers) are the most significant drivers of landing and terminal fees. In 2016, the number of landed seats increased by 0.8% compared to 2015. Domestic landed seats increased 3.3% on a year-over-year basis while transborder and international declined 8.1% and 7.4%, respectively. These movements in landed seats mirror the changes in the passenger volumes as explained above.

REVENUES

Total revenues increased by 3.1% to \$121.9 million in 2016 compared to \$118.3 million in 2015.

Revenues by category (in thousands of Canadian dollars)			Change	
	2016	2015	\$	%
Airport improvement fees	46,920	45,434	1,486	3.3%
Terminal fees and loading bridge charges	26,432	25,248	1,184	4.7%
Landing fees	12,861	12,448	413	3.3%
Concessions	12,419	10,923	1,496	13.7%
Car parking	14,344	13,746	598	4.4%
Land and space rentals	6,349	6,237	112	1.8%
Other revenue	2,587	4,216	(1,629)	(3.9)%
	121,912	118,252	3,660	3.1%

Airport Improvement Fee (AIF) revenues of \$46.9 million in 2016 increased by 3.3% from \$45.4 million in 2015. The increase is attributed to a 1.9% increase in passenger volume in 2016 as compared to 2015, combined with a higher average number of departing passengers originating their flight in Ottawa in 2016 at 94.0% as compared to 93.0% in 2015. Under an agreement with the air carriers, the AIF is a fee imposed by the Authority and is paid by the air carriers to the Authority on an estimated basis, net of air carrier administration fees of 6.0%, on the first of the month following the month of enplanement of passengers. Final settlement based on actual passenger enplanements occurs at the end of the month following the month of enplanement.

At \$39.3 million in 2016, total aeronautical revenues, which include terminal fees, loading bridge charges, and landing fees charged to air carriers, were 4.2% higher than revenues of \$37.7 million in 2015. The year-over-year increase is the result of a 4.0% increase in landing and general terminal fee rates effective February 1, 2016, combined with the favorable increase of 0.8% in landed seats and offset slightly by the impact of volume changes in the domestic versus international and transborder mix of flights serving the Airport. Terminal fee rates for transborder and international flights are higher than rates for domestic flights. With air carrier seat volume growth trending lower than inflationary growth and with increases in downloaded and regulatory expenses that are beyond the Authority's ability to control growing at a rate that is notably beyond inflation, the Authority has increased its aeronautical rates and charges excluding police and security charges by 3.5% effective February 1, 2017. Police and security charges will increase 11.1% (\$0.25 per landed seat). Despite these increases, the Authority's average aeronautical fee rates remain among the lowest in Canada.

Concession revenues of \$12.4 million increased 13.7% as compared to 2015. The \$1.5 million increase was attributable to the impact of the taxi brokerage services contract renegotiated in Q3 2015, the addition of a private transportation company service to the ground transportation offering, favourable adjustments to minimum annual guarantees provided under concession agreements, and the impact of increased passenger volumes on all concession areas.

Car parking revenues increased to \$14.3 million from \$13.7 million in 2015, an increase of \$0.6 million or 4.4%. Strong online sales, increases in short term/low value transactions, and increased stay durations contributed to the favorable variance. Furthermore, continued refinements to the parking rate structure and the availability of parking options contributed to the optimization in pricing models and revenues based on passengers' profiles and their specific needs. Domestic passengers tend to park for shorter periods of time for drop-offs/pickups and business purpose day-trips while leisure, transborder, and international passengers tend to park at the Airport for longer periods of time.

Land and space rental revenues of \$6.3 million increased 1.8% as compared to 2015. Increases are attributable to favourable lease renewal activities with existing tenants and inflationary adjustments embedded within land leases.

Other revenue of \$2.6 million decreased by \$1.6 million as compared to 2015. The higher 2015 result included the June 2015 gain on the bond forward transaction related to the Series E offering. Prior to the closing of the Series E financing, a bond forward transaction was entered into to protect from volatility in interest rates and it resulted in a \$1.6 million gain being recorded.

EXPENSES

Expenses before depreciation increased \$8.7 million to \$99.1 million in 2016 from \$90.4 million in 2015 as described below. Depreciation reflects the allocation of cost over the useful life of the assets and investments in property, plant and equipment. In 2016, depreciation of \$28.1 million was \$2.2 million higher than 2015. The increase is due to incremental Baggage Handling System depreciation of \$0.8 million for equipment that was put in use in the fourth quarter of 2015 and first quarter of 2016, \$0.5 million for incremental investments in new boarding bridges, \$0.2 million for new major airfield equipment and \$0.7 million related to apron refurbishment, information technology, and other initiatives.

Expenses by category (in thousands of Canadian dollars)			Change	
	2016	2015	\$	%
Interest	29,029	24,105	4,924	20.4%
Ground rent	8,994	8,737	257	2.9%
Materials, supplies and services	33,404	31,106	2,298	7.4%
Salaries and benefits	22,690	21,500	1,190	5.5%
Payments in lieu of municipal taxes	5,017	4,974	43	0.9%
	99,134	90,422	8,712	9.6%

Interest expense reflected in the statement of operations results from borrowing to invest in the Authority's capital programs. Interest expense has increased \$4.9 million and is attributable to the net interest expense on the Series E Bonds issued on June 9, 2015. Interest expense incurred on the Series E Bonds is offset partially by the interest income earned on the \$200.0 million that has been set aside in the segregated fund maintained by the Trustee and that will be used to retire the Authority's Series D Bonds maturing in May 2017.

Rent payable to the Government of Canada increased by 2.9% to \$9.0 million in 2016 due to higher revenues in 2016. The Authority operates the Airport under the terms of a ground lease (as amended, the "Lease") with the Government of Canada that sets out the formula for calculating annual rent. The amount reflected as 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. Rent is calculated as a percentage of gross annual revenues as defined in the Lease, with no rent payable on the Authority's first \$5.0 million in annual revenue and an increasing rent percentage payable as revenue increases, on a cumulative basis. Rent is levied at a maximum 12.0% rate on annual revenues in excess of \$250.0 million as follows:

Gross Revenues	Rent Payable	Cumulative Maximum Rent
On the first \$5.0 million of revenues	0.0%	\$0
On the next \$5.0 million	1.0%	\$50 thousand
On the next \$15.0 million	5.0%	\$800 thousand
On the next \$75.0 million	8.0%	\$6,800 thousand
On the next \$150.0 million	10.0%	\$21,800 thousand
On revenues over \$250.0 million	12.0%	

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

	\$
2017	9.8 million
2018	10.1 million
2019	10.6 million
2020	11.0 million
2021	11.3 million

The cost of materials, supplies, and services increased to \$33.4 million in 2016 as compared to \$31.1 million in 2015, an increase of 7.4%. The \$2.2 million increase over 2015 is due to volume and contracted rate increases for terminal services including policing and security, maintenance contract costs, baggage handling services, building repairs, utilities, and other outsourced and professional services. Also, the first and fourth quarters of 2016 experienced a mixture of weather conditions that required a higher level of airfield maintenance including, labor, fuel, winter maintenance chemicals, and materials than in 2015. Furthermore, continued increases in hydro rates as compared to 2015 unfavourably impacted expenses on a year over year basis.

The cost of salaries and benefits increased \$1.2 million to \$22.7 million in 2016, an increase of 5.5%. Half of the increase (\$0.6 million) was related to a favourable reduction in 2015 pension expense due to revaluation of key actuarial assumptions and the remaining increase of \$0.6 million is attributable primarily to annual contracted increases (2.0% to 4.0%) in salaries and benefits.

Payments in lieu of municipal taxes have increased by 0.9% and reflect the impact of the 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 5.0% over the previous year's amount. The \$5.0 million paid for 2016 reflects this prescribed calculation. The number of passengers travelling through the Airport in 2016 increased from 2015 by 1.9%. Payments in lieu of taxes will increase in 2017 by 1.9% from the 2016 amount based on this legislation reflecting the increase in passenger volumes that occurred in 2016.

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:

Quarter Ended (in thousands of Canadian dollars)	2015				2016			
	Mar	June	Sept	Dec	Mar	June	Sept	Dec
Revenue	30.1	28.7	29.0	30.4	31.0	29.6	30.2	31.1
Expense	22.0	21.4	22.7	24.3	25.0	24.1	23.2	26.8
Earnings before depreciation	8.1	7.3	6.3	6.1	6.0	5.5	7.0	4.3
Depreciation	5.8	6.0	7.2	6.9	6.6	6.6	7.7	7.2
Net earnings (loss)	2.3	1.3	(0.9)	(0.8)	(0.6)	(1.1)	(0.7)	(2.9)

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 2016, the Authority invested \$31.0 million in its capital expenditure programs, and recorded \$6.3 million as receivable from the Canadian Air Transportation Security Authority (CATSA) for CATSA's share in the cost of the Airport's new baggage handling system. The Authority spent over \$4.0 million in 2016 on the completion of the renovation and expansion of the Airport's baggage handling system to comply with new CATSA regulations for baggage screening. The Authority commenced this project in 2012 and while many elements were partially completed in 2015, the final stages were completed

in 2016. The total cost of this project and associated work, net of costs to be covered by CATSA, is expected to be approximately \$37.0 million and is being amortized over the expected useful lives of the various components. In addition, in 2016, the Authority replaced four boarding bridges (\$6.3 million), continued the rehabilitation of select sections of the apron and taxiways (\$5.3 million), invested in the installation of one screening station for non-passengers and two airside inspection stations for non-passenger screening for vehicles which are needed to comply with new security regulations (\$3.9 million), investment in major fleet vehicles and equipment (\$1.2 million), and investment in a new anti-pass back door system (\$0.8 million) at the exit of the terminal's domestic holdroom.

CONTRACTUAL OBLIGATIONS

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

(in thousands of Canadian dollars)	Payments for Years Ending December 31						
	Total	2017	2018	2019	2020	2021	There- after
Long-term debt (Note 1)	631,157	203,695	4,152	4,643	8,753	13,116	396,798
Operating commitments	21,416	11,981	4,851	4,003	432	149	
Capital commitments	12,899	12,899					
Total contractual obligations	665,472	228,575	9,003	8,646	9,185	13,265	396,798

Note 1 – Further information on interest rates and maturity dates on long-term debt are provided in Note 8 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 revenues. The Authority manages its operations to ensure that AIF revenues are not used to fund regular operational expenses or operational capital. AIF revenues are used to fund debt service costs and other expenses related to the Authority's major infrastructure investment programs including Airport expansion projects. 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 \$140.0 million in committed credit facilities ("Credit Facilities") with two Canadian banks. The 364-day Credit Facilities that expired on October 14, 2016 have been extended for another 364-day term expiring on October 13, 2017. The following table summarizes the amounts available under each of these Credit Facilities, along with their related expiry dates and intended purposes:

Type of Facility	Maturity	Purpose	2016 \$ (millions)	2015 \$ (millions)
Revolver 364-Day	October 13, 2017	General corporate and capital expenditures	40.0	40.0
USD Contingency (\$10 million USD)	October 13, 2017	Interest Rate hedging	14.0	14.0
Letter of Credit	October 13, 2017	Security for the Debt Service Reserve Fund (see Note 8a)	6.0	6.0
Revolver 5-year	May 15, 2020	General corporate and capital expenditures	80.0	80.0
Total			140.0	140.0

The Authority's cash and cash equivalents decreased by \$12.8 million during 2016 to \$30.0 million as at December 31, 2016.

The Authority issues revenue bonds (collectively, "Bonds") under a trust indenture dated May 24, 2002 (as amended or supplemented, the "Master Trust Indenture") setting out the terms of all debt, including bank facilities and revenue bonds. Under the Master Trust Indenture, the Authority is required to maintain with the trustee under the Master Trust Indenture (the "Trustee"), a debt service fund ("Debt Service Reserve Fund") equal to six months' debt service in the form of cash, qualified investments or letter of credit. At December 31, 2016, the balance of cash and qualified investments held in the Debt Service Reserve Fund was \$11.3 million. Furthermore, in order to satisfy the Debt Service Reserve Fund requirement for the Series E Bonds, \$5.9 million of the Authority's Credit Facility had been designated to an irrevocable standby letter of credit in favor of the Trustee.

The Master Trust Indenture also requires that the Authority maintain an operating fund ("Operating and Maintenance Reserve Fund") in an amount equal to 25.0% 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, 2016, \$14.1 million of the Authority's Credit Facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund.

At December 31, 2016, the Authority was in full compliance with the provisions of its debt facilities, including the Master Trust Indenture provisions related to reserve funds, the flow of funds, and the rate covenant.

During 2016, Standard & Poors and Moody's reaffirmed the Authority's credit ratings with stable outlooks in respect of the Authority's Bonds under the Master Trust Indenture at A+ and Aa3, respectively.

OTHER BALANCE SHEET HIGHLIGHTS

The Authority's accounts receivable increased by \$3.1 million during the year due to an increase of \$2.9 million in amounts receivable from CATSA that is related to their contribution toward the costs of the new baggage handling system.

The post-employment pension benefit asset increased by \$0.1 million in the year to \$0.2 million at December 31, 2016. An increase of \$2.9 million in pension assets resulting from the Authority's contribution of \$2.1 million in special solvency payments as required by pension legislation together with interest and gains on pension plan assets was offset by an increase in pension liabilities of \$2.8 million due to increases

in service and interest costs and net actuarial losses arising from changes due to plan experience and economic assumptions and which are recognized in other comprehensive income (loss).

Other post-employment benefit liability increased by \$1.0 million in the year to \$8.5 million at December 31, 2016 with increases due to \$0.8 million in service and interest costs and \$0.2 million in actuarial losses arising from changes in economic assumptions which are recognized in other comprehensive income (loss) for 2016.

RISKS AND UNCERTAINTIES

Aviation Activity

The federal government is considering the divestiture of airports in Canada. The Authority has expressed its concerns about the potential impact on passenger fees and on the airport governance model. The Authority will remain engaged with other airports and stakeholders in this dialogue as it is considered a material event.

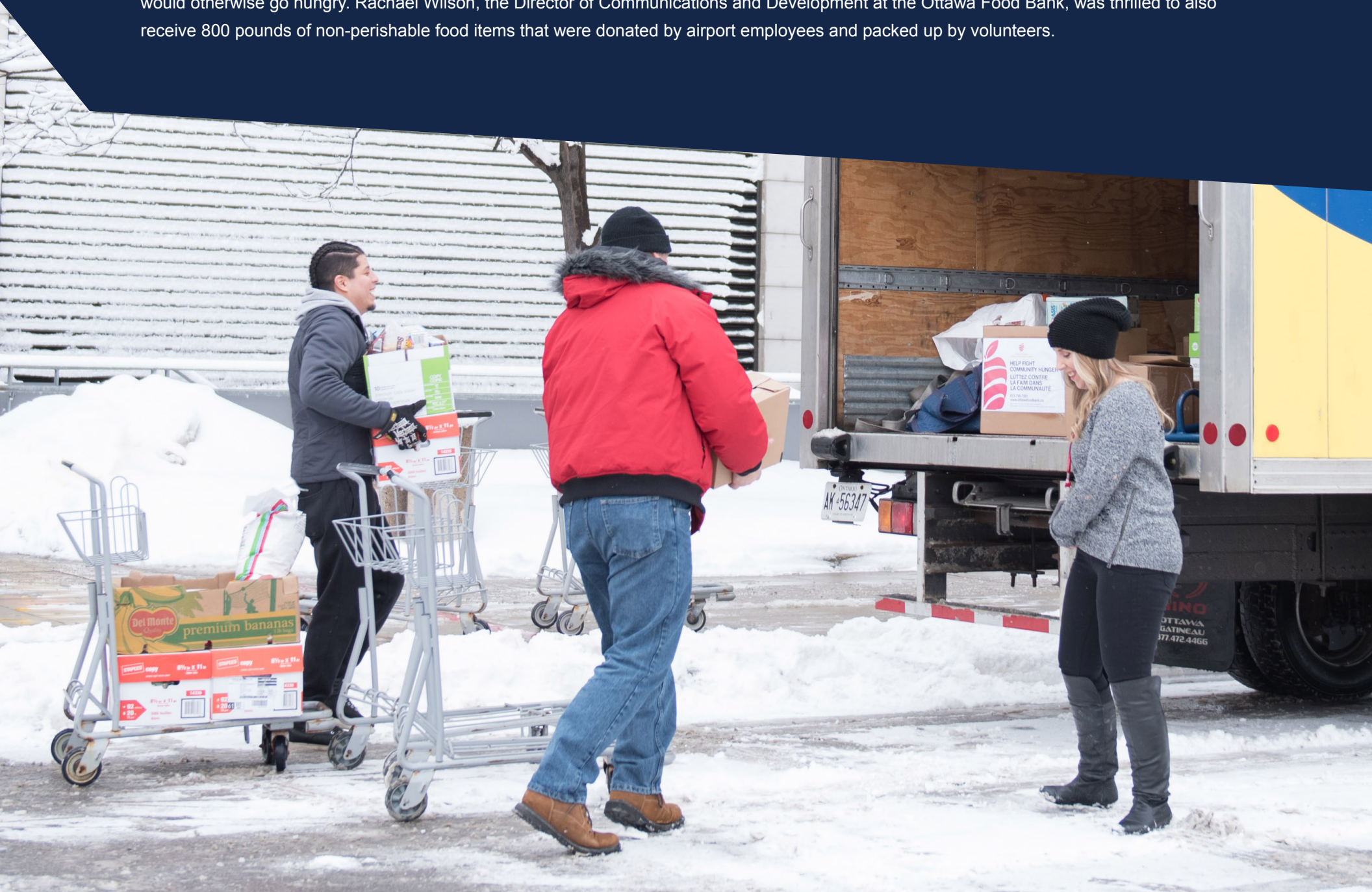
The Authority will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition. Airport revenue is largely a function of passenger volumes. Passenger volumes are driven by air travel demand. The events of the past several years have emphasized the volatile nature of air travel demand and the impact of external factors such as economic conditions, health epidemics, geopolitical trends, government regulation, price of airfares, additional taxes on airline tickets, leakage of passengers to nearby airports, alternative modes of travel, 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 94.0% (93.0% in 2015) of the passenger activity originates or terminates at the Airport, as opposed to connecting through the Airport. 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 and government 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 including the placement of the aviation war risk liability. This specific risk was previously indemnified by the Government of Canada for losses in excess of US\$50.0 million and this indemnification ceased on June 30, 2016. As of the July 1, 2016 insurance renewal, the insurance buying group was successful in securing appropriate war risk liability coverages and limits for all airport authorities in the buying group.

Charities like the Ottawa Food Bank rely on donations from the community in order to provide much-needed support to those who need it. The Ottawa Airport and its campus partners have been supporters of the Ottawa Food Bank for the past seven years, raising funds during the holidays, or donating the coins from the fountains. Our support has helped the 41,500 people who, every month, turn to a food bank when they would otherwise go hungry. Rachael Wilson, the Director of Communications and Development at the Ottawa Food Bank, was thrilled to also receive 800 pounds of non-perishable food items that were donated by airport employees and packed up by volunteers.



Financial Statements

Financial Statements of Ottawa Macdonald-Cartier International Airport Authority

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



Rob Turpin, CPA, CA, CPA (Illinois)
Vice-President, Finance and
Chief Financial Officer



INDEPENDENT AUDITOR'S 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, 2016 and the statements of operations and comprehensive income (loss), 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, 2016 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 22, 2017

Balance Sheet

as at **December 31, 2016**

(in thousands of Canadian dollars)

Assets	2016 \$	2015 \$
Current assets		
Cash and cash equivalents	29,955	42,719
Trade and other receivables	14,709	11,611
Consumable supplies	3,326	3,531
Prepaid expenses and advances	1,581	1,090
Sinking Fund investments (note 3)	200,000	200,000
	249,571	258,951
Non-current assets		
Debt Service Reserve Fund (note 8a)	11,321	11,232
Property, plant and equipment (note 4)	432,443	435,821
Post-employment pension benefit asset (note 10)	204	148
Other assets (note 5)	5,399	5,463
	698,938	711,615

Liabilities and Equity	2016 \$	2015 \$
Current liabilities		
Accounts payable and accrued liabilities	18,293	21,635
Current portion of long-term debt (note 8)	203,695	3,272
	221,988	24,907
Non-current liabilities		
Other post-employment benefit liability (note 10)	8,532	7,559
Long-term debt (note 8)	424,258	627,588
	654,778	660,054
Equity		
Retained earnings	51,612	56,881
Accumulated other comprehensive loss	(7,452)	(5,320)
	44,160	51,561
	698,938	711,615

(See accompanying notes to the financial statements)

Statement of Operations and Comprehensive Income

years ended **December 31**

(in thousands of Canadian dollars)

Revenues	2016 \$	2015 \$
Airport improvement fees (note 9)	46,920	45,434
Terminal fees and loading bridge charges	26,432	25,248
Landing fees	12,861	12,448
Concessions	12,419	10,923
Car parking	14,344	13,746
Land and space rentals (note 12)	6,349	6,237
Other revenue	2,587	2,628
Gain on cash flow hedges (note 8)	-	1,588
	121,912	118,252

Expenses	2016 \$	2015 \$
Interest (net) (note 8b)	29,029	24,105
Ground rent (note 12)	8,994	8,737
Materials, supplies, and services	33,404	31,106
Salaries and benefits (note 10)	22,690	21,500
Payments in lieu of municipal taxes	5,017	4,974
	99,134	90,422

Earnings before depreciation	22,778	27,830
Depreciation	28,047	25,953
Net earnings (loss) for the year	(5,269)	1,877
Other comprehensive income (loss) Items that will never be reclassified subsequently to net earnings - Remeasurement of defined benefit plans (note 10)	(2,132)	2,094
Total comprehensive income (loss)	(7,401)	3,971

(See accompanying notes to the financial statements)

Statement of Changes in Equity

years ended **December 31**

(in thousands of Canadian dollars)

Equity	2016 \$	2015 \$
Retained earnings - beginning of year	56,881	55,004
Net earnings (loss) for the year	(5,269)	1,877
Retained earnings - end of year	51,612	56,881
Accumulated other comprehensive loss		
Remeasurement of defined benefit plans (that will never be recycled into net earnings) Balance - beginning of year	(5,320)	(7,414)
Other comprehensive income (loss) for the year (note 10)	(2,132)	2,094
Balance - end of year	(7,452)	(5,320)
Total equity	44,160	51,561

(See accompanying notes to the financial statements)

Statement of Cash Flows

years ended **December 31**

(in thousands of Canadian dollars)

Cash Provided By (Used In)	2016 \$	2015 \$
Operating activities		
Net earnings (loss) for the year	(5,269)	1,877
Non-cash items:		
Depreciation	28,047	25,953
Amortization of deferred financing costs	365	320
Decrease in other assets	64	57
Decrease in other post-employment benefit liability	(1,215)	(1,924)
	21,992	26,283
Interest expense (net)	29,029	24,105
Interest paid	(30,587)	(25,207)
Changes in non-cash working capital related to operations (note 13)	(2,572)	(457)
	17,862	24,724

Cash Provided By (Used In)	2016 \$	2015 \$
Financing activities		
Proceeds on disposal of property, plant and equipment	10	-
Issue of long-term debt	-	300,000
Debt issue transaction costs	-	(1,577)
Increase in Debt Service Reserve Fund (note 8a)	(89)	(197)
Repayment of long-term debt	(3,272)	(3,111)
	(3,351)	295,115

Investing activities		
Purchase of property, plant and equipment (note 4)	(24,679)	(31,206)
Increase in Sinking Fund investments	-	(200,000)
Change in accounts payable and accrued liabilities related to investing activities	(2,596)	2,768
	(27,275)	228,438
Increase (decrease) in cash and cash equivalents	(12,764)	91,401
Cash and cash equivalents (bank indebtedness) - beginning of year	42,719	(48,682)
Cash and cash equivalents - end of year	29,955	42,719

(See accompanying notes to the financial statements)

Notes to the Financial Statements

Notes to the Financial Statements

1 DESCRIPTION OF BUSINESS

Ottawa Macdonald-Cartier International Airport Authority (“the 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 Macdonald-Cartier International Airport (the “Airport”), the premises of which are leased to the Authority by the Government of Canada (Transport Canada - see note 12), 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 14-member Board of Directors, 10 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 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 22, 2017.

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 phase of qualifying assets are included in the cost. During the years ended December 31, 2016 and 2015, no incremental borrowing costs were capitalized.

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 and support facilities	3 - 40 years
Runways, roadways, and other paved surfaces	10 - 50 years
Information technology, furniture, and equipment	2 - 25 years
Vehicles	3 - 20 years
Land improvements	10 - 25 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. As noted above, no such amounts were capitalized during the years ended December 31, 2016 and 2015.

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 recognized as an expense 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 and is considered contingent rent. 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 offers a rebate incentive program which provides airlines with incentives, such as waived landing and terminal fees, to operate flights to new destinations and as appropriate to the circumstances. 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, AIF are paid by the airlines to airport authorities on a basis of estimated enplaned passengers, net of airline administrative 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 pension benefit asset recognized on the balance sheet is the present value of the defined pension 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.

The other post-employment benefit liability recognized on the balance sheet is the present value of the defined benefit obligation at the balance sheet date. 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) and the effect of the asset ceiling are recognized in full as re-measurements 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, at risk pay, 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.

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.

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.

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.

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.

Provisions for contingencies - Provisions are recognized when the Authority has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of economic resources will be required to settle the obligation, and when the amount can be reliably estimated.

Financial instruments

Financial assets and liabilities are recognized when the Authority becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial assets and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

All financial instruments measured at fair value are classified according to the following hierarchy:

Level 1

Valuation based on quoted prices in active markets for identical assets or liabilities obtained from the investment custodian, investment managers or dealer markets.

Level 2

Valuation techniques with significant observable market parameters including quoted prices for assets in markets that are considered less active.

Level 3

Valuation techniques with significant unobservable market parameters.

All financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale, and other financial liabilities. Initial measurement of financial instruments is at fair value, subsequent measurement of financial instruments depends on their classification. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading.

The Authority's financial assets including cash and cash equivalents, accounts receivable, the Debt Service Reserve Fund and Sinking 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 accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities and are accounted for at amortized cost.

Financing costs are included in the related long-term debt balances using the effective interest method.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

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. Other comprehensive income is accumulated in a separate component of equity called accumulated other comprehensive income.

Future changes in accounting policies

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted where applicable. The Authority is assessing currently the impact of these standards and amendments.

IFRS 9 – Financial Instruments, effective January 1, 2018 addresses classification, measurement and recognition of financial assets and financial liabilities. It introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses.

IFRS 15 – Revenue from contracts with customers, effective years beginning on or after January 1, 2018. Its objective is to provide a single comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. It contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount that the entity expects to be entitled to in exchange for those goods and services.

IFRS 16 – Leases, effective for years beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. This eliminates the dual accounting model for lessees such that all operating leases will be recorded on the balance sheet. This will impact the timing of recognition and nature of expenses associated with the lease agreements.

IAS 7 – Statement of Cash Flows - The IASB published final amendments to IAS 7 on January 29, 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after

January 1, 2017. The Authority has made a preliminary assessment that changes to IAS 7 will not have a significant impact on the Authority’s financial statements beyond disclosure.

3 SINKING FUND INVESTMENTS

On June 9, 2015, the Authority completed the issuance of \$300.0 million of Series E Amortizing Revenue Bonds under the Master Trust Indenture (see note 8). Of the net proceeds from this issuance, \$200.0 million was placed in a segregated fund maintained by the trustee under the Master Trust Indenture and has been invested in accordance with the Board approved investment policy. These investments will be used to retire the Authority’s Series D Revenue Bonds maturing on May 2, 2017.

The Sinking Fund investments consist of the following:

(in thousands of Canadian Dollars)	2016 \$	2015 \$
Interest bearing deposits in Schedule 1 bank investment accounts	137,300	52,500
Guaranteed investment certificates with various Schedule 1 banks	62,700	47,500
Canada Housing Trust mortgage bonds due December 15, 2016	-	100,000
	200,000	200,000

4 PROPERTY, PLANT AND EQUIPMENT

2016

(in thousands of Canadian dollars)	Buildings and Support Facilities \$	Runways, Roadways and Other Paved Surfaces \$	Information Technology, Furniture and Equipment \$	Vehicles \$	Land \$	Construction in Progress \$	Total 2016 \$
Gross value							
Balance - January 1, 2016	461,887	100,563	40,061	29,256	10,298	11,693	653,758
Additions	211	-	1,614	1,060	13	21,781	24,679
Transfers	16,638	4,907	1,522	-	518	(23,585)	-
Disposals	(3,307)	(1,475)	(5,144)	(273)	(12)	-	(10,211)
At December 31, 2016	475,429	103,995	38,053	30,043	10,817	9,889	668,226
Accumulated depreciation							
Balance - January 1, 2016	145,372	26,816	28,362	10,947	6,440	-	217,937
Depreciation	18,093	4,327	3,392	1,757	478	-	28,047
Disposals	(3,306)	(1,475)	(5,135)	(273)	(12)	-	(10,201)
At December 31, 2016	160,159	29,668	26,619	12,431	6,906	-	235,783
Net value							
At December 31, 2016	315,270	74,327	11,434	17,612	3,911	9,889	432,443

4 PROPERTY, PLANT AND EQUIPMENT

2015

(in thousands of Canadian dollars)	Buildings and Support Facilities \$	Runways, Roadways and Other Paved Surfaces \$	Information Technology, Furniture and Equipment \$	Vehicles \$	Land \$	Construction in Progress \$	Total 2015 \$
Gross value							
Balance - January 1, 2015	436,217	96,706	37,404	24,493	9,734	28,800	633,354
Additions	7,766	3,740	3,475	5,251	22	10,952	31,206
Transfers	25,641	117	1,759	-	542	(28,059)	-
Disposals	(7,737)	-	(2,577)	(488)	-	-	(10,802)
At December 31, 2015	461,887	100,563	40,061	29,256	10,298	11,693	653,758
Accumulated depreciation							
Balance - January 1, 2015	136,307	22,850	27,708	9,921	5,997	-	202,783
Depreciation	16,802	3,966	3,231	1,511	443	-	25,953
Disposals	(7,737)	-	(2,577)	(485)	-	-	(10,799)
At December 31, 2015	145,372	26,816	28,362	10,947	6,440	-	217,937
Net value							
At December 31, 2015	316,515	73,747	11,699	18,309	3,858	11,693	435,821

5 OTHER ASSETS

(in thousands of Canadian dollars)	2016 \$	2015 \$
Interest in future proceeds from 4160 Riverside Drive, at cost	2,930	2,930
Tenant improvements and leasehold inducements, net of amortization	2,469	2,533
	5,399	5,463

Interest in future proceeds from 4160 Riverside Drive

In an agreement signed on May 27, 1999, the Authority agreed to assist the Regional Municipality of Ottawa-Carleton (now the City of Ottawa, the "City") in acquiring lands municipally known as 4160 Riverside Drive by contributing to the City 50.0% 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 50.0% of the net proceeds from any future sale, transfer, lease or other conveyance of the lands.

Tenant improvements and leasehold inducements

During 2011, the Authority entered into a long-term lease with a subtenant that included a three-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.

6 CREDIT FACILITIES

The Authority maintains access to an aggregate of \$140.0 million (2015 - \$140.0 million) in committed credit facilities ("Credit Facilities") with two Canadian banks. The 364-day Credit Facilities that expired on October 14, 2016 have been extended for another 364-day term expiring on October 13, 2017. The Credit Facilities are secured under the Master Trust Indenture (see note 8) and are available by way of overdraft, prime rate loans, or Bankers' Acceptances. Indebtedness under the Credit Facilities bears interest at rates that vary with the lender's prime rate and Bankers' Acceptance rates, as appropriate.

The following table summarizes the amounts available under each of these Credit Facilities, along with their related expiry dates and intended purposes:

Type of Facility	Maturity	Purpose	2016 \$ (millions)	2015 \$ (millions)
Revolver 364-Day	October 13, 2017	General corporate and capital expenditures	40.0	40.0
USD Contingency (\$10 million USD)	October 13, 2017	Interest Rate hedging	14.0	14.0
Letter of Credit	October 13, 2017	Security for the Debt Service Reserve Fund (see Note 8a)	6.0	6.0
Revolver 5-year	May 15, 2020	General corporate and capital expenditures	80.0	80.0
Total			140.0	140.0

As at December 31, 2016, \$14.0 million of the Credit Facilities had been designated to the Operating and Maintenance Reserve Fund (see note 8a).

In order to satisfy the Debt Service Reserve Fund requirement for the Series E Bonds, \$5.9 million of the Credit Facilities had been designated to an irrevocable standby letter of credit in favour of the Trustee.

7 CAPITAL MANAGEMENT

The Authority is continued 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 it can afford and manage based on revenues from AIF and to maintain appropriate debt service coverage and long term debt per enplaned passenger ratios. 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, operating expense profiles and regulatory environment 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 the Master Trust Indenture (see note 8a) and to maintain its credit ratings in order to secure access to financing at a reasonable cost.

8 LONG-TERM DEBT

(in thousands of Canadian dollars)	2016 \$	2015 \$
6.973% Amortizing Revenue Bonds, Series B, due May 25, 2032, interest payable on May 25 and November 25 of each year until maturity commencing November 25, 2002, scheduled accelerating semi-annual instalments of principal payable on each interest payment date commencing November 25, 2004 through to May 25, 2032	131,157	134,429
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
3.933% Amortizing Revenue Bonds, Series E, due June 9, 2045, interest payable on June 9 and December 9 of each year commencing December 9, 2015 followed by scheduled semi-annual instalments of principal and interest of fixed \$9,480,000 payable on each interest payment date commencing on December 9, 2020 through to June 9, 2045	300,000	300,000
Gross - long-term debt	631,157	634,429
Less: deferred financing costs	3,204	3,569
	627,953	630,860
Less: current portion	203,695	3,272
Long-term debt	424,258	627,588

a) Bond issues

The Authority issues revenue bonds (Collectively, "Bonds") under a trust indenture dated May 24, 2002 (as amended or supplemented, the "Master Trust Indenture"). In May 2002, the Authority completed its original \$270.0 million revenue bond issue with two series, the \$120.0 million Revenue Bonds, Series A at 5.64% due on May 25, 2007 and the \$150.0 million Amortizing Revenue Bonds, Series B at 6.973% due on May 25, 2032. In May 2007, the Authority completed a \$200.0 million Revenue Bond issue, in part to refinance the Series A Revenue Bonds repaid on May 25, 2007. The \$200.0 million Revenue Bonds, Series D at 4.733% are due on May 2, 2017 and a Sinking Fund has been set aside as at December 31, 2016 to extinguish the outstanding amount (see Series E below).

On June 9, 2015, the Authority completed a \$300.0 million Amortizing Revenue Bonds, Series E issue which bear interest at a rate of 3.933% due on June 9, 2045. Part of the net proceeds from this offering were used to prefund the repayment of the Series D Bonds by depositing \$200.0 million into a segregated fund ("Sinking Fund") held by the trustee under the Master Trust Indenture (the "Trustee") (see note 3). Prior to the closing of the offering, a bond forward transaction was entered into to protect from volatility in interest rates and it resulted in a \$1.6 million gain being recorded. The Authority elected not to apply hedge accounting with respect to this forward transaction, therefore the related gain was recognized in the statement of operations and comprehensive income in 2015.

The Series B and D Revenue Bonds are redeemable, in whole or in part, at the option of the Authority at any time, and the Series E Bonds are redeemable until six months prior to the maturity date, upon payment of the greater of (i) the aggregate principal amount remaining unpaid on the Bonds to be redeemed, and (ii) the value which would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium is 0.24% for the Series B Bonds, 0.14% for the Series D Bonds and 0.42% for the Series E Bonds. If the Series E Bonds are redeemed within six months of the maturity date, the Series E Bonds will be redeemable at a price equal to 100.0% of the principal amount outstanding plus any accrued and unpaid interest.

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 debt and bank indebtedness incurred by the Authority in connection with these construction programs and funding of the Debt Service Reserve Fund (see below).

Under the Master Trust Indenture, 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.

Under the Master Trust Indenture, the Authority is required to maintain with the Trustee, a Debt Service Reserve Fund equal to six months' debt service in the form of cash, qualified investments or letter of credit. At December 31, 2016, the balance of cash and qualified investments held in the Debt Service Reserve Fund was \$11.3 million. Furthermore, in order to satisfy the Debt Service Reserve Fund requirement for the Series E Bonds, \$5.9 million of the Credit Facilities has been designated to an irrevocable standby letter of credit in favour of the Trustee. 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 25.0% of defined operating and maintenance expenses from the previous twelve months. As at December 31, 2016, \$14.0 million (\$13.2 million in 2015) of the Credit Facilities had been designated to the Operating and Maintenance Reserve Fund (see note 6).

At December 31, 2016 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) Interest Expense (net)

(in thousands of Canadian dollars)	2016 \$	2015 \$
Bond Interest	30,561	25,589
Other interest and deferred financing expense	367	636
	30,928	26,225
Less: Interest earned on Debt Service Reserve Fund and Sinking Fund investments	1,899	2,120
Total interest expense (net)	29,029	24,105

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

(in thousands of Canadian dollars)	2016 \$	2015 \$
2017	203,695	-
2018	4,152	-
2019	4,643	-
2020	8,753	-
2021	13,116	-
After five years	396,798	-

d) Deferred financing costs

(in thousands of Canadian dollars)	2016 \$	2015 \$
Deferred financing costs	5,975	5,975
Less: Accumulated amortization	(2,771)	(2,406)
	3,204	3,569

9 AIRPORT IMPROVEMENT FEE (AIF)

The AIF is paid by the air carriers to airport authorities on the basis of estimated enplaned passengers, net of air carrier administrative fees (6.0%), 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. As the air carrier administrative fee is the property of the air carriers, AIF revenues are recorded net of the 6.0% fee of \$3.0 million (2015 - \$2.9 million).

AIF funding activities on the year are outlined below:

(in thousands of Canadian dollars)	2016 \$	2015 \$
Earned revenue	49,915	48,383
Air carrier administrative fees	(2,995)	(2,949)
Net AIF revenue earned	46,920	45,434
Eligible capital asset purchases	(21,178)	(22,566)
Eligible interest expense	(30,669)	(24,394)
Eligible other expenses	(286)	(227)
AIF expenditures	(52,133)	(47,187)
Deficiency of AIF revenue over AIF expenditures	(5,213)	(1,753)

AIF funding activities on a cumulative basis since inception of the AIF are outlined below:

(in thousands of Canadian dollars)	2016 \$	2015 \$
Earned revenue	535,809	485,894
Air carrier administrative fees	(32,149)	(29,154)
Net AIF revenue earned	503,660	456,740
Eligible capital asset purchases	(615,997)	(594,820)
Eligible interest expense	(312,068)	(281,398)
Eligible other expenses	(765)	(479)
AIF expenditures	(928,830)	(876,697)
Deficiency of AIF revenue over AIF expenditures	(425,170)	(419,957)

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

10 PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The amounts recognized as the post-employment benefit assets and liabilities on the Balance sheet as at December 31 are as follows:

(in thousands of Canadian dollars)	2016 \$	2015 \$
Post-employment pension benefit asset	204	148

(in thousands of Canadian dollars)	2016 \$	2015 \$
Other post-employment benefits liability	8,532	7,559

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 of the responsibility for the management, operation and development of the Airport from Transport Canada on January 31, 1997 (see note 1), 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 8.0% 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 some of 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.

As at the date of the most recent actuarial valuation of the pension plan, which was as at December 31, 2015, that was completed and was filed in June 2016 as required by law, the plan had a surplus on a funding (going concern) basis of \$723 assuming a discount rate of 4.0% (\$1,761 deficit as at December 31, 2014 assuming a discount rate of 4.25%). 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 of 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 December 31, 2015, the plan had a deficit on a solvency basis of \$10,548 (\$11,592 as at December 31, 2014) before considering the present value of additional solvency payments required under the Act. In 2016, the Authority made additional solvency payments of \$2,110 (\$2,318 in 2015) to amortize this deficiency.

The next required actuarial valuation of the defined benefit pension plan, which will be as at December 31, 2016, is scheduled to be completed and filed by its June 2017 due date. The plan's funded position and the amounts of solvency payments required under The *Pension Benefits Standards Act of 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 2017 will be approximately \$2,110 (2016 - \$2,110). In addition, the Authority expects to contribute approximately \$653 (2016 - \$653) on account of current service in 2017 to the defined benefit component of the pension plan for the year ending December 31, 2017.

Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2015, and extrapolated to December 31, 2016 by the Authority's actuaries, the estimated status of the defined benefit pension plan is as follows:

Accrued Benefit Obligation - defined benefit pension (in thousands of Canadian dollars)	2016 \$	2015 \$
Balance - beginning of year	54,445	53,110
Employee contributions	137	149
Benefit paid	(1,751)	(1,654)
Current service cost	663	719
Interest cost on accrued benefit obligation	2,172	2,123
Actuarial loss - change in economic assumptions	2,106	309
Actuarial gain - change in plan experience	(451)	(311)
Balance - Benefit obligation - end of year	57,321	54,445

Plan Assets - defined benefit pension (in thousands of Canadian dollars)	2016 \$	2015 \$
Fair value - beginning of year	56,694	52,140
Employee contributions	137	149
Employer contributions	653	673
Employer contributions, special solvency payments	2,110	2,318
Benefit paid	(1,751)	(1,654)
Interest on plan assets (net of administrative expenses)	2,144	1,988
Actual gain on plan assets	106	1,080
Fair value - plan assets	60,093	56,694
Effect of limiting the net defined benefit asset to the asset ceiling	(2,568)	(2,101)
Fair value - plan assets - end of year	57,525	54,593
Post-employment pension benefit asset	204	148

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

(in thousands of Canadian dollars)	2016 \$	2015 \$
Current service cost	663	719
Interest cost on accrued benefit obligation	2,172	2,123
Interest on plan assets (net of administrative expenses)	(2,060)	(1,988)
Defined benefit pension plan expense recognized in salaries and benefits expense in net earnings	775	854

In addition to pension benefits, the Authority provides other post-employment benefits to its employees. The status of other post-employment benefit plans, based on the most recent actuarial reports, measured as of December 31 is as follows:

Accrued Benefit Obligation - other post-employment benefits (in thousands of Canadian dollars)	2016 \$	2015 \$
Balance - beginning of year	7,559	10,459
Benefits paid	(142)	(199)
Current service cost	598	598
Past service credit	-	(473)
Interest cost	317	287
Actuarial loss - change in demographic assumptions	-	400
Actuarial loss (gain) - change in economic assumptions	200	(2,453)
Actuarial gain - plan experience	-	(1,060)
Accrued benefit liability - end of year	8,532	7,559

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

(in thousands of Canadian dollars)	2016 \$	2015 \$
Current service cost	598	593
Past service credit	-	(473)
Interest cost	317	287
Expense recognized in salaries and benefits expense in net earnings	915	407

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:

(in thousands of Canadian dollars)	2016 \$	2015 \$
Defined benefit pension plans		
Actuarial loss - change in economic assumptions	2,106	309
Actuarial gain - change in plan experience	(451)	(311)
Actual gain on plan assets	(106)	(1,080)
Effect of limiting the net defined benefit asset to the asset ceiling	383	2,101
Other post-employment benefit plans		
Actuarial loss - change in demographic assumptions	-	400
Actuarial loss (gain) - change in economic assumptions	200	(2,453)
Actuarial gain - plan experience	-	(1,060)
Total loss (gain) recognized in other comprehensive income	2,132	(2,094)

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:

	2016 %	2015 %
Defined benefit pension plan		
Discount rate to determine expense	4.00	4.00
Discount rate to determine year-end obligations	3.75	4.00
Interest rate on plan assets	4.00	4.00
Rate of average compensation increases	3.00	3.25
Rate of inflation indexation post-retirement (CPI)	2.00	2.00
Other post-employment benefit plans		
Discount rate to determine expense Healthcare	4.25	4.00
Severance program	3.25	3.25
Discount rate to determine year-end obligation		
Healthcare	4.00	4.25
Severance program	3.25	3.25
Rate of average compensation increases	3.00	3.25
Rate of increases in healthcare costs	5.00	5.00

The Authority's defined benefit pension plans and post-retirement benefit 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.

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 actuarial assumptions noted above, the financial impact of changes in key assumptions is outlined below:

(in thousands of Canadian dollars)	Change in Assumption	Impact on Obligation after Increase in Assumption \$	Impact on Obligation after Decrease in Assumption \$
Defined benefit pension plan			
Discount rate	1.0%	(7,749)	9,797
Inflation	1.0%	8,851	(7,235)
Compensation	1.0%	559	(587)
Life expectancy	1 year	1,492	2.0
Discount rate – solvency liability at December 1, 2015	1.0%	(10,199)	13,113
Other post-employment benefit plans			
Discount rate	1.0%	(1,208)	1,574
Healthcare costs	1.0%	1,374	(1,043)
Life expectancy	1 year	240	(226)

The Authority's pension and other post-employment benefit plans are designed to provide benefits for the life of the member. Increases in life expectancy will result in an increase in the plans' liabilities. The obligations for these plans as at December 31, 2016

have been estimated by the Authority's actuaries using the most recent mortality tables available (Canadian Pensioner Mortality 2014 Combined Sector Mortality Table).

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 date of the most recent actuarial valuation at December 31, 2015, the average age of the 24 active members was 53 years of age. The average age of the 52 retired members was 67 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 Manulife and managed by various investment managers as follows:

	2016 %	2015 %
Fixed income fund	56.0	56.0
Equity funds - Canadian funds	9.0	8.0
Equity funds - U.S. fund	5.0	5.0
Equity funds - international and global funds	13.0	14.0
Emerging market fund	4.0	4.0
Real estate fund	9.0	9.0
Alternative investment fund that includes derivatives	4.0	4.0

The Authority's contribution to the defined contribution component of the pension plan is a maximum of 8.0% of the employee's gross earnings to match employee contributions. Information on this component is as follows:

(in thousands of Canadian dollars)	2016 \$	2015 \$
Employer contributions - defined contribution plan	991	860
Employee contributions - defined contribution plan	1,101	964
Net expense recognized in salaries and benefits expense	991	860

11 FINANCIAL INSTRUMENTS

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, 2016, the estimated fair value of the long-term Series B, Series D and Series E Revenue Bonds was \$171.3 million, \$204.1 million and \$301.9 million, respectively (2015 - \$179.2 million, \$210.8 million and \$297.5 million for Series B, Series D and Series E Revenue Bonds, 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:

(in thousands of Canadian dollars)	2016 \$		2015 \$	
	Carrying Value \$	Effective Year-end Interest Rate %	Carrying Value \$	Effective Year-end Interest Rate %
Debt Service Reserve Fund (all floating rates)	11,321	0.78	11,232	0.67
Sinking Fund investments (all floating rates)	200,000	1.21	200,000	1.06
Cash and cash equivalents (at floating rates)	29,955	0.88	42,719	1.05
Long-term debt (at fixed rates)	627,953	See note 8	630,860	See note 8

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 \$1.3 million as a result of the Authority's exposure to interest rates on its floating rate assets and liabilities. Management believes, however, that this exposure is not representative of the exposure during the year, and that interest income is not essential to the Authority's operations as these assets are intended for reinvestment in airport operations and development, and not for purposes of generating interest income.

Liquidity risk

The Authority manages its liquidity risks by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis and by matching its long-term financing arrangements with its cash flow needs including pre-funding debt repayment through a segregated Sinking Fund. Management believes the Authority has a strong credit rating that gives it 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 8), 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 \$30.6 million per year. The future annual principal payment requirements of the Authority's obligations under its long-term debt are described in note 8(c).

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 AIF 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, is 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 50.0% (50.0% in 2015) 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 94.0% (93.0% in 2015) 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.

12 OPERATING LEASES

The Authority as lessee: On January 31, 1997, the Authority signed a 60-year ground lease (as amended, the "Lease") with the Government of Canada (Transport Canada) for the management, operation, and development of the Airport. The 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 Lease.

On February 25, 2013, the Minister of Transport for the Government of Canada signed an amendment to the Lease to extend the 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 Macdonald-Cartier 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 rent payments for the next five years are approximately as follows:

	\$
2017	9.8 million
2018	10.1 million
2019	10.6 million
2020	11.0 million
2021	11.3 million

The Authority as lessor: The Authority leases out, under operating leases, land and certain assets that are included in property, plant and equipment. Many leases include renewal options, in which case they are subject to market price revision. The lessee does not have the possibility of acquiring the leased assets at the end of the lease.

The estimated lease revenue for the next five years is approximately as follows:

	\$
2017	6.4 million
2018	6.4 million
2019	6.5 million
2020	6.6 million
2021	6.6 million

13 CHANGES IN NON-CASH WORKING CAPITAL RELATED TO OPERATIONS

(in thousands of Canadian dollars)	2016 \$	2015 \$
Trade and other receivables	(2,872)	(494)
Prepays and advances, and consumable supplies	(286)	(976)
Accounts payable and accrued liabilities	586	1,010
Other	-	3
	(2,572)	(457)

14 RELATED-PARTY TRANSACTIONS

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

(in thousands of Canadian dollars)	2016 \$	2015 \$
Salaries and short-term benefits	2,251	2,075
Post-employment benefits	167	156
	2,418	2,231

Key management includes the Authority's Board of Directors and members of the executive team, including the President and CEO, and six Vice-Presidents.

The defined pension plan referred to in note 10 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 10. 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.

15 COMMITMENTS AND CONTINGENCIES

Ground lease commitments

The Lease requires the Authority to calculate rent payable to Transport Canada utilizing a formula reflecting annual airport revenues (see note 12).

Operating commitments

The Authority has operating commitments in the ordinary course of business requiring payments of \$12.0 million in 2017 and diminishing in each year over the next five years as contracts expire. At December 31, 2016, the total of these operating commitments amounted to \$21.4 million (2015 - \$10.7 million). These commitments are in addition to contracts for the purchase of property, plant and equipment of approximately \$12.9 million.

Contingencies

The Authority may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the ordinary course of business. The Authority does not expect the outcome of any proceedings to have a material adverse effect on the financial position or results of operations of the Authority.

16 POST-REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date and February 22, 2017, when the financial statements were authorized for issue.

