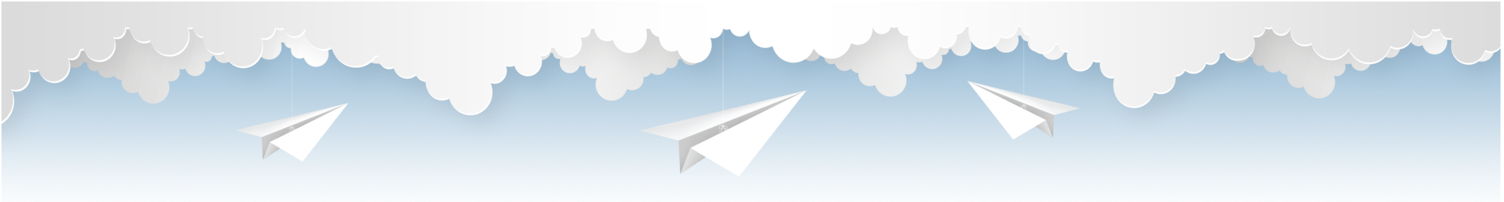
2017 Annual Report

YOW

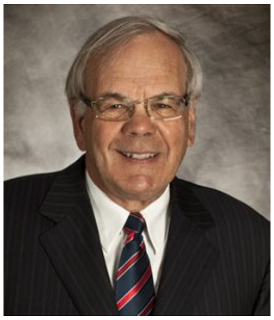
Ottawa

YOW.CA

International Airport Authority
Administration de l'aéroport international
Ottawa



Message from the Chair of the Board of Directors



2017 was a year to remember for many reasons – not the least of which was Canada's 150th Birthday. The events that were hosted across our Region to mark this special milestone made the rest of the country take notice. They also instilled a tremendous sense of pride in our residents. As the Chairman of the Board, I was delighted that the Airport Authority partnered with Celebrations Ottawa and played such an essential role as the primary gateway to the festivities. Our visitors knew the moment they stepped into the airport that they were in for something special.

Amidst these wonderful celebrations, the Authority also celebrated its 20th anniversary as a private organization. In 1997, Transport Canada turned the ceremonial keys to the Airport over to the inaugural Board of Directors and Senior Management team, and the Authority hasn't looked back since. By investing hundreds of millions of dollars in capital infrastructure including a new Passenger Terminal Building, Combined Services Building, comprehensive runway reconstruction, and safety enhancements that exceed Canadian recommendations to meet international standards, the Ottawa International Airport has become an institution that instills pride in our community.

This kind of success requires vision, resourcefulness and good governance – all qualities that define the Authority. From the governance perspective, I have the good fortune to work with an engaged and committed Board that oversees all aspects of the Authority's mandate. They actively participate in Board and committee work and represent the Airport in the community. I commend them for the great work they do.

Two members left the Board in 2017 as their terms came to an end. Both Gilles Lalonde and Susan St. Amand filled the role of Chair of the Board during their tenures, and both provided excellent leadership and guidance. Gilles was Chair from 2012 until 2015, and Susan from 2015 until she left the Board in April 2017. I would like to thank them for their exemplary service to the Authority, the Airport, and the community.

When I assumed the role of Chair, I followed Craig Bater who filled the post on an interim basis for several months; I would like to also thank Craig for the outstanding job he did ensuring that we maintained good governance through the transition period.

We were also very pleased to welcome Michèle Lafontaine, who joined the Board in April, and brings her experience as both a notary and an advisor on governance practices to the Authority.

As we work with the CEO and the Senior Management team, we continue to be impressed with the sense of responsibility and excellence with which they and their colleagues treat the Airport. By going above and beyond during irregular operations and by making our customers and guests feel taken care of by their exceptional attention to detail, the entire team makes our Airport world-class.

This level of excellence was confirmed in late-February 2018 when we learned that the Ottawa International Airport would once again grace the podium in the 2017 Airport Service Quality customer service benchmarking program. The Airport was ranked first in the category of Best Airport by Size and Region – North America for airports that serve between 2 and 5 million passengers per year, and tied for second place for Best Airport by Region – North America amongst all airports serving more than 2 million passengers. Customer service excellence is a team effort, and everyone who had a hand in these achievements can take pride in the ASQ accolades. We also extend heartfelt thanks to our clients who took the time to participate in the survey and acknowledged their delight.

As we wrap up what was a fantastic year on many fronts, I would like to express my thanks to the entire Authority team. They continue to make our Airport a leader among its peers across the continent, and I encourage them to keep up the good work, knowing that every effort they put forth makes a difference in the eyes of our passengers.

Chris Carruthers,
Chair of the Board of Directors

Message from the President and Chief Executive Officer

Ottawa was the place to be in 2017. Thanks in part to the incredible events that were held across the Region, our passenger count exceeded 4.8 million for the year. Congratulations to every individual and organization that played a part in the historic sesquicentennial celebrations.

As a partner of Celebrations Ottawa, we were fortunate to partake in some of the excitement, but it wasn't all fun and games. We worked hard to grow revenues from all sources with particular focus on non-aeronautical revenues – total revenues of $128.3 million increased 5.2% over 2016 and finished the year with net earnings after depreciation of $3.8 million. As always, we will reinvest these earnings in airport operations and maintenance.

We also advanced many infrastructure projects and other strategic initiatives that you will read about in this report. I would like to touch on a few of the highlights here.

On the infrastructure side, we completed a complex taxiway reconstruction project, and further advanced airside safety with the installation of a Simplified Short Approach Lighting System (SSALR) on Runway 25, which provides a high intensity visual lighting path for landing aircraft.

Departing passengers have no doubt noticed significant changes on Level 3 where we transformed the Domestic/International check-in area and deployed new systems, software, kiosks and electronic signage for more efficient customer service.

We went into the year with a fair amount of concern about the future of the current airport model in Canada due to the federal government's discussions about moving the Canadian airport governance model from private, not-for-profit to private, for-profit. We led a coalition with the Calgary and Vancouver airport authorities to advocate for improving the current good governance model that has served communities in Canada very well for more than 20 years, instead of moving to a for-profit model that would have increased airline fees. The Minister of Transport confirmed in early 2018 that the move to a private, for-profit model was no longer under active consideration. We appreciate the clarity the Minister's remarks have provided and will continue to work on continuously improving the current private, not-for-profit model for the benefit of our passengers.

As we contemplated the changes that will be required to accommodate "CATSA Plus", a more efficient way of screening passengers developed by the Canadian Air Transport Security Authority, we identified a solution that will not only impact the pre-board screening area, but also much of our current concession space. We believe the changes will ultimately be positive for our concessionaires and passengers, and since the Authority is currently revamping its entire concessions program, the timing is right.

We are also working on a project to build a new hotel adjacent to the Parkade and connected to the terminal. We selected a potential hotel partner through a competitive tender process and are hopeful that we will come to an agreement in the near future.

Finally, we continue to work closely with the City of Ottawa towards the airport link as part of Stage 2 of the Light Rail Transit (LRT) project. When the final piece of the funding puzzle was committed by the federal government in June, we were able to move forward to reach an agreement in principle with the City for the delineation of work at the Airport station. We will focus on formalizing the agreement in 2018 as we deal with infrastructure issues associated with construction of the line.

More information on all three projects will be available later in 2018 but suffice it to say that the changes will be considerable, and we are excited to settle on the plans that will best serve our Airport's needs well into the future.

Irregular Operations, or IROPS as we refer to them, generated a lot of interest, discussion, and action throughout the latter half of 2017. Severe storms in Toronto and Montreal resulted in 20 aircraft diversions to Ottawa on July 31st with extended waits for a few flights. The resulting customer reaction prompted the Canadian Transportation Agency to open an inquiry into two specific flights, in which the Authority participated. The final report, which was released in early December, directed no blame at the Authority. However, we have used the event as an opportunity to work with our airport partners to ensure that comprehensive contingency plans are in place for the benefit of all passengers in the future.

The Authority relies on the travelling public, local business, government and the tourism industry to support the Airport's Vision and Mission by flying Ottawa first, by advocating for us in policy discussions and by providing input to processes like the Airport Master Plan. As such, it is incumbent upon the Authority to be equally engaged in contributing to the well-being of its community and stakeholders.

In the 20 years since the Authority was formed, we have tried to do just that by engaging with the community, beyond simply providing a point of departure or arrival for our passengers.

Fulfilling our Vision and Mission means investing in the Airport in order to maintain a world-class facility that is always focused on safety and security and contributes to the economic well-being of the Region. It means helping many lesser-known charitable organizations make a difference for their clients through Project Clear Skies. It means minimizing the environmental impact our Airport has on the earth, and so much more. While we plan to narrow the focus in 2018 and beyond, many of our activities in 2017 made a difference, including the examples that follow.

Our Region is well known for iconic attractions such as the Rideau Canal and Parliament Hill, but we know it has so much more to offer. From significant cultural venues and world-class universities, hospitals, and centres of excellence in technology and innovation, to a burgeoning craft brewery industry, there are many reasons to not only visit but to live, work and play in Ottawa-Gatineau. With nearly 5 million passengers travelling through the Airport each year, we are uniquely positioned to offer visibility to these community partners. To this end, the Authority established the YOW Showcase in the arrivals area where local stars can share their stories with our visitors. We launched the program with Celebrations Ottawa's interactive 150th event kiosk, and Ross Video finished the year with an impressive display that featured the Technical Emmy Award presented to the company in 2016. We look forward to working with local enterprises in the coming years to showcase their talents to the world.

As a jump off point to the Arctic for both passengers and cargo, YOW is a critical link in the supply chain to the North. The Authority has partnered with First Air and Aeroterm to apply for infrastructure funding through the federal government's National Trade Corridors Fund. The First Air-led application, which requests half of the $17.5 million project cost, would significantly expand the airline's current cargo facilities at the Ottawa International Airport and ensure that First Air can continue to meet the growing needs of the communities and individuals that rely on it for the delivery of essential goods.

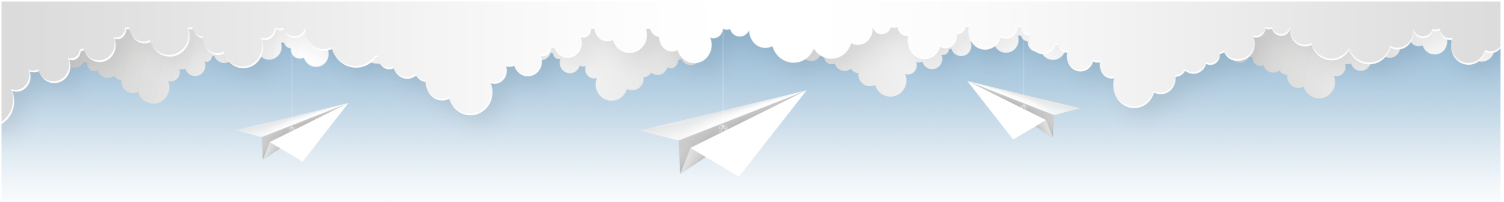
On the heels of achieving Level 1 of Airports Council International-North America's (ACI-NA) four-level Airport Carbon Accreditation Program in late 2016, we focused our efforts on achieving Level 2 Accreditation for greenhouse gas emission reduction in 2017. We received formal accreditation on January 9th, 2018, in keeping with our goal to reduce the footprint left by airport operations.

The successes I've mentioned are only possible with responsible stewardship and a lot of teamwork. I would like to thank Chair Chris Carruthers and the entire Board of Directors for their time, their engagement and their commitment to the Airport's excellence.

With the Board's input and collaboration, the Authority developed a comprehensive Strategic Plan and companion Action Plan that determine our priorities each year. Fulfilling on the long list of tasks takes an amazing team that keeps a close eye on budget, timing and results. YOW's team is all that and more, and I would like to thank them for ensuring that we have quality, safe and secure airport facilities that offer our passengers an award-winning, superior customer experience each and every time they travel.

In summary, while 2017 was a great year, I am looking to the future and to what the next two to five years will mean for the Airport; I see significant but positive changes that will make our Airport an even better and more efficient asset for our community.

Mark Laroche,
President and CEO



2017 In Review

2017 was a memorable year for many reasons, not the least of which was celebrating Canada's sesquicentennial. Events that were local and national in scope and feel brought new conferences, tourists, and visitors to celebrate 150 years in many wondrous ways. As the gateway into Canada's Capital Region, the Ottawa International Airport played a central role in the celebrations as the first point of welcome for all air travellers. From Red Bull Crashed Ice to the Juno Awards, the official 150th Birthday Party on Parliament Hill on July 1st to La Machine and Kontinuum, from the Grey Cup to the NHL's Outdoor Classic, and everything in-between, we were proud to partner with the City of Ottawa, Ottawa 2017, the Ottawa Sports and Entertainment Group, the Ottawa Senators and many organizations and individuals who made Ottawa the place to be in 2017.

The Authority also marked a significant milestone in its history, with its 20th anniversary. On February 1st, 1997, Transport Canada turned over the care and control of the Airport to the newly-formed Board of Directors and Senior Management team to form the Ottawa Macdonald-Cartier International Airport Authority (OMCIAA). That day marked the start of major changes in the Airport, including U.S. pre-clearance, a new Combined Services Building, a new Passenger Terminal Building, and so many more accomplishments that have made the community proud. As always, the successes are due to the commitment of every Authority employee, the guidance of engaged and enthusiastic Board members, and the support and encouragement of the Ottawa-Gatineau community, for which we say thank you.

Amid the celebratory atmosphere, we also accomplished a great deal in 2017 and advanced many of the projects outlined in the Authority's Strategic Plan. The Plan, which is developed with the Authority's Board of Directors, covers a five-year timeline and includes projects that fall under five Strategic Directions that will be discussed in this report.

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.

Airport Privatization Coalition

In 2016, we discussed the Canadian Transportation Agency (CTA) Review (Emerson Report) that The Honourable Marc Garneau, Minister of Transport, tabled in the House of Commons. While we were in agreement with most of the recommendations, there was one that we could not accept – moving from a private, not-for-profit governance model to a private, for-profit model. Our analysis showed that rates in an already burdened user-pay system would likely have to increase in order to achieve a return on investment for potential buyers. To strengthen the message to elected officials, stakeholders, and the general public, the Ottawa, Vancouver and Calgary airport authorities joined forces to tackle the issue. Local efforts to enlist supporters were successful with chambers of commerce, trade unions, several city councils and other key stakeholders putting their support of the current airport governance model in writing to the federal government. Other activities during the year included the launch of www.noairportselloff.ca to raise awareness of the issue, and the development of a feedback tool to allow website visitors to communicate their opposition to their elected officials. While overall government activity on the file diminished towards the end of 2017, we will continue to monitor and take further action as necessary.

New Business Ventures in Customer Transportation Parking Services (CTPS)

Car parking revenues increased to $15.2 million from $14.3 million in 2016, an increase of $0.9 million or 6.7%, thanks to steady passenger growth attributed to the many events across the region marking Canada's 150th, and revived business/government travel. Ground Transportation also experienced solid growth. The municipal introduction of Private Transportation Companies (PTCs) provided the Authority the opportunity to negotiate fair market fees with inaugural provider, Uber, contributing to financial stability going forward. Non-aeronautical revenues are vital to the Authority's ability to maintain airport infrastructure, such as the commercial and public roadways outside the terminal, in a safe and secure manner.

Astral Digital Advertising

In 2014, the Airport Authority tendered its in-terminal advertising program with the goal of modernizing and streamlining the advertising assets. Astral Out of Home's winning solution promised a modern, flexible signature style, that would use a minimal footprint while delivering maximum impact. The Astral activation features significant deployment of digital spectacular boards, interactive touch-screens, baggage carousel towers, and the Samsung "iconic" wall in Arrivals. Completion of the multi-year deployment was celebrated on August 22nd at the official launch ceremony in the Arrivals area.

Benjamin Mathieu, General Manager, Airports, and Mark Laroche cut the ribbon to officially introduce Astral Out Of Home's digital advertising program in Arrivals on August 22nd.

SUMMARY OF AMOUNTS SPENT IN THE OTTAWA REGION

(IN MILLIONS OF CANADIAN DOLLARS)	2013 $	2014 $	2015 $	2016 $	2017 $	TOTAL $
Wage bill	20.1	20.9	21.5	22.7	**23.8**	108.3
Payments in lieu of municipal taxes	5.0	4.9	5.0	5.0	**5.1**	25.0
Operations costs	27.0	29.0	31.0	33.0	**33.8**	153.4
Capital costs	30.0	54.0	31.2	24.0	**35.0**	174.2
	82.1	108.8	88.7	84.7	**97.7**	460.9

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.

Concession Preliminary Design Document

The Authority is in the process of redefining its overall concessions program. Following an internal review of the concession offering, and in consultation with major industry operators in the food/beverage/retail sectors, the Authority issued an RFP in the fall with the goal of selecting an architectural firm to carry out a technical and design study for the new program, which is expected to launch in 2020.

Economic Impact Study

The Authority engaged consulting firm WSP Canada to update its Economic Impact Study. The Study, which was last completed in 2011, measures the Airport's contribution to the local economy. Measurements include employment, wages, gross domestic product, among others, and are based on direct, indirect and induced impacts. The Study confirms that the Ottawa International Airport continues to be a major contributor to the prosperity of the local economy, generating $2.2 billion in total output each year. With passenger volumes tracking at approximately 2.0% for the past couple of years, and with similarly steady growth projected going forward, the Study anticipates that the Airport's economic output will track to approximately $2.5 billion by 2021.

ECONOMIC IMPACT STUDY	
Impact on GDP	$1.04 billion
Employment Generated	10,776
Wages and salaries generated	$602.3 million
Total income tax generated	$109.9 million
Average full time equivalent annual salary	10% higher than the provincial norm
Total annual output	$2.2 billion

Light Rail Transit

The Authority continues to work closely with the City of Ottawa towards an airport link as part of Stage 2 of the Light Rail Transit (LRT) project. We were very pleased with the federal government's confirmation of its funding support for Stage 2 LRT, including the airport link, adding to the provincial government's commitment in 2016.

The Authority reached an agreement in principle with the City concerning the delineation of work at the airport station. The City will construct the rail line and station platform through their contract, while the Authority will build a station and concourse on an independent structure that will provide passengers with a climate-controlled area to wait for the train as well as a connecting structure to the terminal. Efforts early in 2018 will be focused on formalizing the agreement as well as dealing with infrastructure issues associated with construction of the line, including the coordination and relocation of municipal services.

Marketing a Key Destination – NYCx3

Through the summer months, the Authority launched a marketing campaign aimed at promoting the three air service options to New York City. NYCx3 was edgy, unique, and focused on the heart and soul of the NYC experience using visuals that were taken by a New York City photographer specifically for this campaign. There were three grand prizes of roundtrip airfare to New York City provided by the three airlines that serve NYC. Overall, the program was a success with 1,759 contest entries, 4,120 clicks on the ads and 2,234,746 impressions generated.

Photographer Samantha Light captured the heart and soul of the New York City experience for the NYCx3 campaign.

Master Plan

The 2018 Master Plan process, which was launched in late 2016, continued more earnestly in 2017. Activities included 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 through the next 20 years. Stakeholder outreach and surveys facilitated updates to aviation forecasts, identified support facility and service requirements, quantified utilities capacity and requirements as well as potential development options to meet forecasted needs.

Two rounds of public meetings were held in Ottawa and Gatineau in the second half of 2017. The final round, held in January 2018, included a presentation of the draft plan, which was submitted to the Board of Directors, followed by Transport Canada in early March.

Terminal Hotel Request for Proposal

A request for proposal for the construction and operation of a hotel at the Airport closed on October 27th. Multiple submissions, proposing to integrate the new hotel structure into the terminal via the Parkade, have been evaluated and discussions have commenced.

Transborder Enhancements

Tim Hortons opened a new café on level 2 in the Transborder holdroom.

A project to relocate the Duty-Free shop from Level 3 to Level 2 in the Transborder holdroom was completed in June, which made space available for an expanded Tim Hortons café with a seating area on Level 3. The new café was completed and opened in time for the start of the holiday travel season in December.

YOW Showcase

The Authority established a space in Arrivals to feature some of the unique aspects of our region that make Ottawa-Gatineau a great place to live, work and play. Named the YOW Showcase, the program welcomed the Ottawa 2017 Bureau as its first participant. Their interactive kiosk installation offered our visitors a glimpse into what the region had to offer during the sesquicentennial celebration year in Ottawa-Gatineau. Visitors were able to find information about the region, 2017 events and volunteer opportunities throughout the year. Ross Video finished the year with an impressive display that featured the Technical Emmy Award presented to the company in 2016 for its contribution to the international video production industry. The award confirmed Ross Video as a global leader in its highly specialized field. New participants will be welcomed in 2018 and beyond.

Giving Back

Project Clear Skies

Mark Laroche presented the first cheque of the 2017 Project Clear Skies funding wave at the Centre Artisanal pour la Déficience-intellectuelle de l'Outaouais, where funds will be used to purchase tables and chairs for the centre. Now in its 13th year, Project Clear Skies has injected more than $1.6 million into local charitable projects that are making a meaningful difference in the quality of life for many in Ottawa-Gatineau. To learn more about how just over $100,000 was invested in local projects in 2017, visit https://yow.ca/en/yow-and-community/project-clear-skies.

In addition to Project Clear Skies, the Authority also supported a number of other community initiatives.

Mark Laroche presented the first check of the 2017 funding wave to the Centre Artisanal pour la Déficience-intellectuelle de l'Outaouais.

Local Flood Relief

From donating to local fundraising efforts to providing 4,000 bottles of water and our employees pitching in to help clear debris from flood sites, the Authority provided assistance in both Ottawa and Gatineau.

Airport Authority employees load bottles of water for delivery to local flood sites.

WestJet's Day 7 of 12 Flights of Christmas

As a part of its annual holiday campaign, 12 Flights of Christmas, Westjet transformed Gate 13 into a gingerbread house, complete with a candy bar and other sweets. Day 7 in Ottawa also included a visit from Mrs. Claus who distributed gifts to all passengers, including gift cards and the coveted Gift of Flight for a few fortunate Calgary-bound WestJet passengers. It was the Authority's pleasure to work with WestJet to make this special day a reality.


Ottawa Airport welcomed Day 7 of Westjet's 12 Flights of Christmas on November 24th.

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%

		DOMESTIC	%	TRANSBORDER	%	INTERNATIONAL	%	TOTAL	%
	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%
	2017	**3,813,672**	**3.6%**	**647,574**	**-3.8%**	**378,431**	**-3.1%**	**4,839,677**	**2.0%**
Forecast	2018	3,914,000	2.6%	658,500	1.7%	385,250	1.8%	4,957,750	2.4%
	2019	3,992,700	2.0%	674,400	2.4%	397,400	3.1%	5,064,500	2.1%
	2020	4,074,100	2.0%	689,600	2.3%	409,650	3.1%	5,173,350	2.1%
	2021	4,159,400	2.1%	705,500	2.3%	422,700	3.2%	5,287,600	2.2%
	2022	**4,243,500**	**2.0%**	**722,700**	**2.4%**	**436,500**	**3.3%**	**5,402,700**	**2.2%**
	2025	**4,515,600**	**2.1%**	**772,300**	**2.2%**	**476,700**	**3.0%**	**5,764,600**	**2.2%**
	2030	**5,013,000**	**2.1%**	**845,600**	**1.9%**	**541,200**	**2.6%**	**6,399,800**	**2.1%**

KEY MEASUREMENTS

		PASSENGERS	ANNUAL GROWTH	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%

		PASSENGERS	ANNUAL GROWTH	AIRCRAFT MOVEMENTS	ANNUAL GROWTH	RENT TO TRANSPORT CANADA $	ANNUAL GROWTH
	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%
	2017	**4,839,677**	**2.0%**	**74,755**	**0.6%**	**9,626,000**	**7.0%**
Forecast	2018	4,957,750	2.4%	78,150	4.5%	10,000,000	3.9%
	2019	5,064,500	2.1%	78,700	0.8%	10,600,000	6.0%
	2020	5,173,350	2.1%	79,600	1.0%	11,000,000	3.8%
	2021	5,287,600	2.2%	80,500	1.1%	11,300,000	2.7%
	2022	5,402,700	2.2%	81,100	0.8%	11,700,000	3.5%

Notes:
Federal Government Net Book Value at time of transfer: $75M
Total rent projected 1997-2022: $237.5M
Forecast passenger volumes are as provided by outside consultants.
For financial planning purposes, the Authority forecasts on a more conservative basis.

TO OPTIMIZE OPERATIONAL PERFORMANCE, ENSURING SAFE AND SECURE AIRPORT OPERATIONS

Whether inside the terminal or on the airfield, the Authority had a long list of projects to complete. Projects were related to airside safety enhancements, improved passenger experience, technological advancements and sustainability.

Operations and Infrastructure

Airside Construction Projects

Two airside projects were completed in 2017 in keeping with the Authority's ongoing commitment to airside safety.

Taxiway Reconstruction

The Taxiway Reconstruction Project, involved work on a section of Taxiway Charlie (between Runway 14/32 and the end of Runway 07), and a section of Taxiway Bravo (between Taxiway Foxtrot, including a section of Taxiway Foxtrot, to the beginning of Runway 25), as well as the entrances to the First Air and FedEx aprons.

The project included the reconstruction of the taxiways with the addition of shoulders, the installation of new taxiway edge lights within the shoulders, new storm sewers, and line painting as required.

New SSALR Lighting Improves Visibility and Safety for Runway 25

The second airside project involved replacing Runway 25's existing approach lighting system with a Simplified Short Approach Lighting System (SSALR). The new system increased the number and types of approach lights and improved visibility of Runway 25 landing during all conditions and in particular during lower visibility conditions. The distance of the lighting array from the runway threshold (the beginning of the runway that is visible for landing) was extended from 365m to 730m.

A new SSALR lighting system installation is planned for Runway 14 in 2018. SSALR lighting systems are historically only installed on "bad weather" runways with ILS approach systems. Our 07 and 32 runway approaches have had SSALR and ILS systems for decades.

Both projects required trenching and new electrical infrastructure. Unique to the taxiways was the excavation and installation of new storm sewer piping, while the SSALR project required excavations for the installation of new concrete foundations to accommodate the approach lighting towers. Several kilometres of new wiring was installed along the runway edge, and out to the Field Electrical Centre.

Irregular Operations

While winter weather is generally thought to have a greater impact on operations, July and August 2017 proved otherwise; with bad weather and construction impacting flow at Toronto Pearson Airport, Ottawa was on the receiving end of diverted aircraft on a regular basis. Over the year, we received 136 diverted aircraft, compared to a more typical 2016 that saw 65 in total, with July 31st presenting the most significant diversion event of the year.

Diverted aircraft from Toronto and Montreal on July 31st

Storms in both Toronto and Montreal that day resulted in 20 aircraft being diverted to Ottawa. Every available space was utilized to park aircraft that ranged in size from small regional jets to an Emirates A380, with nearly 4,000 passengers aboard from various parts of the world. These diverted aircraft were in addition to the airport's regular operation that included 16 arrivals. Most flights were able to receive fuel and depart for their intended destination in a timely manner. Issues with several Air Transat flights, however, had them on the ground in Ottawa longer than expected, which resulted in complaints from passengers and a full inquiry by the Canadian Transportation Agency.

The Airport Authority cooperated fully with the investigation and participated in the inquiry to share the details of the coordination and assistance it facilitated the night in question. Results of the inquiry, which were made public at the end of November, directed no blame at the Authority for the issues that affected the airline's passengers that night. The Authority was pleased that its efforts to assist were positively regarded, and is keen to work with all airport partners to facilitate better communications and planning for future Irregular Operations (IROPS).

Planning for Future Irregular Operations

As weather and other issues have an ever increasing impact on airport operations, the Authority has been working with campus partners to ensure readiness for all Irregular Operations (IROPS), including aircraft diversion events. An IROPS Contingency Response Committee has been formed with representatives from the Authority, local carriers and ground handlers, to discuss IROPS events, roles and responsibilities, and individual IROPS plans. Discussions are also ongoing with external stakeholders and airports across the country on the subject of mass diversion events and how they can be managed more effectively as a community.

Groundside Projects

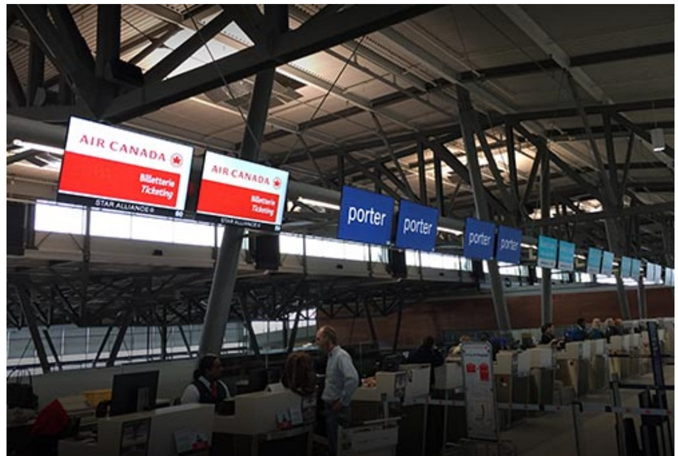
Light Rail Transit

The Authority continues to work closely with the City of Ottawa towards an airport link as part of Stage 2 of the Light Rail Transit (LRT) project. We were very pleased with the federal government's confirmation of its funding support for Stage 2 LRT, including the airport link, announced in 2017, adding to the 2016 provincial government's commitment. Efforts early in 2018 will be focused on formalizing the agreement in principle reached with the City, as well as dealing with infrastructure issues associated with the construction of the line, the terminal station and the relocation of municipal services.

Check-in Hall Upgrade

Early in 2017, the Authority's Information Technology team began a major overhaul of the Level 3 check-in equipment, including the baggage belt systems, check-in counters, kiosks, computers, software, scales, and signage that serve Domestic/International processing. More kiosks were added, the baggage conveyor system was replaced, and self-serve baggage drop-off stations were added for most airlines as requested. The check-in desks have been replaced with more ergonomic workspaces for airline staff. The most visible change aside from the layout of the check-in kiosks is the new overhead digital signage deployment which will allow the Authority more flexibility in the assignment of check-in space when necessary.

The project was rolled out in seven phases to minimize the impact to regular operations and was wrapped up in 2017. The project was deemed a great success thanks to the commitment and cooperation of the airlines. The Transborder check-in area will be tackled in 2018.



50 overhead digital signs, 22 check-in kiosks and 16 self-bag drops were deployed during the check-in hall upgrade project to better serve our passengers.

YOW Welcomes Canada's First Primary Inspection Kiosks

On March 20, 2017, the Canada Border Services Agency activated the first Primary Inspection Kiosks (PIK) in Ottawa, along with CanBorder – eDeclaration, the Government of Canada's mobile declaration application.

PIK allows international travellers arriving in Ottawa to verify their travel documents, complete an on-screen declaration, and confirm their identity using facial authentication which compares the photo taken at the kiosk with the user's passport. The CanBorder app allows users to complete their declaration on their personal mobile device before arriving at the airport; the app generates a quick response (QR) code which is verified at the kiosk in the Customs Hall. The program has already grown to include the deployment of five additional kiosks for a total of 21.

Following the highly successful Ottawa launch, kiosks have been rolled out at five airports across the country, with more expected in 2018. The program will strengthen border security, simplify the border experience, and build upon the success experienced in other countries where automated border technology has already been implemented. Ottawa was proud to be the inaugural airport to offer this service in Canada.

Mark Laroche, John Ossowski (President, Canada Border Services Agency) and The Honourable David McGuinty (MP, Ottawa South) launch PIK and the CanBorder app on March 17th.

Environmental Responsibility

Ensuring that it minimizes the impact its operations have on the environment continues to be a priority for the Authority. Two major programs in 2017 position us well for continued reduction in our overall footprint in the future.

Airport Carbon Accreditation Program

Late in 2016, the Authority was pleased to learn that it had completed the requirements to achieve Level 1 of Airports Council International-North America's (ACI-NA) four-level Airport Carbon Accreditation Program. The process involved carbon footprint mapping for Authority-owned facilities and vehicles. Once completed, the calculations were verified by a third party in keeping with the program guidelines and submitted for review. The Authority received official recognition for this achievement at ACI-NA's 2017 Annual General Meeting. Efforts in 2017 were focused on achieving Level 2 Accreditation for greenhouse gas emission reduction. This involved a study of our reduction opportunities and establishing reduction targets. We were successful in reaching this new milestone, with formal accreditation received on January 9th, 2018.

Krista Kealey, VP Communications & Public Affairs, accepts Level 1 of the Airport Carbon Accreditation Program on behalf of the Airport Authority.

Parkade Lighting Upgrade

To reduce electricity consumption, which is a contributor of greenhouse gas, and improve the quality of the lighting in the Parkade, the Authority launched a project to replace the aging metal halide fixtures with a more energy-efficient solution. The Authority partnered with Energy Ottawa, Hydro Ottawa's green power subsidiary, to test four different LED fixtures to determine the best solution for the environment.

The chosen solution, the IG Series LED Parking Garage fixture manufactured by Cree Inc. uses only 79 watts, with savings of 141 watts per fixture, to produce 7500 lumens of light. The fixture directs 6% of the light up to the ceiling, provides improved overall lighting uniformity, and comes with a 10-year fixture warranty. The fixtures have a programmable multi-level occupancy sensor with an ambient light sensor option that is programmed to dim the fixture down by 50% after 15 minutes of inactivity.

Macton Electric completed the 600-fixture installation which is expected to save an estimated 829,000 kWh, or $129,000 per year at today's electricity rates. This project will also reduce our carbon footprint by 34 tonnes per year. The remaining 825 fluorescent fixtures that were installed as part of the 2010 Parkade expansion and, are already energy efficient, will be replaced as they reach end of life in several years.

Safety

The Authority continues to put the highest priority on safety at the Airport and invests much time and effort into ensuring that all activities at the Airport are carried out in the safest manner possible.

Safety Management System

The Authority has a comprehensive Safety Management System (SMS) program that outlines its commitment to excellence in safety management. The primary objective of the program is to build, operate and maintain a safe, sustainable Airport for our employees and customers.

From February 14th to 16th, Transport Canada (TC) was on-site to complete a full audit of all components of the program to verify that our Airport is in compliance and has the systems in place to ensure ongoing compliance with all regulatory requirements. On April 4th, we received the formal Surveillance Report from TC indicating that we are fully SMS-compliant.

Winter Operations

Snowfall in 2017 was greater than the previous winter with 258.4 cm overall which is higher than the 25-year average of 235 cm. To illustrate the conditions that were dealt with, 28 cm fell on February 12th, followed by another 23.8 cm on February 14th – dealing with nearly 52 cm in three days is a formidable challenge. However, our crews managed it with their usual professionalism, keeping the Airport open and operational throughout the storms.

Security

The Authority has continued to explore new tools and programs to further enhance the airport's security profile. The effort has been recognized, and in several cases, emulated by other organizations.

James Armstrong, VP Security, Emergency Management & Customer Transportation, was named Security Director of the Year 2017.

Security Director of the Year

James Armstrong, the Authority's Vice President, Security, Emergency Management and Customer Transportation, was named Security Director of the Year by Canadian Security Magazine.

The awards program, whose candidates are senior security professionals across a variety of disciplines, is based on peer nominations that are evaluated and judged by a panel comprised of the magazine's advisory board.

Annual Exercise

In anticipation of the many events planned to mark Canada's 150th, the Authority's annual emergency exercise was planned in conjunction with the City of Ottawa's full-scale exercise, (C3). The event, which occurred on May 4th, included 20 hours of simulated incidents occurring at various venues across the city resulting from a region-wide earthquake. In the Airport Authority's case, we were required to conduct an emergency response exercise, setting the stage for an earthquake aftershock scenario resulting in an airside ramp vehicle accident, fire and major fuel (HAZMAT) spill. The exercise expanded our test base to include our Environmental Services team and a few rarely tested stakeholders from the fuelling and ground handling service provider community.

Canine Awards

The Authority's Canine Unit, which was created in 2011, is made up of three teams, each comprised of a handler and a dog. Handler Russ Fox and his dog Samson competed in the 2017 Canadian Police Canine Association National Detection Championships in Edmonton, Alberta. Competitors included more than 40 teams from various levels of government, law enforcement and conservation agencies from across the country, including the Ottawa Airport-based Canada Border Services Agency (CBSA) team of Todd Fulton and Peanut. Given that the two teams work and train together, it was fitting that they finished at the top together with CBSA taking the gold medal and the Authority taking silver.

Russell Fox, Canine Handler, and Samson take silver in the detection category at the 2017 Canadian Police Canine Association National Detection Championship.

YOW Security and Emergency Response Operational Enhancements

During the year, the Security and Emergency Management team initiated numerous operational improvements and efficiencies in their response capabilities. These included increased deterrence programs such as the introduction of an insider threat program and training; increased integration with the Ottawa Police Service, Ottawa Paramedic Service and Paladin Security for medical calls in the terminal; and an enhanced and more efficient airport aircraft emergency response capability that maximized existing response assets while reducing inefficiencies that prevented investment in other deterrence measures.

To reinforce the changes, and the Authority's commitment to a safe and secure airport environment, the Authority hosted several training programs for its employees and campus partners. The training focused on several aspects of airport operations including counter insider threat, active shooter, Fire Warden, Airport Operations Coordination Centre, Ottawa Airport Emergency Response Service, and on-scene controller. Overall, Security and Emergency Management trained 516 airport staff members during 91 training events.

New Security Contractor

At the end of February, following a competitive tender process, the Authority announced that Paladin Security was selected as the new security contractor based on their modern and integrated approach to security. On March 1st, Paladin took over all patrol, traffic management, and security post identification verification and airside escort duties. The approximately 65 officers employed under the Paladin contract transitioned very seamlessly into their new role with no disruption or impact on customer service.

Finance

The Financial Year at a Glance

The Canadian economy experienced solid growth with key financial indicators and employment trends moving positively throughout the year, which was the backdrop for a positive impact on the 2017 results for the airport. 2017 passenger volumes again broke previous years' records, surpassing 4.8 million passengers, an increase of 2.0% over 2016. While domestic passenger volumes grew in 2017 thanks to new destinations and increased frequencies, U.S. air carrier capacity continued to experience a decrease to U.S. hubs with many transborder passengers routed through Toronto and Montreal. Revenues in 2017 were 5.2% higher at $128.3 million, compared to $121.9 million in 2016, due to increases in non-aeronautical revenues resulting from enhanced ground transportation and parking initiatives, increased fees charged to airlines and higher passenger volumes which impacted concession revenues positively. As a result, the Authority finished 2017 by generating earnings before depreciation of $32.8 million compared to $22.8 million in 2016, and net earnings after depreciation of $3.8 million, compared to a net loss of $5.3 million in 2016. The Authority anticipated the year-over-year improvement in earnings due to the favorable interest impact from the Series D Bonds that matured and were repaid in May 2017. As always, any earnings continue to be reinvested in airport operations and development in the interest of improving safety, efficiency, and customer experience.

FIVE-YEAR REVIEW

(IN THOUSANDS OF CANADIAN DOLLARS)	2013 $	2014 $	2015 $	2016 $	2017 $
Revenues	104,139	112,271	118,252	121,912	**128,258**
Expenses before depreciation	79,866	83,074	90,422	99,134	**95,436**
Earnings before depreciation	24,273	29,197	27,830	22,778	**32,822**
Capital expenditures	30,390	54,752	31,206	24,679	**35,528**
AIF revenues	38,370	43,629	45,434	46,920	**49,110**

TO PURSUE EXCELLENCE

Whether implementing new or enhanced customer service products and programs or ensuring that our employees are engaged, valued and recognized, the Authority recognizes that achieving excellence is a long-term commitment that we have always been ready to make.

When the City of Ottawa looked to rename streets on Airport campus,, we asked employees to submit their suggestions. Winning choices included Clear Skies Private, put forward by Kristen Ewen (right), Lynn Lauriault and Marc Patry, and Adastra Road, proposed by Cathy McKechnie.

Customer Service

YOW is on the podium again in the 2017 Airport Service Quality (ASQ) Awards program. The Airport was ranked first in the category of Best Airport by Size and Region – North America for airports that serve between 2 and 5 million passengers per year, and tied for second place for Best Airport by Region – North America amongst all airports serving more than 2 million passengers.

ASQ is an Airports Council International (ACI)-led worldwide customer service benchmarking program that surveys departing passengers at the airport, and measures 34 key performance indicators. In 2017, there were 340 participating airports in 85 countries. Through the program, a prescribed number of passengers are surveyed quarterly ensuring an equitable breakdown between business and leisure travellers across domestic, transborder and international flights.

YOW also has the distinction of being an inductee to the ACI Director General's Roll of Excellence which recognizes airports that have been ranked in the ASQ Survey for top five airports by size or region, and also by size and region for five of the 10 previous years.

Since joining the program in 2006, YOW has received a total of 22 awards for finishing top 3 in an award category:

# OF TOP 3 PLACEMENTS SINCE 2006	NORTH AMERICA	SIZE CATEGORY	SIZE AND REGION	TOTAL
	11	10	1	**22**

2017 was a very special year for our city and for the Airport as we celebrated Canada's 150th birthday. As the gateway into Canada's Capital Region, we welcomed visitors as they arrived for national and local celebrations. Earning gold and silver medals based on feedback from our clients makes these awards even more significant. They are a wonderful testament to the hard work and dedication of every airport employee who made the welcome so special, and we share these awards with the entire community, including airlines, ground handlers, cleaning staff, customs agents, retailers, restaurateurs, volunteers and everyone in-between.

We also extend heartfelt thanks to every passenger who took the time to complete a survey as they awaited their departing flight from YOW.

Overall, YOW scored 4.47 out of 5 points, which represents a slight increase from 2016. Notable improvements include:

- Value for money of parking facilities (4.9%)
- Shopping facilities (4.6%)
- Restaurant/eating facilities (3.0%)

As always, we will be reaching out to the airport campus partners that contribute to the customer experience in the near future to share the details of the year-end summary. Together, we can continue to effect positive change in the areas where additional attention will make a difference, as well as learning what activities helped make a difference in the eyes of our customers in 2017.

Congratulations to all and keep up the great work!

Lise Clément and Suzanne Orlik are two of 80 Infoguide volunteers who contributed 7,328 customer service hours in 2017. During a summer appreciation event, they enjoyed visiting some of the Canada 150 attractions in Ottawa-Gatineau, such as MosaïCanada 150 in Jacques-Cartier Park.

Employee Engagement

Employees have always been vital to the Authority's success, and ensuring that they are engaged remains an organizational priority. As such, every opportunity to celebrate, recognize and communicate with the entire team was seized.

New communications tools, including an employee blog and operational update reports from the CEO, were developed and deployed. The Authority, through its partnership with Ottawa 2017, ensured that employees were given the opportunity to attend and participate in unique events that marked Canada's 150th, such as the Sky Lounge, Canada's Table and more. Also, long service awards celebrated the 5, 10, and 20-year milestones that many of our employees reached during the year.

Top Flight

The Authority's Human Resources team launched Top Flight in 2013 to provide its employees with a means for recognizing their colleagues for going above and beyond the call of duty. Nominees are recognized quarterly, and at year end, all Authority employees are asked to vote on the nomination they feel is most worthy of the Employee's Choice Award.

We are pleased to announce that Judy Donoso was selected as the 2017 Employee's Choice Award recipient. Judy, who works at the Hendrick Building and provides invaluable assistance to the airfield team, was nominated in the Commitment category for assisting a very large team, including all seasonal staff, and always handling everything she does for them and others with professionalism and a smile.

Judy Donoso, Administrative Assistant, Airside Operations, received the Employee's Choice Award on December 15th from Mark Faubert, Director of Human Resources.

TO PROVIDE ADDITIONAL FLIGHT FREQUENCIES AND DESTINATIONS

Air Service Development

Porter Airlines announced three new routes in 2017. Service to Fredericton was added on September 12th, and service to Saint John, New Brunswick, started shortly after on September 21st. In late September, Porter announced that seasonal service to Orlando-Melbourne Airport, its first U.S. destination from Ottawa, would run on Saturdays from December 16th, 2017, to March 31st, 2018. Service to this airport, located on Florida's east coast, gives passengers another option when choosing to fly to the Orlando area. Porter also offered a special holiday schedule from Ottawa to Stephenville, Newfoundland, on Wednesdays, from December 20th, 2017, to January 3rd, 2018.

Porter Airlines' inaugural flight from Saint John, New Brunswick was welcomed with a water salute on September 21st.

Although Porter is the only airline that added multiple destinations this year, other carriers also saw growth:

- Delta Air Lines added a daily flight to New York's LaGuardia Airport.
- WestJet added eight weekly flights between Ottawa and Toronto. Their seasonal service between Ottawa and Edmonton will now operate year-round.
- In 2017, American Airlines announced that it will be adding an additional frequency between Philadelphia International Airport and Ottawa starting May 4th, 2018. This route will now be operated three times daily, year-round.
- The charter season, which runs between November 2017 and the end of April 2018, will include over 60 weekly flights to sun destinations in Florida, Mexico, and the Caribbean. Air Canada, Air Transat, Celebrity Cruises, Porter Airlines, Sunwing, and WestJet will provide passengers with numerous options to escape the cold.

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
2017	**46**

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
2017	**74,755**

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
2017	**82**	**19**	**23**

Origin and destination

96.0% of traffic (estimated)

STRATEGIC INITIATIVES

The Authority's Strategic Plan was collaboratively developed with the Board of Directors and Senior Management Team, and is based on five key Strategic Directions that are still the focus of Airport Authority activity. The following identifies the initiatives within each Direction across the 2017-2021 timeline:

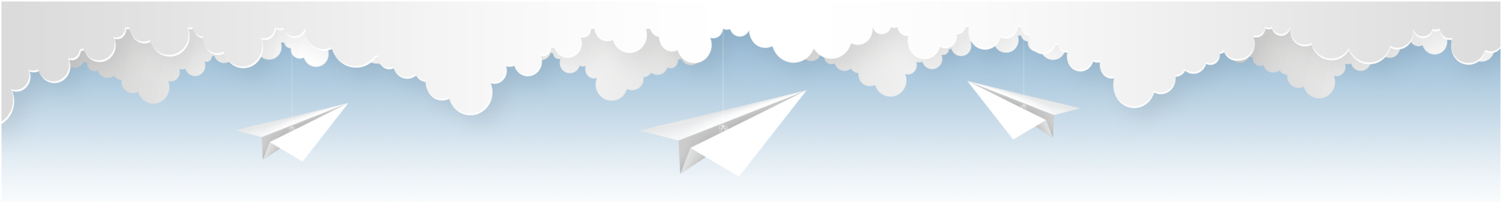
1. **To grow strategically**
   - to grow non-aeronautical revenues; and
   - to provide passengers and commercial airlines with world class airport facilities.
2. **To increase the economic footprint of the airport within Canada's Capital Region**
   - to increase the economic impact of the airport by generating employment and economic activity on airport land; and
   - 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; and
   - 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; and
   - 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; and
   - to support tourism, business and convention development in Ottawa by stimulating demand for air travel.

2017 Actual vs. Business Plan

(IN MILLIONS OF CANADIAN DOLLARS)	ACTUAL $	PLAN $	VARIANCE $	
Revenues	128.3	126.5	1.8	Increase in passenger and origin and destination volumes combined with an increase in car rental and ground transportation volumes and revenues.
Expenses	124.4	128.0	(3.5)	Lower than expected operational and repair and maintenance services combined with lower contract services expenses.
Capital expenditures	35.5	38.4	(2.9)	Initiatives related to fleet vehicles, boarding bridge refurbishment and campus and building finishes and upgrades had longer than expected lead times together with some elements of the project slipping into the next fiscal year.

Financial projections 2018 – 2022

(IN MILLIONS OF CANADIAN DOLLARS)	2018 $	2019 $	2020 $	2021 $	2022 $
Revenues	131.7	135.2	138.8	142.6	146.4
Expenses	127.7	130.1	132.9	134.6	136.6
Capital expenditures	48.9	35.1	30.3	24.6	25.8



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 2017, 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

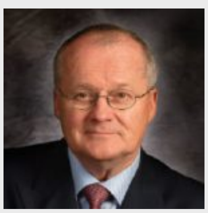
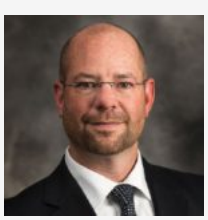
The Authority established by-laws at incorporation in 1995, which were amended in 2003, in 2010, and again in 2014, following its continuance under the Canada Not-for-profit Corporations Act. Under the current by-laws, the selecting bodies that provide nominees to the 14-member Board are as follows:

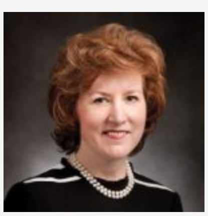
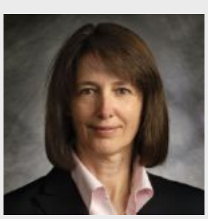
SELECTING BODIES	NUMBER OF DIRECTORS NOMINATED
Minister of Transport (Government of Canada)	2
Government of Ontario	1
City of Ottawa	2
City of Gatineau	1
Ottawa Chamber of Commerce	1
Ottawa Tourism and Convention Authority	1
Chambre de commerce de Gatineau	1
Invest Ottawa	1
At Large	4
Total	**14**

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 31st, 2017.

	NAME AND POSITION WITH AUTHORITY	OCCUPATION	SELECTING BODY AND YEAR APPOINTED
	**Chris Carruthers** Chair of the Board	Health Care Consultant Corporate Director	At Large 2010
	**Craig Bater**(2)(4) Chair, Major Infrastructure and Environment Committee	Partner Augustine Bater Binks LLP	Ottawa Chamber of Commerce 2012
	**Thom Bennett**(3)	President Bennett Insurance Agency Limited	Minister of Transport (Government of Canada) 2012
	**John Boyd**(1)(5)	Partner Client First Group	Government of Ontario 2010
	**Dick Brown**(3)(4)	Retired Executive	Ottawa Tourism 2016
	**Code Cubitt**(2)(5) Chair, Ad-Hoc	Managing Director Mistral Venture Partners	Invest Ottawa 2015

	NAME AND POSITION WITH AUTHORITY	OCCUPATION	SELECTING BODY AND YEAR APPOINTED
	**Scott Eaton**(1)(5) Chair, Audit Committee	Business Lawyer	At Large 2013
	**Michèle Lafontaine**(4)	Notary PME Inter Notaires	Ville de Gatineau 2017
	**Brendan McGuinty**(2) Chair, Governance Committee	President Strategies 360 Inc.	City of Ottawa 2011
	**Carole Presseault**(3) Chair, Human Resources and Compensation Committee	Principal Consultant Presseault Strategies+	Chambre de commerce de Gatineau 2014
	**Jacques Sauvé**(4)	Consulting Engineer	At Large 2012
	**Lisa Stilborn**(1)(2)	Vice-President Canadian Fuels Association	City of Ottawa 2016
	**Janice Traversy**(1)(3)	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 2017

Annual Retainer

- Chair: $49,734
- Audit Committee Chair: $24,315
- Committee Chairs: $22,105
- All other Directors: $13,263

Per meeting fee

- $609 per meeting
- $221 per teleconference

Attendance at Board and Committee Meetings

BOARD MEMBER	BOARD MEETINGS ATTENDED	COMMITTEE MEETINGS ATTENDED WHILE MEMBER OF A COMMITTEE
Craig Bater	8 out of 8	15 out of 16
Thom Bennett	8 out of 8	5 out of 5
John Boyd	8 out of 8	6 out of 7
Dick Brown	8 out of 8	4 out of 6
Chris Carruthers	8 out of 8	17 out of 17
Code Cubitt	4 out of 8	5 out of 5
Scott Eaton	8 out of 8	7 out of 7
Michèle Lafontaine(1)	5 out of 6	4 out of 4
Gilles Lalonde(2)	2 out of 2	4 out of 5
Brendan McGuinty	8 out of 8	8 out of 8
Carole Presseault	7 out of 8	5 out of 5
Jacques Sauvé	8 out of 8	5 out of 5
Susan St. Amand(2)	2 out of 2	10 out of 10
Lisa Stilborn	6 out of 8	5 out of 6
Janice Traversy	8 out of 8	11 out of 11

(1) New Board member effective April 26, 2017
(2) Term ended April 26, 2017

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 February 2017.

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 $114,473 ($75,000 in 1994 dollars adjusted for CPI to December 31st, 2017), 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 $114,473 that were not awarded on the basis of a public competitive process during 2017:

CONTRACTOR	CONTRACT DESCRIPTION	REASON FOR SOLE SOURCE
Centura Ottawa	$281,282 Supply porcelain tile	See A below
Embross North America Ltd.	$1,992,975 Supply, deliver and install 16 self-bag drop kiosks	See B below
Embross North America Ltd.	$560,030 Supply, deliver, install and training for 32 kiosks	See A below
Black & McDonald	$1,992,975 Re-wiring of the 3rd floor check-in counters and baggage system controls	See A below
Brock Solutions Ltd.	$448,350 Self-bag drop integration and testing	See A below
Precise Parklink Inc.	$318,957 Upgrade of Parkade exit stations to enhance/enable chip/PIN, Interac and Tap & Go technologies	See A below
Plan Group	$413,900 Level 3 check-in project – Electrical, data and communications connectivity	See A 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 (band) for the President of the Authority in 2017 was between $292,400 and $357,500. The base salary range (band) for Vice-Presidents in 2017 was between $116,370 and $230,540.

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 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 reasonable, it has been necessary to adjust these fees on occasion. 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): Scott Eaton, Carole Presseault, Dick Brown, Craig Bater, Michèle Lafontaine, Code Cubitt, Mark Laroche (President & CEO), Christopher Carruthers (Chair), Janice Traversy, Jacques Sauvé, Brendan McGuinty, Thom Bennett, John Boyd, Lisa Stilborn

We're Here to Listen

SUBMIT QUESTIONS, COMMENTS OR CONCERNS

www.yow.ca/contactus

EMAIL US

comments@yow.ca

WRITE TO US

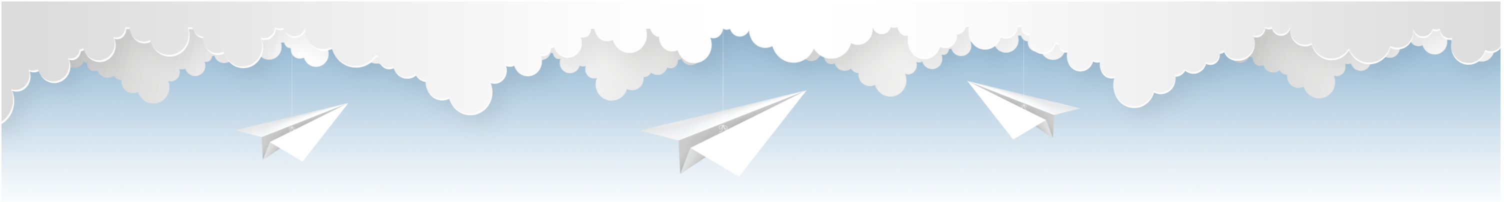
1000 Airport Parkway Private
Suite 2500
Ottawa, Ontario, Canada K1V 9B4

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.



2017 Financial Review

This Financial Review reports on the results and financial position of the Ottawa Macdonald-Cartier International Airport Authority ("Authority") for its year ended December 31, 2017. 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, 2017 were $32.8 million compared to $22.8 million for the year ended December 31, 2016. The Authority recorded depreciation of $29.0 million in 2017 compared to $28.0 million in 2016, reflecting depreciation of the terminal building, airfield facilities and other assets over their estimated economic lives. After subtracting depreciation, the Authority generated net earnings of $3.8 million in 2017 compared to net loss of $5.3 million in 2016.

The Authority's net operating results for the three years ended December 31, 2017 are summarized as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2017 $	2016 $	2015 $
Revenues	128.3	121.9	118.2
Expenses	95.4	99.1	90.4
Earnings before depreciation	32.8	22.8	27.8
Depreciation	29.0	28.1	25.9
Net earnings (loss)	3.8	(5.3)	1.9
Total assets	495.0	698.9	711.6
Gross – long-term debt	427.5	631.2	634.4

RESULTS OF OPERATIONS

Operating Activities

During 2017, the Ottawa Macdonald-Cartier International Airport (the "Airport") saw positive passenger volumes with increases of 2.0% over 2016 and 3.9% over 2015. The Canadian economy experienced solid growth with key financial indicators and employment trends moving positively throughout the year with economic forecasts suggesting continued positive trends for 2018. Federal government policy and infrastructure initiatives combined with fiscal and monetary measures designed to improve economic conditions should contribute to incremental passenger growth in 2018 and beyond. Nevertheless, the impact of increasing short term interest rates, variability in the Canadian dollar, unpredictability in energy prices and evolving political trends in global markets will be monitored over the course of the coming year.

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

	2017	2016	2015	% CHANGE – 2017 VERSUS 2016	2015
Domestic	3,813,672	3,679,232	3,488,629	3.7%	9.3%
Transborder	647,574	673,434	735,755	(3.8%)	(12.0%)
International	378,431	390,425	431,976	(3.1%)	(12.4%)
Total	4,839,677	4,743,091	4,656,360	2.0%	3.9%

Domestic passenger volumes were 3.7% higher on a year over year basis with increased traffic to Toronto, Halifax and Edmonton, together with a second operator to Fredericton and new service to Saint John. All major Canadian air carriers experienced higher year over year passenger volumes. Unfortunately due to the airlines' push to increase load factors, smaller gauge aircraft were deployed on many popular routes impacting unfavorably our year over year departed seat volumes.

Transborder volumes were 3.8% lower than 2016. U.S. air carrier capacity stabilized to their primary hubs, including Chicago, Dulles, Newark, Detroit and Philadelphia. New service to LaGuardia performed well. Reductions in U.S. leisure service to Fort Lauderdale (FL), Fort Myers (FL) and Las Vegas (NV) was offset slightly by increases in capacity to Melbourne (FL) late in 2017. The continued practice of Air Canada and WestJet flowing YOW-transborder traffic through Toronto-YYZ is the leading cause of the reduction of YOW-U.S. nonstop passenger volume.

International volumes declined 3.1% from 2016. Growth in the Air Canada sun destination portfolio was offset by WestJet's reduced frequencies as they increased their focus on the business traveller. Air Transat and Sunwing's operations to Cancún, Punta Cana and the Bahamas in the 2017 winter season are lower than the comparable period in 2016. Air Canada's daily year-round London (LHR) flight remains stable.

By sector, a quarterly view of 2017 passenger volumes compared to comparable quarters in 2016 is as follows:

	DOMESTIC	TRANSBORDER	INTERNATIONAL
Q1	Higher by 2.9%	Lower by 9.4%	Lower by 5.8%
Q2	Higher by 4.3%	Lower by 5.2%	Higher by 3.8%
Q3	Higher by 3.2%	Lower by 2.7%	Lower by 0.5%
Q4	Higher by 4.1%	Higher by 3.6%	Lower by 5.1%
Total	Higher by 3.7%	Lower by 3.8%	Lower by 3.1%

By quarter, total passenger volumes were as follows:

	2017	2016	% CHANGE
Q1	1,185,327	1,191,350	(0.5%)
Q2	1,191,719	1,157,771	2.9%
Q3	1,246,839	1,218,575	2.3%
Q4	1,215,792	1,175,395	3.4%
Total	4,839,677	4,743,091	2.0%

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 2017, the number of landed seats decreased by 2.0% compared to 2016. Domestic landed seats decreased 1.0% on a year over year basis while transborder and international declined by 5.8%. While transborder and international reductions mirror the changes in passenger volumes as explained above, reductions in domestic landed seats are primarily due to air carriers increasing load factors by deploying smaller gauge aircraft. The smaller size of these aircraft in both seat count and lower takeoff weight have unfavorably impacted aeronautical revenues.

REVENUES

Total revenues increased by 5.2% to $128.3 million in 2017 compared to $121.9 million in 2016.

REVENUES BY CATEGORY (IN THOUSANDS OF CANADIAN DOLLARS)			CHANGE	
	2017 $	2016 $	$	%
Airport improvement fees	49,110	46,920	2,190	4.7%
Terminal fees and loading bridge charges	27,350	26,432	918	3.5%
Landing fees	13,005	12,861	144	1.1%
Concessions	14,255	12,521	1,734	13.8%
Car parking	15,320	14,344	976	6.8%
Land and space rentals	6,453	6,349	104	1.6%
Other revenue	2,765	2,485	280	11.3%
	128,258	121,912	6,346	5.2%

Airport improvement fee (“AIF”) revenues of $49.1 million in 2017 increased by 4.7% from $46.9 million in 2016. The increase is attributed to the 2.0% year over year increase in passenger volume in 2017 combined with a higher average number of departing passengers originating their flight in Ottawa in 2017 at 96.0% as compared to 94.0% in 2016. Under an agreement with the air carriers, 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 $40.4 million in 2017, total aeronautical revenues, which include terminal fees, loading bridge charges and landing fees charged to air carriers, were 2.7% higher than revenues of $39.3 million in 2016. The year over year increase is the result of an increase in aeronautical rates and charges excluding police and security charges of 3.5% effective February 1, 2017. Police and security charges were increased 11.1% ($0.25 per landed seat) also effective February 1, 2017. This increase to aeronautical rates and charges was offset by the unfavorable impact of the 2.0% decrease in landed seats. With air carrier seat volume growth declining year over year and trending lower than inflationary growth and with increases in operating 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 by 2.5% effective February 1, 2018. Despite these increases, the Authority’s average aeronautical fee rates remain among the lowest in Canada.

Concession revenues of $14.3 million increased 13.8% as compared to 2016. The $1.7 million increase was attributable to the addition of a private transportation company service to the ground transportation offering in late 2016, strong performance in car rentals, 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 $15.3 million from $14.3 million in 2016, an increase of $1.0 million or 6.8%. The year over year increase was attributable primarily to the March 1, 2017 parking rate price increase. Adjustments to the rate structure continue to focus on optimizing pricing models and revenues based on passengers’ profiles and their specific needs as domestic passengers tend to park for shorter periods of time for 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 $6.4 million increased 1.6% as compared to 2016. Increases are attributable to favourable lease renewal activities with existing tenants and inflationary adjustments embedded within land leases.

Other revenue of $2.8 million increased by $0.3 million as compared to 2016. Higher utility recoveries from tenants and deicing pad snow clearing recoveries from airlines were the prime factors for the increase.

EXPENSES

Expenses before depreciation decreased $3.7 million to $95.4 million in 2017 from $99.1 million in 2016. Depreciation reflects the allocation of cost over the useful life of the assets and investments in property, plant and equipment. In 2017, depreciation of $29.0 million was $0.9 million higher than 2016. The incremental depreciation is related to capital projects completed in 2016 and in 2017 including boarding bridge replacement, new major airfield equipment, non-passenger screening-vehicle facilities, apron and taxiway refurbishment, flooring replacement, heating and cooling systems repair and information technology initiatives.

EXPENSES BY CATEGORY (IN THOUSANDS OF CANADIAN DOLLARS)			CHANGE	
	2017 $	2016 $	$	%
Interest	23,087	29,029	(5,942)	(20.5%)
Ground rent	9,626	8,994	632	7.0%
Materials, supplies and services	33,839	33,404	435	1.3%
Salaries and benefits	23,774	22,690	1,084	4.8%
Payments in lieu of municipal taxes	5,110	5,017	93	1.9%
	95,436	99,134	(3,698)	(3.7%)

Interest expense reflected in the statement of operations results from borrowing to invest in the Authority's capital programs and offset by interest income earned on bank and investment account balances. Interest expense has decreased $5.9 million due to the maturity and repayment of the $200 million Series D Revenue Bonds at 4.733% on May 2, 2017.

Rent payable to the Government of Canada increased by 7.0% to $9.6 million in 2017 due to higher revenues in 2017. 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 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 million as follows:

GROSS REVENUES	RENT PAYABLE	CUMULATIVE MAXIMUM RENT $
On the first $5 million of revenues	0%	0
On the next $5 million	1.0%	50 thousand
On the next $15 million	5.0%	800 thousand
On the next $75 million	8.0%	6,800 thousand
On the next $150 million	10.0%	21,800 thousand
On revenues over $250 million	12.0%	

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

	$
2018	10.0 million
2019	10.6 million
2020	11.0 million
2021	11.3 million
2022	11.7 million

The cost of materials, supplies and services increased to $33.8 million in 2017 as compared to $33.4 million in 2016, an increase of 1.3%. The $0.4 million increase over 2016 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.

The cost of salaries and benefits increased $1.1 million to $23.8 million in 2017, an increase of 4.8%. The increase was a result of contracted increases for salaries and related benefits, the successful hiring of planned new and replacement positions combined with higher usage of seasonal on call staff as a result of more snow events and complex weather conditions during the extended winter operations season early in the year.

Payments in lieu of municipal taxes have increased by 1.9% and reflect the prescribed 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 $5.1 million paid for 2017 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 2018 by 2.0% from the 2017 amount based on this prescribed calculation reflecting the increase in passenger volume that occurred in 2017.

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 MILLIONS OF CANADIAN DOLLARS)	2016				2017			
	MAR $	JUNE $	SEPT $	DEC $	MAR $	JUNE $	SEPT $	DEC $
Revenues	31.0	29.6	30.2	31.1	31.9	31.5	32.5	32.3
Expenses	25.0	24.1	23.2	26.8	26.3	23.3	21.8	24.0
Earnings before depreciation	6.0	5.5	7.0	4.3	5.6	8.2	10.7	8.3
Depreciation	6.6	6.6	7.7	7.2	7.0	7.1	7.6	7.3
Net earnings (loss)	(0.6)	(1.1)	(0.7)	(2.9)	(1.4)	1.1	3.1	1.0

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 2017, the Authority invested $35.5 million in its capital expenditure programs including significant spending of $7.2 million on the departure check-in upgrade program, $6.5 million on apron and taxiway paving, $2.7 million on non-passenger screening-vehicle facilities, $2.6 million on major fleet vehicles, $2.3 million on apron drainage, $1.6 million on runway approach lighting, $1.5 million on completion of boarding bridge upgrades and $1.2 million on the primary inspection kiosks program.

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 $	2018 $	2019 $	2020 $	2021 $	2022 $	THEREAFTER $
Long-term debt (Note 1)	427,462	4,152	4,643	8,753	13,116	14,023	382,775
Operating commitments	16,887	11,707	4,191	842	147		
Capital commitments	18,524	18,524					
Total contractual obligations	462,873	34,383	8,834	9,595	13,263	14,023	382,775

Note 1 – Further information on interest rates and maturity dates on long-term debt are provided in Note 8 to the Authority's 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 million in committed credit facilities ("Credit Facilities") with two Canadian banks. The 364-day Credit Facilities that expired on October 13, 2017 have been extended for another 364-day term expiring on October 13, 2018. 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	DEC 31, 2017 $ (MILLIONS)	DEC 31, 2016 $ (MILLIONS)	MATURITY	PURPOSE
Revolver – 364 day	40	40	October 13, 2018	General corporate and capital expenditures
USD contingency ($10 million USD)	14	14	October 13, 2018	Interest rate hedging
Letter of credit	6	6	October 13, 2018	Security for the Debt Service Reserve Fund
Revolver – 5 year	80	80	May 15, 2020	General corporate and capital expenditures
Total	140	140		

The Authority's cash and cash equivalents decreased by $0.5 million during 2017 to $29.5 million as at December 31, 2017.

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, 2017, the balance of cash and qualified investments held in the Debt Service Reserve Fund for the Series B Amortizing Revenue Bonds was $6.5 million. Furthermore, in order to satisfy the Debt Service Reserve Fund requirement for the Series E Amortizing Revenue 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, 2017, $14.4 million of the Authority's Credit Facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund.

At December 31, 2017, 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 2017, 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 account receivable of $9.5 million decreased by $5.2 million from the prior year and was due to the receipt from CATSA of $5.2 million in 2017 that was related to their contribution toward the costs of the new baggage handling system.

Accounts payable and accrued liabilities decreased by $3.3 million to $15.0 million at December 31, 2017. This was as a result of $1.8 million lower holdbacks and trade payables and accrued charges as they were released for payment based on the completion of several capital projects including the baggage handling system. In addition, there was $1.5 million lower accrued interest on Series D Revenue Bonds which matured on May 2, 2017.

The reduction in the current portion of long-term debt balance was a result of the May 2, 2017 maturity and repayment of the $200 million Series D Revenue Bonds at 4.733%. $200 million of funds raised as part of the Series E financing in June 2015 were set aside in a segregated Sinking Fund and used to redeem the Series D Revenue Bonds.

Other post-employment benefit liability increased by $0.7 million in the year to $9.2 million at December 31, 2017 and is due to the year over year increase in the benefit obligation through recognition of current service costs and minor adjustments to the underlying assumptions.

RISKS AND UNCERTAINTIES

Aviation Activity

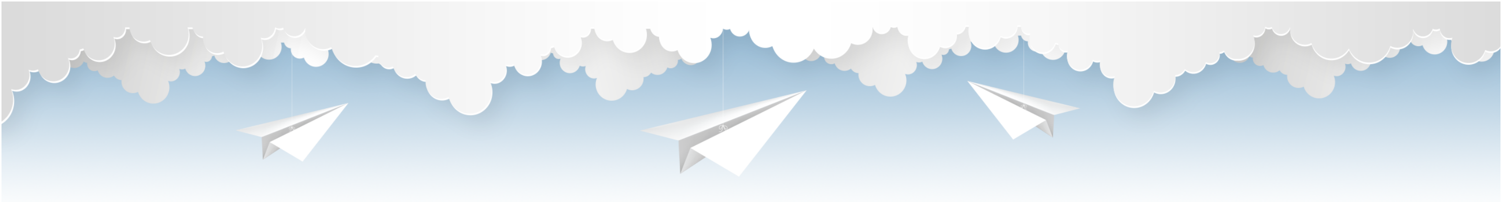
The Federal Government is considering the divestiture of its interests in Canadian airports. The Authority has expressed its concerns about the potential impact of such a divestiture on passenger fees and on the airport governance model. The Authority will remain engaged with other airports and stakeholders in this dialogue as a divestiture would be a significant event that could have a substantial impact on the Authority and the Airport business model.

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 96.0% (94.0% in 2016) 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 travelers.

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.



Financial Statements of the Ottawa Macdonald-Cartier International Airport Authority

December 31, 2017

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 generally accepted accounting principles of Canada, 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 Ernst & Young 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, USA)
Vice-President, Finance and Chief Financial Officer

Ottawa Ontario Canada
February 21, 2018

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **Ottawa Macdonald-Cartier International Airport Authority**, which comprise the balance sheet as at December 31, 2017, and the statements of operations and comprehensive income (loss), changes in equity and cash flows for the year then ended, and 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 auditors' 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 auditors consider 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 **Ottawa Macdonald-Cartier International Airport Authority** as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of **Ottawa Macdonald-Cartier International Airport Authority** for the year ended December 31, 2016 were audited by PricewaterhouseCoopers LLP, who expressed an unmodified opinion on those statements dated February 22, 2017.

Ernst & Young LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Canada
February 21, 2018

BALANCE SHEET

As at December 31
(in thousands of Canadian dollars)

ASSETS	2017 $	2016 $
Current		
Cash and cash equivalents	29,454	29,955
Trade and other receivables	9,462	14,709
Consumable supplies	3,499	3,326
Prepaid expenses and advances	1,368	1,581
Sinking Fund investments *[note 3]*	—	200,000
Total current assets	43,783	249,571
Non-current		

ASSETS	2017 $	2016 $
Debt Service Reserve Fund *[note 8a]*	6,495	11,321
Property, plant and equipment, net *[note 4]*	438,985	432,443
Post-employment pension benefit asset *[note10]*	367	204
Other assets *[note 5]*	5,328	5,399
	494,958	698,938

LIABILITIES	2017 $	2016 $
Current		
Accounts payable and accrued liabilities	14,967	18,293
Current portion of long-term debt *[note 8]*	4,152	203,695
Total current liabilities	19,119	221,988
Non-current		
Other post-employment benefit liability *[note 10]*	9,233	8,532
Long-term debt *[note 8]*	420,377	424,258
Total liabilities	448,729	654,778
Commitments and contingencies *[note 15]*		
Equity		
Retained earnings	55,448	51,612
Accumulated other comprehensive loss	(9,219)	(7,452)
Total equity	46,229	44,160
	494,958	698,938

See accompanying notes

On behalf of the Board:

Chris Carruthers,
Chair of the Board of Directors

Scott Eaton,
Chair, Audit Committee

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31
(in thousands of Canadian dollars)

REVENUES	2017 $	2016 $
Airport improvement fees *[note 9]*	49,110	46,920
Terminal fees and loading bridge charges	27,350	26,432
Landing fees	13,005	12,861
Concessions	14,255	12,521
Car parking	15,320	14,344
Land and space rentals *[note 12]*	6,453	6,349
Other revenue	2,765	2,485
	128,258	121,912

EXPENSES	2017 $	2016 $
Interest, net *[note 8b]*	23,087	29,029
Ground rent *[note 12]*	9,626	8,994
Materials, supplies and services	33,839	33,404
Salaries and benefits	23,774	22,690
Payments in lieu of municipal taxes	5,110	5,017
	95,436	99,134
Earnings before depreciation	32,822	22,778
Depreciation	28,986	28,047
Net earnings (loss) for the year	3,836	(5,269)
Other comprehensive loss		
Item that will never be reclassified subsequently to net earnings		
Remeasurement of defined benefit plans *[note 10]*	(1,767)	(2,132)
Total comprehensive income (loss)	2,069	(7,401)

See accompanying notes

STATEMENT OF CHANGES IN EQUITY

Years ended December 31
(in thousands of Canadian dollars)

EQUITY	2017 $	2016 $
Retained earnings – beginning of year	51,612	56,881
Net earnings (loss) for the year	3,836	(5,269)
Retained earnings – end of year	55,448	51,612
Accumulated other comprehensive loss		
Remeasurement of defined benefit plans [that will never be recycled into net earnings]		
Balance – beginning of year	(7,452)	(5,320)
Other comprehensive loss for the year *[note 10]*	(1,767)	(2,132)
Balance – end of year	(9,219)	(7,452)
Total equity	46,229	44,160

See accompanying notes

STATEMENT OF CASH FLOWS

Years ended December 31
(in thousands of Canadian dollars)

	2017 $	2016 $
Operating activities		
Net earnings (loss) for the year	3,836	(5,269)
Add (deduct) items not involving cash		
Depreciation	28,986	28,047
Amortization of deferred financing costs	271	365
Decrease in other assets	71	64
Decrease in other post-employment benefit liability	(1,229)	(1,215)
	31,935	21,992
Net change in non-cash working capital balances related to operations *[note 13]*	6,676	(2,572)
Interest expense, net	23,087	29,029

	2017 $	2016 $
Interest paid	(25,619)	(30,587)
Cash provided by operating activities	36,079	17,862
Investing activities		
Purchase of property, plant and equipment *[note 4]*	(35,528)	(24,679)
Maturity of Sinking Fund investments	200,000	—
Change in accounts payable and accrued liabilities related to investing activities	(2,204)	(2,596)
Cash provided by (used in) investing activities	162,268	(27,275)
Financing activities		
Proceeds on disposal of property, plant and equipment	21	10
Decrease (increase) in Debt Service Reserve Fund *[note 8a]*	4,826	(89)
Repayment of long-term debt	(203,695)	(3,272)
Cash used in financing activities	(198,848)	(3,351)
Net decrease in cash during the year	(501)	(12,764)
Cash and cash equivalents, beginning of year	29,955	42,719
Cash and cash equivalents, end of year	29,454	29,955

See accompanying notes

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 that 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 taxes, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorized for issue by the Board of Directors on February 21, 2018. 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 that 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, 2017 and 2016, 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 (loss) in the period in which they are incurred. As noted above, no such amounts were capitalized during the years ended December 31, 2017 and 2016.

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 travelling 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 (loss).

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 that 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, licenses 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 air carrier 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 air carrier 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 as 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 as 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 and comprehensive income (loss). Pension expense is included in salaries and benefits on the statement of operations and comprehensive income (loss).

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 (loss) without recycling to the statement of operations and comprehensive income (loss) 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 and comprehensive income (loss) 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 creditworthiness, 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, trade and other receivables, 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.

Payment in lieu of municipal taxes

In December 2000, the Province of Ontario amended the Assessment Act to change the methodology for determining payments in lieu of municipal taxes ("PILT") for airports in Ontario. Under regulations signed in March 2001, PILT paid by airport authorities designated under the Airport Transfer (Miscellaneous Matters) Act are based on a fixed rate specific to each airport, multiplied by the airport's prior year passenger volumes. This legislation effectively removes airports in Ontario from the effects of market value assessment.

Comprehensive income (loss)

Comprehensive income (loss) is defined to include net income plus or minus other comprehensive income (loss). Other comprehensive income (loss) includes actuarial gains and losses related to the Authority's pension plan and other post-employment benefits. Other comprehensive income (loss) is accumulated in a separate component of equity called accumulated other comprehensive income.

Current accounting changes

We actively monitor new standards and amendments to existing standards that have been issued by the IASB. There was one amendment of the standard *IAS 7 Statement of Cash flows* issued by IASB that was applicable to the Authority effective January 1, 2017. The amendments introduce additional disclosure requirements for liabilities arising from financing activities and for financial assets which cash flows were, or future cash flows will be, included in cash flows from financing activities. The amendments require entities to disclose both changes arising from cash flows and non-cash changes. The Authority assessed this amendment and determined there is limited impact on the disclosures to the financial statements.

Future changes in accounting policies

The following new standards and interpretation issued by the IASB are currently being assessed as having a possible impact on the Authority in the future. We intend to adopt each of these standards and related interpretation guidance, if applicable, as at the required effective dates indicated below and are currently assessing the impact on our financial statements.

IFRS 9, *Financial Instruments* ("IFRS 9"), 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. As the IFRS 9 requirements for recognition and derecognition are largely consistent with IAS 39, the Authority is currently assessing the full impact, however based on preliminary assessment the impact is not expected to be material.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. This standard sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). The new standard establishes a comprehensive five-step framework for determining when and how much revenue to recognize. The core principle of the framework is that an entity should recognize revenue when a performance obligation is satisfied to transfer promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This performance obligation may be satisfied at a point in time or over time. The Authority is currently assessing the impact on various revenue streams, however based on preliminary assessment the impact is not expected to be material.

IFRS 16, *Leases* ("IFRS 16"), effective for annual periods 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. The Authority has not yet determined the full impact of this new standard on the financial statements.

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 (the "Sinking Fund") maintained by the trustee under the Master Trust Indenture (the "Trustee") and was invested in accordance with the Board approved investment policy. These investments matured prior to 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)	2017 $	2016 $
Interest-bearing deposits in Schedule 1 bank investment accounts	—	137,300
Guaranteed investment certificates with various Schedule 1 banks	—	62,700
	—	200,000

4. PROPERTY, PLANT AND EQUIPMENT

2017

(IN THOUSANDS OF CANADIAN DOLLARS)	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	CONSTRUCTION IN PROGRESS $	TOTAL 2017 $
Gross value Balance – January 1, 2017	475,429	103,995	38,053	30,043	10,817	9,889	668,226
Additions	71	—	1,347	2,348	34	31,728	35,528
Transfer	17,402	5,170	3,573	427	304	(26,876)	—
Disposals	(1,325)	—	(2,648)	(544)	—	—	(4,517)
As at December 31, 2017	491,577	109,165	40,325	32,274	11,155	14,741	699,237
Accumulated depreciation Balance – January 1, 2017	160,159	29,668	26,619	12,431	6,906	—	235,783
Depreciation	18,725	4,327	3,555	1,890	489	—	28,986

(IN THOUSANDS OF CANADIAN DOLLARS)	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	CONSTRUCTION IN PROGRESS $	TOTAL 2017 $
Disposals	(1,325)	—	(2,648)	(544)	—	—	(4,517)
As at December 31, 2017	177,559	33,995	27,526	13,777	7,395	—	260,252
Net value As at December 31, 2017	314,018	75,170	12,799	18,497	3,760	14,741	438,985

2016

(IN THOUSANDS OF CANADIAN DOLLARS)	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	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
Transfer	16,638	4,907	1,522	—	518	(23,585)	—
Disposals	(3,307)	(1,475)	(5,144)	(273)	(12)	—	(10,211)
As 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)
As at December 31, 2016	160,159	29,668	26,619	12,431	6,906	—	235,783

(IN THOUSANDS OF CANADIAN DOLLARS)	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	CONSTRUCTION IN PROGRESS $	TOTAL 2016 $
Net value As at December 31, 2016	315,270	74,327	11,434	17,612	3,911	9,889	432,443

5. OTHER ASSETS

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Interest in future proceeds from 4160 Riverside Drive, at cost	2,930	2,930
Tenant improvements and leasehold inducements, net of amortization	2,398	2,469
	5,328	5,399

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 million [2016 – $140 million] in committed credit facilities ["Credit Facilities"] with two Canadian banks. The 364-day Credit Facilities that expired on October 13, 2017 have been extended for another 364-day term expiring on October 13, 2018. 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 the Credit Facilities, along with their related expiry dates and intended purposes:

TYPE OF FACILITY	MATURITY	PURPOSE	2017 MILLIONS $	2016 MILLIONS $
Revolver – 364 day	October 13, 2018	General corporate and capital expenditures	40	40
USD contingency [USD10 million]	October 13, 2018	Interest rate hedging	14	14

TYPE OF FACILITY	MATURITY	PURPOSE	2017 MILLIONS $	2016 MILLIONS $
Letter of credit	October 13, 2018	Security for the Debt Service Reserve Fund [see note 8a]	6	6
Revolver – 5 year	May 15, 2020	General corporate and capital expenditures	80	80
Total			140	140

As at December 31, 2017, $14.4 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 income 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 revenue 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)	2017 $	2016 $
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	127,462	131,157
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
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	427,462	631,157
Less deferred financing costs	2,933	3,204
	424,529	627,953
Less current portion	4,152	203,695
Long-term debt	420,377	424,258

[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 million revenue bond issue with two series, the $120 million Revenue Bonds, Series A at 5.64% due on May 25, 2007, and the $150 million Amortizing Revenue Bonds, Series B at 6.973% due on May 25, 2032. In May 2007, the Authority completed a $200 million Revenue Bond issue, in part to refinance the Series A, Revenue Bonds repaid on May 25, 2007. On May 2, 2017, $200 million of Series D Revenue Bonds at 4.733% matured and were repaid as planned. $200 million of funds raised as part of the Series E financing in June 2015 and set aside in a segregated Sinking Fund were used to redeem the Series D Bonds.

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 million into a segregated fund held by the trustee under the Master Trust Indenture [see note 3].

The Series B 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 that 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 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 terms of 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. As at December 31, 2017, the balance of cash and qualified investments held to satisfy the Series B Bonds in the Debt Service Reserve Fund requirement was $6.5 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, 2017, $14.4 million [$14.0 million in 2016] of the Credit Facilities had been designated to the Operating and Maintenance Reserve Fund [see note 6].

As at December 31, 2017, 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)	2017 $	2016 $
Bond interest	24,044	30,561
Other interest and deferred financing expense	274	367
	24,318	30,928
Less interest earned on Debt Service Reserve Fund and Sinking Fund investments	1,231	1,899
Total interest expense, net	23,087	29,029

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

(IN THOUSANDS OF CANADIAN DOLLARS)	$
2018	4,152
2019	4,643
2020	8,753
2021	13,116
2022	14,023
Thereafter	382,775

[d] Deferred financing costs

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Deferred financing costs	4,751	5,975
Less accumulated amortization	(1,818)	(2,771)
	2,933	3,204

9. AIRPORT IMPROVEMENT FEES

AIF are 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 revenue 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 revenue is recorded net of the 6% fee of $3.1 million [2016 – $3.0 million].

AIF funding activities in the year are outlined below:

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Earned revenue	52,244	49,915
Air carrier administrative fees	(3,134)	(2,995)
Net AIF revenue earned	49,110	46,920
Eligible capital asset purchases	(32,747)	(21,178)
Eligible interest expense	(24,755)	(30,669)
Eligible other expenses	(142)	(286)
	(57,644)	(52,133)
Deficiency of AIF revenue over AIF expenditures	(8,534)	(5,213)

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

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Earned revenue	588,053	535,809
Air carrier administrative fees	(35,283)	(32,149)
Net AIF revenue earned	552,770	503,660
Eligible capital asset purchases	(648,744)	(615,997)
Eligible interest expense	(336,823)	(312,068)
Eligible other expenses	(907)	(765)
	(986,474)	(928,830)
Deficiency of AIF revenue over AIF expenditures	(433,704)	(425,170)

The AIF will continue to be collected until the cumulative excess of expenditures over AIF revenue 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)	2017 $	2016 $
Post-employment pension benefit asset	367	204
Other post-employment benefit liability	9,233	8,532

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, 2016, that was completed and was filed in June 2017 as required by law, the plan had a surplus on a funding [going concern] basis of $5,166 assuming a discount rate of 4.00% [$723 surplus as at December 31, 2015 assuming a discount rate of 4.00%]. This amount differs from the amount reflected below primarily because the obligation is calculated using the discount rate that represents the expected long-term rate of return of assets. For accounting purposes, it is calculated using an interest rate determined with reference to market rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

The *Pension Benefits Standards Act, 1985* (the "Act") 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. As at December 31, 2016, the plan had a deficit on a solvency basis of $10,778 [$10,548 as at December 31, 2015] before considering the present value of additional solvency payments required under the Act. In 2017, the Authority made additional solvency payments of $2,156 [$2,110 in 2016] to amortize this deficiency.

The next required actuarial valuation of the defined benefit pension plan, which will be as at December 31, 2017, is scheduled to be completed and filed by its June 2018 due date. The plan's funded position and the amounts of solvency payments required under the Act 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 2018 will be approximately $2,156 [2017 – $2,156]. In addition, the Authority expects to contribute approximately $716 [2017 – $653] on account of current service in 2018 to the defined benefit component of the pension plan for the year ending December 31, 2018.

Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2016 and extrapolated to December 31, 2017 by the Authority's actuaries, the estimated status of the defined benefit pension plan is as follows:

ACCRUED BENEFIT OBLIGATION – DEFINED BENEFIT PENSIONS (IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Balance – beginning of year	57,321	54,445
Employee contributions	131	137
Benefits paid	(1,830)	(1,751)
Current service cost	653	663
Interest cost on accrued benefit obligation	2,142	2,172
Actuarial loss – change in economic assumptions	2,311	2,106
Actuarial gain – change in plan experience	(674)	(451)
Balance – end of year	60,054	57,321

PLAN ASSETS – DEFINED BENEFIT PENSIONS (IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Fair value – beginning of year	60,093	56,694
Employee contributions	131	137
Employer contributions	633	653
Employer contributions, special solvency payments	2,156	2,110
Benefits paid	(1,830)	(1,751)
Interest on plan assets (net of administrative expenses)	2,147	2,144
Actuarial gain on plan assets	2,952	106
Fair value – Plan assets	66,282	60,093
Effect of limiting the net defined benefit asset to the asset ceiling	(5,861)	(2,568)
Fair value – end of year	60,421	57,525

PLAN ASSETS – DEFINED BENEFIT PENSIONS (IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Post-employment pension benefit asset	367	204

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

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Current service cost	653	663
Interest cost on accrued benefit obligation	2,142	2,172
Interest on plan assets [net of administrative expenses]	(2,051)	(2,060)
Defined benefit pension plan expense recognized in salaries and benefits expense in net earnings	744	775

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)	2017 $	2016 $
Balance – beginning of year	8,532	7,559
Benefits paid	(170)	(142)
Current service cost	643	598
Interest cost	343	317
Actuarial loss (gain) – change in economic assumptions	(115)	200
Balance – end of year	9,233	8,532

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

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Current service cost	643	598
Interest cost	343	317
Expense recognized in salaries and benefits expense in net earnings	986	915

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

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Defined benefit pension plans		
Actuarial loss – change in economic assumptions	2,311	2,106
Actuarial gain – change in plan experience	(674)	(451)
Actuarial gain on plan assets	(2,952)	(106)
Effect of limiting the net defined benefit asset to the asset ceiling	3,197	383
Other post-employment benefit plans		
Actuarial loss (gain) – change in economic assumptions	(115)	200
Total loss recognized in other comprehensive loss	1,767	2,132

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:

	2017 %	2016 %
Defined benefit pension plan Discount rate to determine expense	3.75	4.00
Discount rate to determine year-end obligations	3.50	3.75
Interest rate on plan assets	3.75	4.00
Rate of average compensation increases	3.00	3.00
Rate of inflation indexation post-retirement (CPI)	2.00	2.00
Other post-employment benefit plans Discount rate to determine expense Healthcare	4.00	4.25
Severance program	3.25	3.25
Discount rate to determine year-end obligation Healthcare	3.50	4.00
Severance program	3.25	3.25
Rate of average compensation increases	3.00	3.00

	2017 %	2016 %
Rate of increases in health care costs Trend rate for the next fiscal year	7.70	7.10
Ultimate trend rate	5.00	5.00
Fiscal year the ultimate trend rate is reached	2028	2025

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%	(8,123)	10,262
Inflation	1.0%	9,344	(7,637)
Compensation	1.0%	489	(501)
Life expectancy	1 year	1,804	—
Discount rate – solvency liability at December 31, 2016	1.0%	(10,467)	13,180
Other post-employment benefit plans Discount rate	1.0%	(1,374)	1,806
Health care costs	1.0%	1,446	(1,104)
Life expectancy	1 year	310	(302)

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, 2017 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, 2016, the average age of the 23 active members was 54 years of age. The average age of the 52 retired members was 68 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:

	2017 %	2016 %
Fixed income fund	62.0	56.0
Equity funds – Canadian funds	8.0	9.0
Equity funds – US funds	4.0	5.0
Equity funds – International and global funds	13.0	13.0
Emerging market fund	5.0	4.0
Real estate fund	8.0	9.0
Alternative investment fund that includes derivatives	0.0	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)	2017 $	2016 $
Employer contributions – defined contribution plan	1,053	991
Employee contributions – defined contribution plan	1,168	1,101
Net expense recognized in salaries and benefits expense	1,053	991

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, 2017, the estimated fair value of the long-term Series B and Series E Revenue Bonds was $165.4 million and $319.2 million, respectively [2016 – $171.3 million, $204.1 million and $301.9 million for Series B, Series D (matured and repaid on May 2, 2017) 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)	2017 $		2016 $	
	CARRYING VALUE $	EFFECTIVE YEAR-END INTEREST RATE %	CARRYING VALUE $	EFFECTIVE YEAR-END INTEREST RATE %
Debt Service Reserve Fund [floating rates]	6,495	0.99%	11,321	0.78%
Sinking Fund investments [floating rates]	—	—	200,000	1.21%
Cash and cash equivalents [floating rates]	29,454	1.47%	29,955	0.88%
Long-term debt [at fixed cost]	420,377	See note 8	627,953	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 $0.4 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 $25.6 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 risk and concentration risk

The Authority is subject to credit risk through its cash and cash equivalents, its Debt Service Reserve Fund, and its trade and other receivables. The counterparties of cash and cash 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 37 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 51.0% [2016 – 50.0%] 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 air carrier is mitigated by the fact that approximately 96.0% [2016 – 94.0%] 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 the 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:

	$
2018	10.0 million
2019	10.6 million
2020	11.0 million
2021	11.3 million
2022	11.7 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:

	$
2018	6.6 million
2019	6.7 million
2020	6.8 million

	$
2021	6.8 million
2022	6.9 million

13. CHANGES IN NON-CASH WORKING CAPITAL RELATED TO OPERATIONS

(IN THOUSANDS OF CANADIAN DOLLARS)	2017 $	2016 $
Trade and other receivables	5,247	(2,872)
Prepaid expenses and advances, and consumable supplies	40	(286)
Accounts payable and accrued liabilities	1,410	586
Other	(21)	—
	6,676	(2,572)

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)	2017 $	2016 $
Salaries and short-term benefits	2,321	2,251
Post-employment benefits	191	167
	2,512	2,418

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 as 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 $11.7 million in 2018 and diminishing in each year over the next five years as contracts expire. As at December 31, 2017, the total of these operating commitments amounted to $16.9 million [2016 – $21.4 million]. These commitments are in addition to contracts for the purchase of property, plant and equipment of approximately $18.5 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 21, 2018, when the financial statements were authorized for issue.