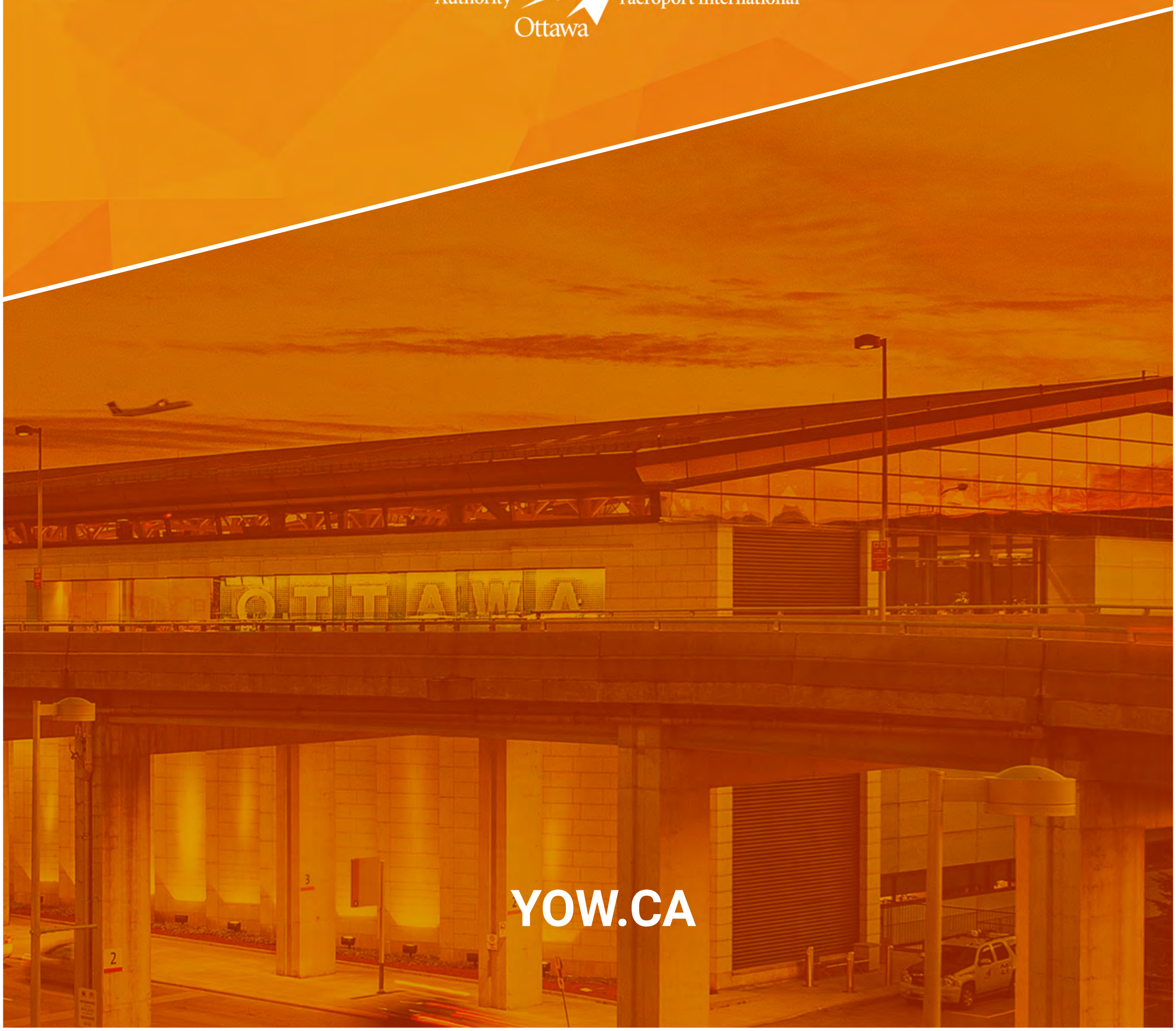
YOW 2019

OTTAWA INTERNATIONAL AIRPORT AUTHORITY

ANNUAL REPORT

International Airport Authority
Ottawa
Administration de l'aéroport international



YOW.CA

Foreword

The Annual Report for the Ottawa Macdonald-Cartier International Airport (Ottawa Airport) presents the performance of the Airport for the calendar year 2019. It was written and approved by the Airport Authority's Board of Directors in February 2020, and adheres to regulatory requirements outlined in our Ground Lease with Transport Canada. We completed forward-looking projections in 2019, using available insights and knowledge from sector partners and stakeholders, while applying Ottawa Airport-specific growth trends that were extrapolated from more than two decades of operating the Airport.

What was unforeseen at the time was COVID-19. We could not have predicted the timing of a pandemic with its sudden and extreme impact on the global economy, aviation industry, tourism, and everyday lives in countries around the world. The necessary travel restrictions imposed by the Government of Canada combined with withdrawals from commercial and personal travel activities effectively brought the aviation industry to a standstill, reducing aircraft movements at Ottawa Airport by more than 90.0%.

As a result, we have suspended activity on many of the projects you will read about in this report. We have taken significant actions to curtail capital programs and reduce expenses where possible while continuing to ensure the regulatory, safety and security environment required for all Airport users, and have been modifying our operation to reflect lower passenger volumes going forward. Our partners on the campus have been following suit with the closure of many stores and food and beverage outlets. It goes without saying YOW will be a very different Airport when we come out of this crisis – likely with fewer non-stop destinations and services, reflective of fewer passengers in the short and medium term.

With the foregoing in mind, it is essential that the following report is read in the context of the timeline in which it was prepared, and with the understanding that the estimates and projections provided in the report will be very different than the current situation due to the effects of the pandemic. The Authority is dealing with a fluid environment and is, therefore, not in a position to recast its financial outlook or passenger projections until it stabilizes.

The Ottawa Airport, which is considered critical infrastructure, has remained open in support of commercial passenger and cargo aircraft movements, various government operations, ORNGE air ambulance service, etc. Remaining operational is thanks to the efforts of the many organizations on the airport campus that have supported repatriation flights and the small number of aircraft movements that have been sustained during the crisis. These front line airport employees from the Airport Authority, airlines, ground handling organizations, security partners, Ottawa Police Service, the Canadian Air Transport Security Authority, Canada Border Services Agency, airport cleaners, and our concession partners, have stepped up in an unprecedented way and their efforts are appreciated. We also applaud organizations that have facilitated their staff working from home to help stop the spread of the virus; their efforts will help us get through the crisis more quickly.

Throughout the crisis, we have continued to work with public health authorities to ensure that we are adhering to proper protocols while sharing their most accurate and timely information with the airport community. We have also been keeping the broader community and our stakeholders advised as we have taken action. We thank everyone for their understanding and support as we work through this unprecedented situation with caution and care to ensure that we keep our passengers and employees safe and healthy. We know the Ottawa Airport will not be what we anticipated for the next few years. We are focused on an effective restart when appropriate, we continue to be a strong partner in ongoing economic development activities during the recovery phase, and we will continue to work with our partners to re-establish a very strong presence as quickly as we can.

Message from the Chair
OF THE BOARD OF DIRECTORS

I joined the Board of Directors of the Ottawa International Airport Authority in 2015, and have witnessed many successes and accomplishments, and learned a great deal about the aviation industry and airports in general in the years since. It is with great pride, I assumed the role of Chair of the Board in May of 2019.

It is very clear to me that, since the Authority took over managing the affairs of the Airport in 1997, it has conducted its business with the utmost care and the highest sense of responsibility. The Authority has also demonstrated a keen focus on ensuring that it makes our community proud by giving back in a variety of meaningful ways.

One vital instrument for giving back that directly involves the Board is Project Clear Skies, the Authority's annual charitable giving program. A committee comprised of Directors and Authority staff reviewed dozens of applications for the 2019 funding wave, and agreed on the disbursement of nearly $100,000 across 19 charities in Ottawa-Gatineau. These important projects including the purchase of computer equipment, commercial refrigerators, air conditioning units, and facility upgrades will contribute to these important community organizations, making them more efficient and better able to serve our community. The Authority has invested more than $1.8 million in our community since the program's inception in 2004.

Our responsibility also means ensuring barrier-free travel for all customers, regardless of their level of mobility. While building codes and accessibility standards have evolved over the years to meet the changing needs of the community, the Ottawa Airport terminal was built with accessibility in mind. The Airport has also continued to evolve and change not only to keep up but to exceed industry standards. December 3rd marked the International Day of Persons with Disabilities. It was also the day the Airport officially received the "Accessibility Certified Gold" rating under the Rick Hansen Foundation Accessibility Certification™ (RHFAC) program. I am incredibly proud of this recognition and what it means for the community. I am confident that the team won't stop here, but will continue to implement positive, accessibility changes when and where possible.

Concerning the environment, the Authority continues to build on its commitment to sustainable operations. The Ottawa Airport is among a small group of airports in North America that has been recognized by the Airports Council International-North America (ACI-NA)'s four-level Carbon Accreditation program. The program, which launched in Europe in 2009 and expanded to North America in 2014, independently assesses and recognizes airports' efforts to manage and reduce their greenhouse gas (GHG) emissions. Ottawa achieved Level 3 in 2018 and was recertified in 2019. Watch for news in 2020 as the team continues to work toward achieving Level 3+, or carbon neutrality.

Finally, I was pleased to see the Authority recognized by the Ottawa Board of Trade for our collaboration with an important new airport partner, Germain Hotels. The Board of Trade awarded the Authority the “Deal of the Year – Tourism”, recognizing our partnership to build an airport-connected hotel with Germain Hotels. The deal came together more than a year after a competitive process was initiated by the Authority, which was followed by extensive due diligence by both parties. Once completed, the new Alt Hotel Ottawa Airport will represent Germain Hotels’ 20th property in Canada. I am delighted that the Airport will soon be able to provide our guests with this often-requested amenity.

On behalf of the Board, I would like to congratulate Mark Laroche and his team. These successes, along with the steady advancement of the projects identified in the Authority’s Strategic Plan, add up to a tremendous effort by the entire Airport Authority. It has been said before, but I must reiterate that while this team is relatively small, by working closely together, they accomplish what would be expected of a much larger group. I am very proud of their stewardship of this vital community asset.

I would also like to thank my colleagues on the Board of Directors for sharing their time and valuable insights with the Authority. Each director is committed to ensuring responsible and transparent governance as the Airport continues to serve our community with the highest possible standards in mind, and will continue to serve for many more decades to come.

The next few years were to be spent working on some exciting and ambitious projects under the YOW+ banner. With the COVID-19 pandemic affecting the industry, our airport, and the greater community, those plans will be put on hold until a more appropriate time. As outlined in the foreword, every effort will be made to ensure that we rebuild the airport’s business as and when appropriate. Mark Laroche and his team have done a great job right sizing the operation in response to the crisis, and they will continue to work with all airport partners to ensure a smooth resumption of business in the coming months, and will work to rebuild the business as flights and passengers return. These efforts will be carried out with the same attention to detail and prudent fiscal management that has become the Authority’s hallmark. I wish the team well and assure them that the Board of Directors will be firmly behind them every step of the way.

Code Cubbitt
Chair of the Board of Directors

Message from the President
AND CHIEF EXECUTIVE OFFICER

As mentioned in the foreword, this letter, and the Annual Report were written pre-pandemic, and are intended to report on the year that has just passed. While this is intended to celebrate the accomplishments of 2019, we do so with the knowledge that 2020 will be a vastly different year than we originally anticipated and planned for. I will comment further at the end of this note. In the meantime, I am pleased to share the highlights of the past year in a new, abbreviated format. You will still find a Five-year Review, Corporate Governance Overview and the comprehensive Financial Review. The Authority's Strategic Plan still guides our activities, with items from all five Strategic Directions reported-on in the highlights.

The YOW+ terminal enhancement program moved forward well, with significant gains in all four pillars.

In June, we introduced SSP Canada and incumbent, Paradies Lagardère, as the new food and beverage and retail master concessionaires, respectively. The most exciting part of our launch event and announcement was sharing the local brands that will be introduced as the concessions program is implemented over the next three years. Familiar names like Big Rig Brewery, La Bottega Nicastro, Zak's Diner and Bridgehead Coffee, along with independent, Subway, will join iconic Tim Hortons and several proprietary SSP Canada brands on the food and beverage front. In the retail world, Paradies Lagardère will be refreshing their offering, including new stores like Dylan's Candy Bar, TripAdvisor, Maison de la Presse, and No Boundaries. They will also feature many local brands so that our passengers can take some flavours of the region home with them. Products from Purple Urchin, Split Tree Cocktails, Low Poly Crafts, and Saaboon, among others, will soon be available at YOW.

Phase one of the concessions rollout is now behind us, with changes most notable on Level 3, where Subway, a new Tim Hortons and Relay store, can be found. Phase two is underway, however, we hit pause per the government's requirement to cease construction and other projects in the interest of social distancing. And while we remain excited to be partnered with these companies and brands noted above, the reality is that it may take more years to implement our concession program, and the final product may be different than previously imagined and scaled to a smaller passenger airport. We will continue to collaborate with our Master Concessionaires to ensure the right solution for our Airport going forward.

The noted Level 3 changes, along with the closure of the sit-down restaurant, cleared the way for the new pre-board screening checkpoint where the Canadian Air Transport Security Authority (CATSA) will deploy their CATSA Plus technology in summer 2020. A new floor over the Level 2, Gate 18 area was constructed last summer to accommodate the new equipment and significantly more queuing space. Most notable about this project was its completion in a busy airport. Completion of the overall project, which was anticipated in June 2020, will be delayed.

We announced last winter that Canadian hotelier, Germain Hotels, was the successful proponent in the Authority's tender process to build an airport hotel. The new Alt Hotel Ottawa Airport, which will be Germain Hotels' 20th property in Canada, will feature a full-service restaurant on the top floor with views of the airfield, approximately 3,000 square feet of meeting space, and popular guest amenities such as flexible checkout times and ultra-fast Wi-Fi. An indoor skywalk will connect the hotel with the Airport for easy client access. The hotel was slated for opening in 2021, however we anticipate a later date due to the pandemic.

The City of Ottawa's light rail transit system (LRT) Trillium Line South extension is now under construction. The Airport Parkway offers commuters a good view of the work on an elevated guideway that will take the line over the Parkway and to the Airport.

The Authority is also focused on LRT construction and completed several important projects that will facilitate the development of the airport station. These included the relocation of a water main in the airport's main loading dock area, as well as several footings to support a walkway to the station. We advanced these pieces in our overall LRT schedule to ensure that the airport station project can proceed in 2020, after TNext, the City's construction partner, builds the track. Construction of the station will be completed in the fall of 2021. Subsequent steps will include making the connection to the City's track, testing, and commissioning for service introduction in 2022.

Concession revitalization + next generation pre-board security screening + airport hotel + LRT connectivity = YOW+. Visit yow.ca/yow+ to learn more about YOW+.

Every summer, we take advantage of the weather to complete airside infrastructure improvements. The 2019 project involved reworking Taxiway B from the main apron to Taxiway F, which was completed ahead of schedule and on-budget.

We also completed significant repairs to the storm sewer located within the intersection of runways 14/32 and 07/25. Two lengths of storm sewer were repaired over the course of two weeks during the overnight hours to minimize operational impacts. To summarize the work, each night, the contractor would dig up a small section, complete the replacement work, backfill and compact the soil again before reopening for the first flight of the day. We created the ambitious plan in consultation with our airline partners and with approval from Transport Canada, and all went according to plan.

The Airport's Safety Management System requires that we conduct a safety case for infrastructure work such as these projects. This level of diligence ensures that potential risk is acknowledged and addressed before any work starts.

Whether completing safety cases or getting involved in shaping policy and procedures for emerging issues such as drones, the Authority continues to step forward in the interest of airport safety and security.

To that end, last spring, I was delighted to be asked to represent Canadian airports on the Blue Ribbon Task Force on Unmanned Aircraft Systems (UAS) Mitigation at Airports to examine the issue of drone incursions. ACI-NA and the Association for Unmanned Vehicle Systems International (AUVSI) commissioned the Task Force. It brought together a cross-section of stakeholders representing airports, UAS, and manned aviation communities in North America. The Task Force's primary objectives were to refine procedural practices and provide a policy framework to address the timely and critical issue of incursions made by unauthorized UAS at airports and how best to mitigate the threat.

Published interim and final reports confirmed that airports and UAS partners collectively recognize the benefits that drones can offer. They also acknowledged the potential negative impacts that careless, clueless, or criminal use can have on airports, passengers, and local economies. Finally, they confirmed the need for comprehensive cross-industry detection and mitigation strategies. Key to these coming to fruition is the creation of government-backed policy frameworks, the necessary funding to support them, and the extension of authority to law enforcement to engage in UAS interdiction.

The Authority has also been very proactive closer to home, consulting, and collaborating on the drone file with regulatory, law enforcement, and industry partners and stakeholders. Their work drew conclusions that mirrored those of the Task Force, including the urgent need for Transport Canada's clarification to all stakeholders in detecting and mitigating threats.

While awaiting this direction, YOW has adopted a risk-based approach to quickly access and react to reported drone sightings in the vicinity of our Airport. The approach also includes assisting in the timely sharing of information with the various stakeholders that could be impacted. This approach was documented in a Drone Incident Protocol, which we finalized and submitted to Transport Canada early in 2019.

Concurrently, we have partnered with NAV CANADA and QinetiQ Canada to trial their Obsidian Counter UAS System at YOW. The three partners will be working collaboratively to test the Obsidian micro-Doppler radar unit's ability to function in an active airport environment. The pilot project commenced in late November 2019, and once concluded, will provide valuable information for trial partners and airports across Canada.

In a significant organizational change, the longstanding Airport Pass Office officially became the Airport's Customer Service Centre (CSC) on May 1st. The CSC provides a "one-stop shop" for the 5,000 plus campus employees. Restricted Area Identification Cards (RAICs), parking passes, and Airside Vehicle Operating Permits (AVOPs) requirements will all be handled through the CSC. It will also offer after-sales service for online parking sales and front-line administration for the airport's commercial clients. These customer service elements require efficient processing, attention to detail, and quality customer service essential deliverables from this vital operation.

In keeping with the Authority's mandate to develop Airport facilities and lands in support of the economic growth of Canada's Capital Region, we focused on two important parcels of Airport land that we refer to as the Gateway development land sector.

To determine the highest and best use for the land, and to ensure that we are ready should a development opportunity present itself, the Authority looked to third party experts for support. WSP and Urban Metrics were engaged to assist in the preparation of a comprehensive sector master plan for two areas – gateways East and West – complete with a technical development feasibility study and market analysis and strategy.

We had great air service news to share in 2019, starting with Air Canada's announcement that it would upgrade its non-stop flights from Ottawa to London-Heathrow. In other exciting news, Lufthansa Group planned to take over service from Ottawa to Frankfurt, Germany, which was previously offered by Air Canada. Travellers were to enjoy two Star Alliance member airlines, more onboard class options, premium economy options, enhanced in-flight comfort, and much more.

We also had good news for sun-seekers with Sunwing adding direct service from Ottawa to Mazatlán in Pacific Mexico for the 2019/2020 season.

Despite this good news, we know that much of the announced service is at risk, particularly the Lufthansa service to Frankfurt. It is difficult to predict which of our 45 non-stop destinations will continue to be served. Our airline partners have suffered a tremendous blow and will be re-evaluating their networks and how best to deploy their aircraft assets. The Authority will continue to work closely with each airline to rebuild our service as quickly as economically viable.

When the passenger numbers for 2019 were finalized, it confirmed our expectation of flat growth resulting in a total of 5,106,487 passengers. There was a high degree of disruption in the industry caused by the grounding of the Boeing 737 MAX. For Canadian carriers alone, this accounted for 41 aircraft resulting in a decline in available seats. While we had projected growth of 2.0% in 2020, we will be recasting our projections to reflect the impact of COVID-19 on volumes, and anticipate a drop of more than 50.0%. We will also update our financial projections to reflect this steep decline.

The Canadian economy's resilience through much of 2019 began to fade in the second half of the year with the softening of key financial indicators and employment trends with some improvement in global trade tensions near the end of the year. These factors, combined with a federal election and constraints in air carrier aircraft capacity resulting from the grounding of the Boeing 737 MAX, were the backdrop for flat year-over-year results, where 2019 passenger volumes of 5.1 million passengers was 4,000 passengers and 0.08% lower than 2018. Domestic passenger growth decreased 0.2% with decreased flows to Toronto and Edmonton, and was slightly offset by increases to Montreal and Charlottetown. Transborder volumes declined 4.8% due to the temporary suspension of United flights to Chicago (reinstated March 2020) while International passenger volumes grew 10.0% through increased frequencies to warm weather destinations. Revenues in 2019 were similar to 2018 at $138.1 million with continued strength in ground transportation, car rentals and lease revenues, and offset by lower than expected aeronautical revenues resulting from flat year-over-year passenger levels. The Authority finished 2019 by generating earnings before depreciation of $36.2 million compared to $38.3 million in 2018 and net earnings after depreciation of $5.1 million compared to net earnings of $7.0 million in 2018. As always, any earnings continue to be reinvested in airport operations and development in the interests of improving safety, efficiency, and the customer experience.

Our people made the difference again in 2019. As the Chair mentioned, we have a mighty team that consistently goes above and beyond. We use a program called Top Flight that relies on peer recognition to identify these instances when employees stand out in areas such as customer service, commitment, safety or security consciousness, innovation and creativity, and teamwork. We received numerous worthy nominations in 2019, which were put to an employee vote, ultimately naming Claire Lalande as the Top Flight Employee of the Year. Claire's colleagues from the Hendrick Building nominated her for streamlining training materials for the Field Foreman team, and for her many teambuilding efforts. Congratulations, Claire.

Since the pandemic was declared on March 11, 2020, our employees have once again demonstrated their commitment and adaptability with many moving their offices home, and others taking on the various tasks required to keep the Airport open and operational. They ensured that repatriation flights could continue to bring our passengers home, they took care to ensure that our Airport was clean and sanitized to keep passengers and employees safe, and they helped us shut down systems and areas of the Airport that were not needed as our passenger volumes dwindled. I want to thank them for helping us weather this virus as best we can.

It is difficult to say what the future looks like for YOW with any precision. I can say with certainty that it will not be business as usual for some time. I believe it will take years to build our passenger numbers back to 2019 levels. It will take many more years to see some of the capital projects we had in short term plans come to fruition. We have a lot of work to do if our Airport is to return to its role as a significant economic enabler in Canada's Capital Region. I can assure you that we will continue to work with our partners in government to ensure that we can take advantage of any programs available to assist airports. Their support is also critical for our partners in tourism who have suffered. Our collective recovery is important for our local community and our country.

I want to conclude with a few words of appreciation. To Chair Code Cubitt and the Board of Directors, thank you for your continued trust in the Authority team, and the tremendous support that goes along with it. To my team, a huge thank you for never losing sight of the excellence that you put in all that you do. My sincere appreciation to our Infoguide volunteers for always providing the best first impression to our passengers and visitors – while we have suspended the program temporarily, we know they will be back when we are ready. Finally, thank you to the community for supporting us through the crisis and continuing to believe in the work we are doing. Rest assured, we will continue to treat this valued community treasure responsibly and with the great care it deserves.

Mark Laroche
President and Chief Executive Officer

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-nominated 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 2019, 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

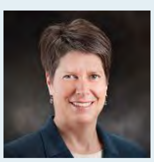
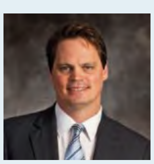
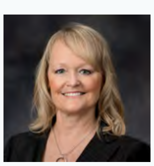
The Authority established by-laws at incorporation in 1995, which have been amended several times over the years. Under the current by-laws, the selecting bodies that provide nominees to the 14-member Board are as follows:

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 Board of Trade	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 aviation industry 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, 2019.

	NAME AND POSITION	OCCUPATION	SELECTING BODY AND YEAR APPOINTED
	**Code Cubitt** Chair of the Board	Managing Director Mistral Venture Partners	Invest Ottawa 2015
	**Craig Bater** [2][4] Chair, Major Infrastructure and Environment Committee	Lawyer	Ottawa Board of Trade 2012
	**Shane Bennett** [3]	Bennett Insurance Agency Limited	Government of Ontario 2019
	**Bonnie Boretsky** [2]	Retired Executive	Transport Canada 2019
	**Dick Brown** [3][4]	Retired Executive	Ottawa Tourism 2016
	**Scott Eaton** [1] Chair, Audit Committee	Business Lawyer	At Large 2013
	**Michèle Lafontaine** [2][3]	Notary PME Inter Notaires	Ville de Gatineau 2017
	**Kevin McGarr** [4]	VOTI Detection and McGarr Advisory Services	At Large 2019
	**Brendan McGuinty** [2] Chair, Governance Committee	President Strategies 360 Inc.	City of Ottawa 2011
	**Laurel Murray** [1]	Murray Consulting Inc.	Transport Canada 2019

	NAME AND POSITION	OCCUPATION	SELECTING BODY AND YEAR APPOINTED
	**Carole Presseault** (3) Chair, Human Resources and Compensation Committee	Principal Consultant Presseault Strategies+	Chambre de commerce de Gatineau 2014
	**Jacques Sauvé** (1)(4)	Consulting Engineer	At Large 2012
	**Lisa Stilborn** (1)(4)	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 and Compensation Committee
(4) Member of Major Infrastructure and Environment Committee

Director's Compensation in 2019

Annual Retainer

- Chair: $51,591
- Audit Committee Chair: $25,223
- Committee Chairs: $22,930
- All other Directors: $13,758

Per meeting fee

- **$632** per meeting
- **$229** per teleconference

Attendance at Board and Committee Meetings

BOARD MEMBER	BOARD MEETINGS ATTENDED	COMMITTEE MEETINGS ATTENDED WHILE MEMBER OF A COMMITTEE
Craig Bater	5 out of 7	10 out of 10
Shane Bennett (3)	2 out of 2	1 out of 1
Bonnie Boretsky (2)	5 out of 5	2 out of 2
John Boyd (1)	2 out of 2	2 out of 2
Dick Brown	7 out of 7	8 out of 10
Chris Carruthers (1)	2 out of 2	8 out of 8
Code Cubitt	7 out of 7	17 out of 18
Scott Eaton	7 out of 7	6 out of 6
Michèle Lafontaine	6 out of 7	5 out of 7
Kevin McGarr (4)	1 out of 1	0 out of 0
Brendan McGuinty	7 out of 7	5 out of 5
Laurel Murray (2)	2 out of 5	3 out of 3
Carole Presseault	7 out of 7	5 out of 5
Jacques Sauvé	6 out of 7	11 out of 11
Lisa Stilborn	6 out of 7	8 out of 11
Janice Traversy	7 out of 7	11 out of 11

(1) Term ended on April 24, 2019
(2) New Board member effective April 24, 2019
(3) New Board member effective September 10, 2019
(4) New Board member effective October 23, 2019

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 actions 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;
- review key human resources metrics on a regular basis, including the results of employee satisfaction surveys and key performance indicators;
- monitor the workplace culture of the Authority and recommend initiatives to enhance engagement;
- ensure that appropriate policies and procedures are in place with respect to workplace harassment as well as ensuring such policies and procedures are followed with respect to any incidents of workplace harassment; and

- monitor compliance with employment and labour related statutory requirements.

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 partners 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, 2008 and 2018, and the Land Use Plan, which was last updated and approved by the Minister of Transport in 2018; 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 $119,210 ($75,000 in 1994 dollars adjusted for CPI to December 31st, 2019), 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 $119,210 that were not awarded on the basis of a public competitive process during 2019:

CONTRACTOR	CONTRACT DESCRIPTION	REASON FOR SOLE SOURCE
ARINC	**$262,102** **Common use system software solutions support**	**See A below**
Bell Mobility	**$228,435** **Provide P-25 radios and system license and maintenance agreement**	**See A below**
BBB Architects	**$578,500** **LRT station design**	**See A below**
Brock Solutions Inc.	**$274,810** **Upgrade to baggage handling software solution**	**See A below**
Briefcam Inc.	**$221,542** **Upgrade to CCTV system with video analytics software**	**See B below**
Embross North America	**$201,787** **Supply, install and configure the Nexus primary inspection kiosks**	**See A below**
Embross North America	**$680,200** **Supply, install and configure additional check-in kiosks**	**See A below**
Embross North America	**$225,379** **Supply, install and configure additional biometric capabilities for the Primary Inspection Kiosks**	**See A below**
Knowledgesurge (Drivewise)	**$147,304** **Supply of virtual reality training platform**	**See A below**
Signature Audio Video	**$207,800** **Supply, install and configure of the public address system upgrade**	**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 for the President of the Authority in 2019 was between $306,453 and $357,500. The base salary ranges for Vice Presidents in 2019 was between $121,963 and $246,956.

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 the Airport Improvement Fee (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 14, 2013 that it was increasing its fee to $23 effective March 1, 2014. The purpose of the existing AIF is to pay for the construction of, and the debt associated with, the Airport Authority's major infrastructure construction programs.

The process for adjusting the AIF 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.

Strategic Initiatives / Five-year Projections

The Authority's priorities and plans are linked to the Strategic Plan, which is developed in collaboration with the Board of Directors. The following identifies the initiatives within each Strategic Direction across the 2019-2023 timeline, as well as actual results compared to the Business Plan for 2019:

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.

2019 Actual vs. Business Plan

(IN MILLIONS OF CANADIAN DOLLARS)	ACTUAL $	PLAN $	VARIANCE $	
Revenues	138.1	143.3	(5.2)	Unfavourable variances in expected passenger and seat volume growth resulted in lower than expected aeronautical, non-aeronautical and AIF revenues.
Expenses	133.0	134.2	(1.2)	Lower than expected operational and contract services and utilities expenses combined with lower rent expense due to lower revenue levels.
Capital expenditures	36.3	49.3	(13.0)	Initiatives related to fleet vehicles, technology programs and campus building upgrade programs had adjustments in expected project timelines with significant elements slipping into the next fiscal year.

Financial Projections 2020 – 2024

(IN MILLIONS OF CANADIAN DOLLARS)	2020 $	2021 $	2022 $	2023 $	2024 $
Revenues	142.1	147.3	152.5	157.8	163.4
Expenses	135.3	137.6	139.4	140.7	142.0
Capital expenditures	48.2	38.3	31.0	21.3	31.5

Summary of amounts spent in the Ottawa region

(IN MILLIONS OF CANADIAN DOLLARS)	2015 $	2016 $	2017 $	2018 $	2019 $	TOTAL $
Wage bill	21.5	22.8	23.8	24.4	**24.9**	117.4
Payments in lieu of municipal taxes	5.0	5.0	5.1	5.2	**5.5**	25.8
Operations costs	34.0	36.0	35.0	38.0	**40.0**	183.0
Capital costs	31.2	24.0	35.0	37.0	**36.0**	163.2
	91.7	87.8	98.9	104.6	**106.3**	489.4

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.

Passenger Growth by Sector

		DOMESTIC	%	TRANSBORDER	%	INTERNATIONAL	%	TOTAL	%
ACTUAL	1996	2,223,941		529,602		104,295		2,857,838	
	1997	2,435,534	9.5	502,072	(5.2)	108,762	4.3	3,046,368	6.6
	1998	2,414,355	(0.9)	563,085	12.2	133,108	22.4	3,110,548	2.1
	1999	2,426,288	0.5	628,203	11.6	157,116	18.0	3,211,607	3.3
	2000	2,562,282	5.6	719,200	14.5	152,863	(2.7)	3,434,345	6.9
	2001	2,625,630	2.5	618,694	(14.0)	146,971	(3.9)	3,391,295	(1.3)
	2002	2,445,770	(6.9)	600,365	(3.0)	170,751	16.2	3,216,886	(5.1)
	2003	2,491,691	1.9	588,088	(2.0)	182,566	6.9	3,262,345	1.4
	2004	2,736,779	9.8	641,157	9.0	231,949	27.0	3,609,885	10.7
	2005	2,779,895	1.6	719,150	12.2	236,388	1.9	3,735,433	3.5
	2006	2,807,377	1.0	735,753	2.3	264,626	12.0	3,807,756	1.9
	2007	3,052,813	8.7	746,435	1.5	289,280	9.3	4,088,528	7.4
	2008	3,255,540	6.6	740,369	(0.8)	343,315	18.7	4,339,224	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
	2018	4,002,209	4.9	720,770	11.3	387,822	2.5	5,110,801	5.6
	2019	3,993,553	(0.22)	686,297	(4.78)	426,637	10.01	5,106,487	(0.08)
FORECAST	2020	4,092,294	2.47	669,088	(2.51)	448,844	4.0	5,210,225	2.03
	2021	4,194,600	2.5	674,440	0.8	466,798	3.5	5,335,838	2.41
	2022	4,309,952	2.75	681,185	1.0	485,469	3.0	5,476,606	2.64
	2023	4,439,251	3.0	688,678	1.1	504,888	2.5	5,632,817	2.85
	2024	4,581,306	3.2	696,942	1.2	525,084	3.0	5,803,332	3.03
	2025	4,718,770	3.0	717,910	3.0	540,864	3.0	5,977,544	3.0
	2030	5,470,425	3.0	832,304	3.0	627,033	3.0	6,929,762	3.0

Notes:
Forecast determined prior to COVID-19 pandemic.

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	(4.3)	6,145,000	3.3
	2001	3,391,295	(1.3)	72,630	(7.2)	8,840,000	43.9
	2002	3,216,886	(5.1)	68,499	(5.7)	11,005,000	24.5
	2003	3,262,345	1.4	69,798	1.9	11,329,000	2.9
	2004	3,609,885	10.7	69,626	(0.2)	11,643,000	2.8
	2005	3,735,433	3.5	66,146	(5.0)	12,958,000	11.3
	2006	3,807,756	1.9	65,396	(1.1)	12,487,000	(3.6)
	2007	4,088,528	7.4	72,342	10.6	11,546,000	(7.5)
	2008	4,339,225	6.1	79,777	10.3	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
	2018	5,110,801	5.6	77,728	4.0	10,553,000	9.63
	2019	5,106,487	(0.08)	75,799	(2.48)	10,530,000	(0.22)

		PASSENGERS	ANNUAL GROWTH %	AIRCRAFT MOVEMENTS	ANNUAL GROWTH %	RENT TO TRANSPORT CANADA $	ANNUAL GROWTH %
FORECAST	2020	5,210,225	2.03	77,497	2.24	10,963,000	4.11
	2021	5,335,838	2.41	77,881	0.5	11,516,000	5.04
	2022	5,476,606	2.64	78,514	0.81	12,044,000	4.58
	2023	5,632,817	2.85	79,448	1.19	12,556,000	4.25
	2024	5,803,332	3.03	80,681	1.55	13,102,000	4.35

Notes:
Federal Government Net Book Value at time of transfer: $75M
Total rent projected 1997-2024: $264.1M
Forecast passenger volumes are as provided by outside consultants.
For financial planning purposes, the Authority forecasts on a more conservative basis.
Forecast determined prior to COVID-19 pandemic.

Five-year Review

(IN THOUSANDS OF CANADIAN DOLLARS)	2015 $	2016 $	2017 $	2018 $	2019 $
Revenues	123,322	126,806	132,623	138,060	**138,062**
Expenses before depreciation	95,492	104,028	99,801	99,751	**101,838**
Earnings before depreciation	27,830	22,778	32,822	38,309	**36,224**
Capital expenditures	31,206	24,443	35,528	37,027	**36,300**
AIF revenues	48,384	49,915	52,244	54,215	**53,988**

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
2018	47
2019	**48**

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
2018	77,728
2019	**75,799**

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
2018	85	20	20
2019	**83**	**19**	**22**

Origin and destination
94.0% of traffic (estimated)

2019 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, 2019. 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 (prior to the COVID-19 pandemic). 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, 2019 were $36.2 million compared to $38.3 million for the year ended December 31, 2018. The Authority recorded depreciation of $31.1 million in 2019 compared to $31.3 million in 2018, 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 $5.1 million in 2019 compared to net earnings of $7.0 million in 2018.

The Authority’s net operating results for the three years ended December 31, 2019 are summarized as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2019 $	2018 $	2017 $
Revenues	**138.1**	138.1	132.6
Expenses	**101.9**	99.8	99.8
Earnings before depreciation	**36.2**	38.3	32.8
Depreciation	**31.1**	31.3	29.0
Net earnings	**5.1**	7.0	3.8
Total assets	**510.7**	500.4	495.0
Gross – long-term debt	**418.7**	423.3	427.5

RESULTS OF OPERATIONS

Operating activities

During 2019, the Ottawa Macdonald-Cartier International Airport (the "Airport") saw similar passenger volumes as in 2018 and an increase of 5.5% over 2017.

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

				% CHANGE – 2019 VERSUS	
	2019	**2018**	**2017**	**2018**	**2017**
Domestic	**3,993,553**	4,002,209	3,813,672	**(0.2)**	**4.7**
Transborder	**686,297**	720,770	647,574	**(4.8)**	**6.0**
International	**426,637**	387,822	378,431	**10.0**	**12.7**
Total	**5,106,487**	5,110,801	4,839,677	**(0.1)**	**5.5**

Domestic passenger volumes were 0.2% lower on a year over year basis. The first quarter of 2019 was unfavourably impacted by significant snow events and complex weather conditions throughout the network that resulted in a doubling of the number of cancelled flights as compared to 2018 and was a contributing factor to the lower than expected flows. Volumes in the remaining quarters were slightly above and below the prior year with decreases in flows to Toronto and Edmonton and offset by increases to Montreal and Charlottetown.

Transborder volumes decreased by 4.8% as compared to 2018. The temporary suspension of the United flights to Chicago and American's reduced frequencies to Philadelphia were significant factors in the lower than expected volumes. These reductions were offset partially by United increasing capacity to Washington Dulles and Delta to New York – LaGuardia.

International traffic increased 10.0% from the comparable period in 2018. Air Canada, Sunwing and Air Transat experienced strong flows to its Caribbean and Mexican destinations as compared to the prior year.

By sector, a quarterly view of 2019 passenger volumes compared to comparable quarters in 2018 is as follows:

	DOMESTIC	TRANSBORDER	INTERNATIONAL
Q1	Lower by 0.3%	Higher by 0.7%	Higher by 14.2%
Q2	Higher by 2.6%	Higher by 5.5%	Higher by 13.5%
Q3	Lower by 1.7%	Lower by 12.1%	Higher by 2.0%
Q4	Lower by 1.4%	Lower by 13.9%	Higher by 5.9%
Total	Lower by 0.2%	Lower by 4.8%	Higher by 10.0%

By quarter, total passenger volumes were as follows:

	2019	2018	% CHANGE
Q1	**1,271,207**	1,248,517	1.8
Q2	**1,296,994**	1,252,447	3.6
Q3	**1,317,719**	1,355,155	(2.8)
Q4	**1,220,567**	1,254,682	(2.7)
Total	**5,106,487**	5,110,801	(0.1)

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 aeronautical revenue. In 2019, the number of landed seats decreased by 2.0% as compared to 2018. Domestic landed seats decreased 1.9%, transborder decreased by 8.2% on a year over year basis while international increased by 8.3%. Variances by sector mirror largely the variances experienced in passenger volumes as explained above.

Revenues

Total revenues for 2019 remained in line with 2018 at $138.1 million.

REVENUES BY CATEGORY (IN THOUSANDS OF CANADIAN DOLLARS)	2019	2018	CHANGE	
	$	$	$	%
Airport improvement fees	**53,988**	54,215	**(227)**	**(0.4)**
Terminal fees	**28,003**	28,511	**(508)**	**(1.8)**
Landing fees	**13,351**	13,472	**(121)**	**(0.9)**
Concessions	**15,586**	15,291	**295**	**1.9**
Car parking	**15,980**	16,082	**(102)**	**(0.6)**
Land and space rentals	**6,616**	6,623	**(7)**	**(0.1)**
Other revenue	**4,538**	3,866	**672**	**17.4**
	138,062	138,060	**2**	**0.0**

Airport improvement fees ("AIF") of $54.0 million in 2019 was $0.2 million lower than 2018. The decrease is attributable to the 0.1% decrease in passenger volumes on a year over year basis combined with a small decrease in AIF eligible originating passengers. Under an agreement with the air carriers, AIF is collected by the air carriers in the price of a ticket for passengers originating their flight in Ottawa. Passengers connecting through Ottawa do not pay AIF. In 2019, the number of departing passengers originating their flight in Ottawa increased slightly to 93.6% from 93.4% in 2018. These funds are remitted to the Authority on an estimated basis, net of an air carrier service fee of 6.0%, on the first of the month following the month of enplanement of passengers. Final settlement based on actual passenger volumes occurs at the end of the month following the month of enplanement.

Aeronautical revenues of $41.4 million in 2019, including terminal and landing fees, loading bridge charges and security fees charged to air carriers, were 1.5% lower than the comparable period in 2018 at $42.0 million. The Authority maintained 2019 aeronautical charges at 2018 levels and the 2.0% decline in landed seats unfavourably impacted revenues. The unfavourable impact from the decline in seats was offset slightly by increased flight activity to international destinations in 2019 and which attract higher fees from the air carriers. For 2020, the Authority is raising its aeronautical rates and charges by 3.0% effective February 1, 2020. This rate increase is required to offset the impact of the general slowdown in growth of air carrier seat volumes that have not kept pace with inflation, together with increases in operating expenses resulting from the evolving economic and regulatory environment directly impacting the cost of providing services to air carriers and its passengers. Despite these increases, the Authority's average aeronautical fee rates remain among the lowest in Canada.

Concession revenues of $15.6 million increased 1.9% as compared to 2018. Favourable volumes in private transportation company services, car rentals and hotel revenues were strong contributors. These favourable volumes were offset by expected declines in the food and retail segment due to the start of the concession refresh program in the second half of 2019 affecting food and retail concessions throughout the main passenger terminal building. Significant renovation and construction works are planned throughout 2020 with new retail and food offerings coming online in the second half of 2020.

Car parking revenues decreased slightly to $16.0 million from $16.1 million in 2018, a decrease of $0.1 million or 0.6%. While passenger growth was flat with 2018 levels, a small decline in overall transaction volumes in 2019 was offset by parking rate price increases on January 1, 2019. The Authority is monitoring the impact of the various competing options available to passengers. The availability of taxi brokerage, private transportation company services, cell phone parking and other public transit options may be impacting transaction volumes. There is an ongoing effort to adjust the rate structure based on optimizing pricing models and revenues based on passengers' profiles, stay durations and their specific needs as domestic passengers tend to park for shorter periods for business purpose day trips while leisure, transborder and international passengers tend to park at the Airport for longer periods.

Other revenues increased by $0.7 million over 2018. Higher utility recoveries from tenants, higher yields on cash balances and the impact of new accounting standards on lease accounting (IFRS16) effective in 2019 were the prime factors for the increase.

Expenses

Total expenses before depreciation increased by 2.1% to $101.8 million from of $99.8 million in 2018.

	2019	2018	CHANGE	
EXPENSES BY CATEGORY **(IN THOUSANDS OF CANADIAN DOLLARS)**	$	$	$	%
Interest	20,531	20,818	(287)	(1.4)
Ground rent	10,530	10,553	(23)	(0.2)
Materials, supplies and services	40,429	38,741	1,688	4.4
Salaries and benefits	24,873	24,425	448	1.8
Payments in lieu of municipal taxes	5,475	5,214	261	5.0
	101,838	99,751	2,123	2.1

Interest expense reflected in the statement of operations results from borrowing to invest in the Authority's capital programs. Interest expense has decreased $0.3 million in 2019. The lower cost of debt service is a direct benefit of the year over year decline in long term debt achieved through the scheduled semi-annual principal instalments on the Series B Revenue Bonds.

Rent payable to the Government of Canada decreased by 0.2% to $10.5 million in 2019 due to lower eligible revenues in 2019 compared to 2018. 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	0
On the next $5 million	1.0	50,000
On the next $15 million	5.0	800,000
On the next $75 million	8.0	6,800,000
On the next $150 million	10.0	21,800,000
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:

2020	$11.0 million
2021	$11.5 million
2022	$12.0 million
2023	$12.6 million
2024	$13.1 million

The cost of materials, supplies and services increased $1.7 million to $40.4 million in 2019. Contracted and professional services increased $1.3 million year over year with increases in policing and security, baggage handling services, maintenance and cleaning contracts and other operational services. Repairs and related materials increased $0.4 million over the prior year due to costs incurred for maintaining escalators, elevators, conveyors and heating/air conditioning equipment.

The cost of salaries and benefits increased $0.4 million to $24.9 million in 2019, an increase of 1.8%. Annual contracted increases for salaries and benefit programs were offset by slower hiring for vacant roles and lower pension and other benefit costs in 2019.

Payments in lieu of municipal taxes have increased by 5.0% and reflect the impact of the provincial legislation, which dictates the calculation of this payment. Under this legislation, payments in lieu of municipal taxes are based on a fixed legislated rate per passenger 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 $5.5 million paid for 2019 reflects this prescribed calculation. Payments in lieu of taxes will increase in 2020 by 0.5% from the 2019 amount based on this prescribed calculation.

Depreciation reflects the allocation of cost over the useful life of the assets and investments in property, plant and equipment. In 2019, depreciation of $31.2 million was $0.1 million lower than 2018. Incremental depreciation related to capital projects completed in 2018 and 2019 including departure check-in upgrade, apron and taxiway reconstruction and expansion, major fleet vehicles, runway approach lighting and information technology initiatives were offset by lower levels of accelerated depreciation related to asset disposals in 2019 as compared to 2018.

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)	**2018 $**				**2019 $**			
	MARCH	**JUNE**	**SEPT.**	**DEC.**	**MARCH**	**JUNE**	**SEPT.**	**DEC.**
Revenues	34.5	33.7	35.3	34.6	**35.4**	**34.3**	**34.5**	**33.9**
Expenses	25.2	24.1	23.1	27.4	**26.8**	**24.8**	**23.1**	**27.2**
Earnings before depreciation	9.3	9.6	12.2	7.2	**8.6**	**9.5**	**11.4**	**6.7**
Depreciation	7.5	7.4	8.2	8.2	**7.5**	**7.6**	**7.7**	**8.3**
Net earnings (loss)	1.8	2.2	4.0	(1.0)	**1.1**	**1.9**	**3.7**	**(1.6)**

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 2019, the Authority invested $36.3 million in its capital expenditure programs. Significant spending on capital projects include CATSA pre-board screening relocation at $8.6 million, apron and taxiway restoration at $6.8 million, main terminal building enhancements and upgrades at $4.9 million, Combined Services Building upgrades at $3.1 million and LRT Phase 2 – station infrastructure at $2.6 million.

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:

PAYMENTS FOR YEARS ENDING DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS)

	TOTAL	2020	2021	2022	2023	2024	THEREAFTER
Long-term debt (Note 1)	418,667	8,753	13,116	14,023	14,988	16,014	351,773
Operating commitments	25,235	13,518	6,240	3,964	1,508	5	
Capital commitments	25,608	25,608					
Total contractual obligations	469,510	47,879	19,356	17,987	16,496	16,019	351,773

Note 1 – Further information on interest rates and maturity dates on long-term debt are provided in Note 7 to the Authority's audited 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, 2019 have been extended for another 364-day term expiring on October 13, 2020. 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, 2019 (IN MILLIONS OF CANADIAN DOLLARS)	DEC 31, 2018 (IN MILLIONS OF CANADIAN DOLLARS)	MATURITY	PURPOSE
Revolver – 364-Day	**40.0**	40.0	October 13, 2020	General corporate and capital expenditures
USD Contingency ($10 million USD)	**14.0**	14.0	October 13, 2020	Interest rate hedging
Letter of Credit	**6.0**	6.0	October 13, 2020	Letter of credit and guarantee
Revolver – 5-Year	**80.0**	80.0	May 15, 2020	General corporate and capital expenditures
Total	**140.0**	140.0		

The Authority's cash and cash equivalents decreased by $8.8 million during 2019 to $21.7 million as at December 31, 2019.

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 ("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, 2019, the balance of cash and qualified investments held in the Debt Service Reserve Fund for the Series B Amortizing Revenue Bonds was $6.7 million. Furthermore, in order to satisfy the Debt Service Reserve Fund requirement for the Series E Amortizing Revenue Bonds, an irrevocable standby letter of credit in favour of the Trustee in the amount of $5.9 million has been drawn from the Authority's Credit Facility.

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, 2019, $16.3 million of the Authority's Credit Facilities had been designated to the Operating and Maintenance Reserve Fund.

At December 31, 2019, 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 2019, S&P Global 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.

BALANCE SHEET AND OTHER HIGHLIGHTS

The Authority's accounts receivables increased $1.5 million at December 31, 2019 and is a return to expected levels as the balance at December 31, 2018 was lower than usual due to an early receipt of $2.3 million from one major carrier in late December 2018.

Accounts payable and accrued liabilities decreased by $2.5 million to $16.2 million at December 31, 2019 and was due to a large payment run late in December 2019 with a resulting lower level of trade payable balances as compared to December 2018.

RISKS AND UNCERTAINTIES

Aviation Activity

The Authority will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition. Airport revenue is largely a function of passenger volumes. Passenger volumes are driven by air travel demand. The events of the past several years have emphasized the volatile nature of air travel demand and the impact of external factors such as economic conditions, health epidemics, geopolitical 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 93.6% (93.4% in 2018) of the passenger activity originates or terminates at the Airport, as opposed to connecting through the Airport. Connecting passenger volumes are more vulnerable to fluctuation due to routing and scheduling changes by airlines. In addition, a greater percentage of the traffic through the Airport is business and government travellers, whose travel decisions are less discretionary than those of leisure travellers.

Aviation Liability Insurance

The availability of adequate insurance coverage is subject to the conditions of the overall insurance market and the Authority's claims and performance record. The Authority participates with an insurance buying group that also includes airport authorities from Vancouver, Edmonton, Calgary, Winnipeg, Montreal, and Halifax. This group has been successful in placing all of its insurance needs.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The Board of Directors discharges its responsibilities for the financial statements primarily through its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Authority. This committee meets periodically with management and the independent auditors to review performance and to discuss audit, internal control, accounting policy, and financial reporting matters. The Audit Committee reports its findings to the Board of Directors which reviews and approves the 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 19, 2020

INDEPENDENT AUDITOR'S REPORT

To the Directors of
Ottawa Macdonald-Cartier International Airport Authority

Opinion

We have audited the accompanying financial statements of Ottawa Macdonald-Cartier International Airport Authority (the "Authority"), which comprise the balance sheet as at December 31, 2019, and the statement of operations and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Canada
February 19, 2020

Balance sheet [expressed in thousands]

As at December 31

	2019 $	2018 $
ASSETS		
Current		
Cash and cash equivalents	**21,677**	30,499
Trade and other receivables	**10,124**	8,613
Consumable supplies	**3,362**	3,372
Prepaid expenses and advances	**1,772**	1,480
Total current assets	**36,935**	43,964
Debt Service Reserve Fund *[note 7(a)]*	**6,746**	6,604
Finance lease receivables *[note 12]*	**11,575**	—
Property, plant and equipment, net *[note 3]*	**449,583**	444,604
Post-employment pension benefit asset, net *[note 9]*	**581**	—
Other assets *[note 4]*	**5,289**	5,250
	510,709	500,422
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	**16,161**	18,625
Current portion of long-term debt *[note 7]*	**8,753**	4,643
Total current liabilities	**24,914**	23,268
Other post-employment benefit liability *[note 9]*	**11,085**	9,121
Long-term debt *[note 7]*	**407,427**	415,957
Total liabilities	**443,426**	448,346
Commitments and contingencies *[note 15]*		
Equity		
Retained earnings	**79,109**	62,408

	2019 $	2018 $
ASSETS		
Accumulated other comprehensive loss	**(11,826)**	(10,332)
Total equity	**67,283**	52,076
	510,709	500,422

See accompanying notes

On behalf of the Board:

Code Cubitt,
Chair of the Board of Directors

Scott Eaton,
Chair, Audit Committee

Statement of operations and comprehensive income [expressed in thousands]

	2019 $	2018 $
REVENUE		
Airport improvement fees *[note 8]*	**53,988**	54,215
Terminal fees and loading bridge charges	**28,003**	28,511
Landing fees	**13,351**	13,472
Concessions	**15,586**	15,291
Car parking	**15,980**	16,082
Land and space rentals *[note 12]*	**6,616**	6,623
Other revenue	**4,538**	3,866
	138,062	138,060
EXPENSES		
Interest *[note 7(b)]*	**20,531**	20,818
Ground rent *[note 12]*	**10,530**	10,553

	2019 $	2018 $
Materials, supplies and services	**40,429**	38,741
Salaries and benefits *[note 9]*	**24,873**	24,425
Payments in lieu of municipal taxes	**5,475**	5,214
	101,838	99,751
Earnings before depreciation	**36,224**	38,309
Depreciation	**31,159**	31,349
Net earnings for the year	**5,065**	6,960
Other comprehensive loss		
Item that will never be reclassified subsequently to net earnings		
Remeasurement of defined benefit plans *[note 9]*	**(1,494)**	(1,113)
Total comprehensive income	**3,571**	5,847

See accompanying notes

Statement of changes in equity [expressed in thousands]

	2019 $	2018 $
Retained earnings, beginning of year	**62,408**	55,448
Net earnings for the year	**5,065**	6,960
Impact of transition to IFRS 16 *[note 2]*	**11,636**	—
Retained earnings, end of year	**79,109**	62,408
Accumulated other comprehensive loss		
Items that will never be recycled into net earnings		
Balance, beginning of year	**(10,332)**	(9,219)
Loss on remeasurement of defined benefit plans *[note 9]*	**(1,494)**	(1,113)
Balance, end of year	**(11,826)**	(10,332)
Total equity	**67,283**	52,076

See accompanying notes

Statement of cash flows [expressed in thousands]

	2019 $	2018 $
OPERATING ACTIVITIES		
Net earnings for the year	**5,065**	6,960
Add (deduct) items not involving cash		
Depreciation	**31,159**	31,349
Amortization of deferred financing costs	**224**	222
Interest expense	**20,531**	20,818
Decrease (increase) in other assets	**(39)**	78
Decrease in other post-employment benefit liability	**(111)**	(858)
	56,829	58,569

	2019 $	2018 $
Net change in non-cash working capital balances related to operations *[note 13]*	**(5,578)**	2,950
Cash provided by operating activities	**51,251**	61,519
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 3]*	**(36,300)**	(37,027)
Proceeds on disposal of property, plant and equipment	**162**	80
Lease payments received from finance leases	**497**	—
Change in accounts payable and accrued liabilities related to investing activities	**11**	716
Interest received	**673**	641
Cash used in investing activities	**(34,957)**	(35,590)
FINANCING ACTIVITIES		
Increase in Debt Service Reserve Fund *[note 7(a)]*	**(141)**	(109)
Interest paid	**(20,332)**	(20,623)
Repayment of long-term debt	**(4,643)**	(4,152)
Cash used in financing activities	**(25,116)**	(24,884)
Net increase (decrease) in cash during the year	**(8,822)**	1,045
Cash and cash equivalents, beginning of year	**30,499**	29,454
Cash and cash equivalents, end of year	**21,677**	30,499

See accompanying notes

Notes to financial statements

[tabular amounts in thousands, unless otherwise noted]

DECEMBER 31, 2019

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 objectives 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 19, 2020. 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 Authority prepares its financial statements in accordance with International Financial Reporting Standards ["IFRS"]. These financial statements have been prepared on a going concern basis using the historical cost basis, except for the revaluation of certain financial assets and financial liabilities measured at fair value, which include the post-employment benefit liability.

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, 2019 and 2018, 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 gross basis in the statement of operations and comprehensive income in the period in which they are incurred. As noted above, no such amounts were capitalized during the years ended December 31, 2019 and 2018.

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 amounts 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. Consequently, all of the assets are considered part of the same cash-generating unit. In addition, the Authority’s unfettered 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 of deferred financing costs is included in interest expense. Deferred financing costs are reflected as a reduction in the carrying amount of related long-term debt.

Leases

The Authority has applied IFRS 16, Leases [“IFRS 16”], using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17, Leases [“IAS17”], and IFRIC 4, *Determining whether an arrangement contains a lease* [“IFRIC 4’]. As part of the initial application of IFRS 16, the Authority will not apply the new standard to short-term lease contracts [whose term is under 12 months] and to lease contracts for which the underlying asset has a low value [under $5,000]. The Authority will apply the practical expedient where it is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

The Authority has applied the following practical expedients, as permitted by IFRS 16:

- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Relying on previous assessment of whether a lease is onerous;
- Accounting for leases that end within 12 months of the date of initial application as short-term leases;
- Excluding initial direct costs from the measurement of the right-of-use asset; and
- Using hindsight, (for example, in determining the lease term where the contract includes extension or termination options).

As a result of adoption of IFRS 16, the Authority has amended its accounting policies related to leases as follows:

Policy applicable from January 1, 2019

At inception of a contract, the Authority assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority assesses whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Authority has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The Authority has the right to direct the use of the asset. The Authority has the right when it has the decisionmaking rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Authority has the right to direct the use of the asset if either:
  - The Authority has the right to operate the asset; or
  - The Authority designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component based on their relative stand-alone prices. However, for the leases of land and buildings, the Authority has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

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

The Authority as lessee

Except for the ground lease, the Authority typically only enters into leases for minor items such as photocopy equipment and printers. As these leases are classified as short-term leases, the payments are recognized as an expense on a straight-line basis over the lease term.

Short-term leases and leases of low-value assets

The Authority elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of 12 months or less and leases of low-values assets, including photocopy equipment and printers. The Authority recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Authority recognizes its ground lease, as a short-term lease given the payments are variable in nature. 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 a short-term lease in the statement of operations and comprehensive income.

The Authority as lessor

When the Authority acts as a lessor, it determined at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Authority makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Authority considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Authority applies IFRS 15 to allocate the consideration in the contract.

The Authority recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of lease revenue.

The amount receivable from the lessee in accordance with a finance lease is recognized at an amount equal to the net investment of the Authority in the lease. Payments received from finance leases are recognized over the term of the lease in order to reflect a constant periodic return on the Authority's net investment in the finance lease as part of "other revenue."

Revenue recognition

The Authority's principal sources of revenue comprise revenue from the rendering of services for landing fees, terminal fees, airport improvement fees ["AIF"], parking, concession, land and space rental and other income.

Revenue is measured by reference to the fair value of consideration received or receivable by the Authority for services rendered, net of rebates and discounts.

Revenue is recognized when the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow to the entity, when the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Authority's different revenue activities have been met, as described below.

Landing fees, terminal fees and parking revenues are recognized as the Airport facilities are utilized.

AIF are recognized upon the enplanement of origination and destination passengers using information from air carriers obtained after enplanement has occurred. AIF revenue is remitted to the Authority based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the Authority with air carriers.

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

Operating land and space 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 part of material, supplies and service expense effective January 1, 2019 [prior to 2019 as a reduction of rental revenues].

Other income includes income from other operations and is recognized as earned.

Pension plan and other post-employment benefits

The post-employment pension benefit asset recognized on the balance sheet is the fair value of plan assets less the present values of defined pension 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.

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, the pension plan assets are valued at fair value.

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. Pension expense is included in salaries and benefits on the statement of operations and comprehensive income.

Actuarial gains and losses [experience gains and losses that arise because actual experience for each year will differ from the beginning-of-year assumptions used for purposes of determining the cost and liabilities of these plans] and the effect of the asset ceiling are recognized in full as remeasurements of defined benefit plans in the period in which they occur in other comprehensive income (loss) ["OCI"] without recycling to the statement of operations and comprehensive income in subsequent periods.

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

Employee benefits other than post-employment benefits

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

Financial instruments

Financial assets

Effective January 1, 2018, with the adoption of IFRS 9, *Financial Instruments* ["IFRS 9"], the Authority classifies its financial assets in the measurement categories outlined below, and the classification will depend on the type of financial assets and the contractual terms of the cash flows.

1. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Financial assets at amortized cost are initially recognized at fair value plus any transaction costs. They are subsequently measured at amortized cost using the effective interest rate, net of an allowance for expected credit loss ["ECL"]. The ECL is recognized in the statement of operations and comprehensive income for such instruments.

Gains and losses arising on derecognition are recognized directly in the statement of operations and comprehensive income and presented in other gains.

2. Fair value through other comprehensive income [“FVOCI”]: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets’ cash flows represent solely payments of principal and interest. Financial assets at FVOCI are initially recognized at fair value plus any transaction costs. They are subsequently measured at fair value. ECL are recognized on financial assets held at FVOCI. The cumulative ECL allowance is recorded in OCI and does not reduce the carrying amount of the financial asset on the balance sheet. The change in the ECL allowance is recognized in the statement of operations and comprehensive income. Unrealized gains and losses arising from changes in fair value are recorded in OCI until the financial asset is derecognized, at which point cumulative gains or losses previously recognized in OCI are reclassified from accumulated other comprehensive loss to net gains (losses) on financial instruments.

3. Fair value through profit or loss [“FVTPL”]: Assets that do not meet the criteria for classification as financial assets at amortized cost or financial assets at FVOCI are measured at FVTPL unless an irrevocable election has been made at initial recognition for certain equity investments to have their changes in fair value be presented in OCI. Financial assets at FVTPL are initially recognized and subsequently measured at fair value. Unrealized gains and losses arising from changes in fair value and gains and losses realized on disposition are recorded in net gains (losses) on financial instruments. Transaction costs are expensed as incurred.

The Authority’s financial assets including cash and cash equivalents, trade and other receivables and the Debt Service Reserve Fund are classified at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or loans and borrowings at amortized cost. All financial liabilities are initially recognized at fair value plus any transaction costs. They are subsequently measured, depending on their classification, at fair value with gains and losses through statement of operations and comprehensive income or at amortized cost using the effective interest rate method.

The Authority’s financial liabilities including accounts payable and accrued liabilities and long-term debt are classified at amortized cost.

Fair value hierarchy

When measuring the fair value of an asset or a liability, the Authority uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- 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.

The Authority recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

There have been no transfers between levels of the fair value hierarchy as at the end of the reporting period.

Measurement of expected credit losses

Expected credit loss is defined as the weighted average of credit losses determined by evaluating a range of possible outcomes using reasonable supportable information about past events and current and forecasted future economic conditions.

The Authority has developed an impairment model to determine the allowance for ECL on accounts receivable classified at amortized cost. The Authority determines an allowance for ECL at initial recognition of the financial instrument that is updated at each reporting period throughout the life of the instrument.

The ECL allowance is based on the ECL over the life of the financial instrument [“Lifetime ECL”], unless there has been no significant increase in credit risk since initial recognition, in which case the ECL allowance is measured at an amount equal to the portion of Lifetime ECL that result from default events possible within the next 12 months. ECL is determined based on three main drivers: probability of default, loss given default and exposure at default.

The Authority assesses on a forward-looking basis the ECL associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Authority uses judgment in making these assumptions and selecting the inputs to the impairment calculation based on the Authority's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The Authority has adopted the simplified approach, and as such the Authority does not track changes in its customers' credit risk, but instead recognizes a loss allowance based on Lifetime ECLs at each reporting date. The Authority has established a provision that is based on its historical credit loss experience adjusted for forwardlooking factors specific to the debtors and the economic environment.

Therefore, the Authority recognizes impairment and measures ECL as Lifetime ECL. The carrying amount of these assets in the balance sheet is stated net of any loss allowance. Impairment of trade and other receivables is presented within materials, supplies and service expenses in the statement of operations and comprehensive income.

The Authority will use a "three-stage" model for impairment, if any since initial recognition, on financial instruments other than trade and other receivables based on changes in credit quality as summarized below.

- Stage 1 − A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and its credit risk is continuously monitored by the Authority. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- Stage 2 − If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The ECL is measured based on the Lifetime ECL basis.
- Stage 3 − The financial instrument is credit-impaired and the financial instrument is written off as a credit loss.

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 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 leases, the useful lives of property, plant and equipment, valuation adjustments including expected credit losses, the cost of employee future benefits and provisions for contingencies.

Leases

The Authority applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further judgment and estimation in various areas specific to the arrangement.

When a lease contract contains an option to extend or terminate a lease, the Authority must use their best estimate to determine the appropriate lease term. The Authority will consider all facts and circumstances to determine if there is an economic benefit to exercise an extension option or to not exercise a termination option.

The lease term must be reassessed if a significant event or change in circumstance occurs. Lease liabilities will be estimated and recognized using a discount rate equal to the Authority's estimated incremental borrowing rate. This rate represents the rate that the Authority would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

The Authority will evaluate all new leases agreements as a lessor and will determine whether these leases are classified as an operating or as a finance lease. This process will be reviewed on a quarterly basis with further analysis completed annually to ensure that leases are adequately recognized within the standard.

Useful lives of property, plant and equipment

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

Loss allowance

The Authority establishes an ECL 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 Authority is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial condition deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Authority may be required to record additional allowances. Alternatively, if the Authority provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns [i.e., by geography, product type, customer type and rating and coverage by letters of credit and other forms of credit insurance], initially based on the Authority's historical observed default rates.

The provision calculation will adjust the historical credit loss experience by also considering forward-looking information. Accordingly, at every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates and their impact are analyzed.

The assessment of the correlation between historical observed default rates and forecast economic conditions will impact the ECL calculation. The Authority's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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.

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.

Total comprehensive income

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

Current accounting changes

We actively monitor new standards and amendments to existing standards that have been issued by the International Accounting Standards Board ["IASB"]. Except for the changes below, the Authority has consistently applied the accounting policies to all periods presented in these financial statements.

Amendments to IFRS 9, Financial Instruments

This standard is amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation and also clarifies how to account for the modification of a financial liability. Such modifications will result in immediate recognition of a gain or loss. The amendments are effective for annual periods on or after January 1, 2019. The adoption of these amendments have had no impact on the current financial statements.

Amendments to IAS 19, Employee Benefits

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The standard establishes the principle that the costs of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments has had no impact on the current financial statements.

IFRS 16, Leases

The Authority applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Authority has changed its accounting policy for lease contracts as detailed below.

The Authority applies IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Authority determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Authority assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 2 above.

The modified retrospective approach was selected over the full retrospective approach as it was deemed impractical by the Authority to apply the new IFRS 16 standard retrospectively because it cannot determine the cumulative effect of applying the policy to all prior periods, the Authority will apply the new standard prospectively from January 1, 2019.

On transition to IFRS 16, the Authority elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Authority as lessee

As a lessee, the Authority previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS 16, the Authority recognizes right-of-use assets and lease liabilities for most leases. Currently the Authority does not maintain any active right-to–use assets or lease liabilities.

The Authority decided to apply a recognition exemption to short-term leases of photocopy equipment and printers [see *note 2*].

The Authority has evaluated the quantitative impact of this standard on the ground lease. In consideration of the terms of the lease, the Authority has concluded that the agreement does not transfer substantially all of the risks and rewards of the leased item to the Authority. The agreement shows that the risks and rewards are substantially retained by the Lessor, and as such there will be no impact on the financial statements with respect to accounting for the ground lease under the new standard as lease payments are contingent based on revenue inflows and therefore the expense will continue to be recognized in the statement of operations and comprehensive income on an accrual basis.

Authority as lessor

Under IFRS 16, the Authority is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Authority reassessed the classification of two sub-leases previously classified as operating leases under IAS 17. The Authority concluded that the sub-leases are finance leases under IFRS 16 based on the fact that they extend beyond the economic useful live threshold within the standard. All other leases will be treated as an operating lease.

The Authority applies IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"] to allocate consideration in the contract to each lease and non-lease component.

Impacts on financial statements

The impact of this new standard on the financial statements as adopted in 2019, are as follows:

Authority as lessee

The impact on the financial statements was not material where authority is a lessee. Refer to note 12 for further information on the leases.

Authority as lessor

The Authority has evaluated all leases and have determined that two leases need to be accounted as finance leases and as a result will be reported as the impact of transition to IFRS 16 in retained earnings effective January 1, 2019 in the amount of $11.6 million.

Future changes in accounting policies

Amendments to IAS 1, *Presentation of Financial Statements* [“IAS 1”] and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of materiality and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

2019	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	CONSTRUCTION IN PROGRESS $	TOTAL $
GROSS VALUE							
As at – January 1, 2019	502,123	118,765	50,198	35,418	11,088	14,367	731,959
Additions	—	—	645	1,428	—	34,227	36,300
Transfer	13,827	5,568	5,438	—	96	(24,929)	—
Disposals	(1,278)	(39)	(1,346)	(1,985)	—	—	(4,648)
As at December 31, 2019	514,672	124,294	54,935	34,861	11,184	23,665	763,611
ACCUMULATED DEPRECIATION							
As at – January 1, 2019	194,829	38,436	30,898	15,367	7,825	—	287,355
Depreciation	19,448	4,344	4,682	2,231	454	—	31,159
Disposals	(1,278)	(39)	(1,346)	(1,823)	—	—	(4,486)
As at December 31, 2019	212,999	42,741	34,234	15,775	8,279	—	314,028
NET BOOK VALUE							
As at December 31, 2019	301,673	81,553	20,701	19,086	2,905	23,665	449,583

2018	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	CONSTRUCTION IN PROGRESS $	TOTAL $
GROSS VALUE							
As at – January 1, 2018	491,577	109,165	40,325	32,274	11,155	14,741	699,237
Additions	896	—	10	—	—	36,121	37,027
Transfer	12,848	9,610	10,328	3,627	82	(36,495)	—
Disposals	(3,198)	(10)	(465)	(483)	(149)	—	(4,305)
As at December 31, 2018	502,123	118,765	50,198	35,418	11,088	14,367	731,959
ACCUMULATED DEPRECIATION							

2018	BUILDINGS AND SUPPORT FACILITIES $	RUNWAYS, ROADWAYS AND OTHER PAVED SURFACES $	INFORMATION TECHNOLOGY, FURNITURE AND EQUIPMENT $	VEHICLES $	LAND IMPROVEMENTS $	CONSTRUCTION IN PROGRESS $	TOTAL $
As at – January 1, 2018	177,559	33,995	27,526	13,777	7,395	—	260,252
Depreciation	20,468	4,451	3,837	2,014	579	—	31,349
Disposals	(3,198)	(10)	(465)	(424)	(149)	—	(4,246)
As at December 31, 2018	194,829	38,436	30,898	15,367	7,825	—	287,355
NET BOOK VALUE							
As at December 31, 2018	307,294	80,329	19,300	20,051	3,263	14,367	444,604

4. OTHER ASSETS

	2019 $	2018 $
Interest in future proceeds from 4160 Riverside Drive, at cost	**2,930**	2,930
Tenant improvements and leasehold inducements, net of amortization	**2,359**	2,320
	5,289	5,250

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% of the funds required for the acquisition. In return, the City agreed to place restrictions on the use of the lands to ensure the lands are used for purposes that are compatible with the operations of the Authority. In addition, the Authority will receive 50% of the net proceeds from any future sale, transfer, lease or other conveyance of the lands.

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 of $1.5 million towards the cost of utilities infrastructure and other site improvements. Tenant inducements associated with leased premises, including the value of rentfree periods, are deferred and amortized on a straight-line basis over the term of the related lease and recognized as part of materials, supplies and services expense effective January 1, 2019 [prior to 2019 as a reduction of land and space rental revenues]. As part of the IFRS 16 transition, the methodology in determining amortization period has changed to reflect a longer period of time and is now in line with the full term of the finance lease. This has resulted in a $0.03 million increase in the net asset compared to December 31, 2018.

5. CREDIT FACILITIES

The Authority maintains access to an aggregate of $140.0 million [2018 – $140.0 million] in committed credit facilities ["Credit Facilities"] with two Canadian banks. The 364-day Credit Facilities that expired on October 13, 2019 have been extended for another 364-day term expiring on October 13, 2020. The Credit Facilities are secured under the Master Trust Indenture *[note 7]* 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	2019 (IN MILLIONS OF CANADIAN DOLLARS)	2018 (IN MILLIONS OF CANADIAN DOLLARS)
Revolver – 364-day	October 13, 2020	General corporate and capital expenditures	**40**	40
USD contingency [USD 10 million]	October 13, 2020	Interest rate hedging	**14**	14
Letter of credit	October 13, 2020	Letter of credit and letter of guarantee	**6**	6
Revolver – 5-year	May 15, 2020	General corporate and capital expenditures	**80**	80
			140	140

As at December 31, 2019, $16.3 million of the Credit Facilities has been designated to the Operating and Maintenance Reserve Fund *[note 7[a]]*.

In order to satisfy the Debt Service Reserve Fund requirement for the Series E Bonds, an irrevocable standby letter of credit in favour of the Trustee in the amount of $5.9 million has been drawn from the available Credit Facilities.

6. 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 *[note 8[a]]* and to maintain its credit ratings in order to secure access to financing at a reasonable cost.

7. LONG-TERM DEBT

	2019 $	2018 $
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	**118,667**	123,311
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 fixed semi-annual instalments of $9,480 including principal and interest payable on each interest payment date commencing December 9, 2020 through to June 9, 2045	**300,000**	300,000
	418,667	423,311
Less deferred financing costs	**2,487**	2,711
	416,180	420,600
Less current portion	**8,753**	4,643
Long-term debt	**407,427**	415,957

(a) Bond issues

The Authority issues revenue bonds [collectively, “Bonds”] under a trust indenture dated May 24, 2002 [as amended or supplemented, the “Master Trust Indenture”]. In May 2002, the Authority completed its original $270.0 million revenue bond issue with two series, the $120.0 million Revenue Bond, Series A at 5.64% due on May 25, 2007, and the $150.0 million Amortizing Revenue Bond, Series B at 6.973% due on May 25, 2032. In May 2007, the Authority completed a $200.0 million Revenue Bonds, Series D at 4.733%, in part to refinance the Series A Revenue Bonds repaid on May 25, 2007.

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 $200.0 million Series D Bonds which matured and was repaid as planned on May 2, 2017.

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% 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 Credit Facilities, is 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 has the unfettered 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, 2019, the balance of cash and qualified investments held to satisfy the Series B Bonds in the Debt Service Reserve Fund requirement is $6.7 million. Furthermore, in order to satisfy the Debt Service Reserve Fund requirement for the Series E Bonds, an irrevocable standby letter of credit in favour of the Trustee in the amount of $5.9 million has been drawn from he available Credit Facilities. These trust funds are held for the benefit of the bondholders for use and application in accordance with the terms of the Master Trust Indenture. In addition, the Authority is required to maintain an Operating and Maintenance Reserve Fund equal to 25% of defined operating and maintenance expenses from the previous twelve months. As at December 31, 2019, $16.3 million [2018 – $15.8 million] of the Credit Facilities has been designated to the Operating and Maintenance Reserve Fund *[note 6]*.

As at December 31, 2019, the Authority is 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

	2019 $	2018 $
Bond interest	**20,287**	20,589
Other interest and deferred financing expense	**244**	229
	20,531	20,818

(c) Future annual principal payments for all long-term debt

	$
2020	8,753
2021	13,116
2022	14,023
2023	14,988
2024	16,014
Thereafter	351,773

(d) Deferred financing costs

	2019 $	2018 $
Deferred financing costs	**4,751**	4,751
Less accumulated amortization	**2,264**	2,040
	2,487	2,711

8. AIRPORT IMPROVEMENT FEES

AIF is collected by the air carriers in the price of a ticket and is paid to the Authority on an estimated basis, net of air carrier administrative fees of 6%, on the basis of estimated enplaned passengers 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 airport infrastructure development. AIF revenue is recorded gross on the statement of operations and comprehensive income, and administrative fees paid to the air carriers were $3.2 million [2018 – $3.3 million].

AIF funding activities in the year are outlined below:

	2019 $	2018 $
Earned revenue	**53,988**	54,215
Air carrier administrative fees	**(3,239)**	(3,253)
Net AIF revenue earned	**50,749**	50,962

Eligible capital asset purchases	**(35,123)**	(35,557)
Eligible interest expense	**(21,993)**	(22,168)
Eligible other expenses	**(309)**	(220)
	(57,425)	(57,945)
Deficiency of AIF revenue over AIF expenditures	**(6,676)**	(6,983)

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

	2019 $	**2018 $**
Earned revenue	**696,256**	642,268
Air carrier administrative fees	**(41,775)**	(38,536)
Net AIF revenue earned	**654,481**	603,732
Eligible capital asset purchases	**(719,424)**	(684,301)
Eligible interest expense	**(380,984)**	(358,991)
Eligible other expenses	**(1,436)**	(1,127)
	(1,101,844)	(1,044,419)
Deficiency of AIF revenue over AIF expenditures	**(447,363)**	(440,687)

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

9. 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:

	2019 $	**2018 $**
Post-employment pension benefit asset,net	**581**	–
Other post-employment benefit liability	**11,085**	9,121

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 [*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 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, 2018, that was completed and was filed in June 2019 as required by law, the plan had a surplus on a funding [going concern] basis of $3,503 assuming a discount rate of 4.00% [2017 – $7,449 surplus assuming a discount rate of 3.85%]. 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, 2018, the plan had a deficit on a solvency basis of $4,893 [2017 – $8,203] before considering the present value of additional solvency payments required under the Act. In 2019, the Authority made additional solvency payments of $979 [2018 – $1,641] to amortize this deficiency.

The next required actuarial valuation of the defined benefit pension plan, which will be as at December 31, 2019, is scheduled to be completed and filed by its June 2020 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 2019 will be approximately $979 [2018 – $1,641]. In addition, the Authority expects to contribute approximately $853 [2019 actual – $717] on account of current service in 2020 to the defined benefit component of the pension plan for the year ending December 31, 2020.

Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2018 and extrapolated to December 31, 2019 by the Authority's actuaries, the estimated status of the defined benefit pension plan is as follows:

	2019 $	2018 $
ACCRUED BENEFIT OBLIGATION – DEFINED BENEFIT PENSIONS		
Balance, beginning of year	**56,564**	60,054
Employee contributions	**112**	108
Benefits paid	**(2,154)**	(2,044)
Current service cost	**510**	590
Interest cost on accrued benefit obligation	**2,242**	2,089
Actuarial loss (gain) – change in economic assumptions	**8,751**	(4,441)
Actuarial loss (gain) – change in plan experience	**(372)**	208
Balance, end of year	**65,653**	56,564

	2019 $	2018 $
PLAN ASSETS – DEFINED BENEFIT PENSIONS		
Fair value, beginning of year	**58,564**	66,282
Employee contributions	**112**	108
Employer contributions	**547**	537
Employer contributions, special solvency payments	**979**	1,641
Benefits paid	**(2,154)**	(2,044)
Interest on plan assets [net of administrative expenses]	**2,120**	2,133
Actuarial gain (loss) on plan assets	**7,375**	(10,094)
Fair value – Plan assets	**67,543**	58,563
Effect of limiting the net defined benefit asset to the asset ceiling	**(1,309)**	(1,999)
Fair value, end of year	**66,234**	56,564
Post-employment pension benefit asset, net	**581**	—

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

	2019 $	2018 $
Current service cost	**510**	590
Interest cost on accrued benefit obligation	**2,242**	2,089
Interest on plan assets [net of administrative expenses]	**(2,041)**	(1,928)
Defined benefit pension plan expense recognized in salaries and benefits expense in net earnings	**711**	751

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:

	2019 $	2018 $
ACCRUED BENEFIT OBLIGATION – OTHER POST-EMPLOYMENT BENEFITS		
Balance, beginning of year	**9,121**	9,233
Benefits paid	**(112)**	(243)
Current service cost	**443**	480
Interest cost	**373**	332
Actuarial loss (gain) – change in economic assumptions	**1,260**	(776)
Actuarial loss – change in demographic assumptions	**—**	95
Balance, end of year	**11,085**	9,121

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

	2019 $	2018 $
Current service cost	**443**	480
Interest cost	**373**	332
Expense recognized in salaries and benefits expense in net earnings	**816**	812

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

	2019 $	2018 $
DEFINED BENEFIT PENSION PLANS		
Actuarial loss (gain) – change in economic assumptions	**8,751**	(4,441)
Actuarial loss (gain) – change in plan experience	**(372)**	208
Actuarial loss (gain) on plan assets	**(7,375)**	10,094
Effect of limiting the net defined benefit asset to the asset ceiling	**(770)**	(4,067)
OTHER POST-EMPLOYMENT BENEFIT PLANS		
Actuarial loss (gain) – change in economic assumptions	**1,260**	(776)
Actuarial loss – change in demographic assumptions	**—**	95
Total loss recognized in other comprehensive loss	**1,494**	1,113

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:

	2019 %	2018 %
DEFINED BENEFIT PENSION PLAN		
Discount rate to determine expense	**4.00**	3.50
Discount rate to determine year-end obligations	**3.00**	4.00
Interest rate on plan assets	**4.00**	3.50
Rate of average compensation increases	**3.00**	3.00
Rate of inflation indexation post-retirement [consumer price index]	**2.00**	2.00
OTHER POST-EMPLOYMENT BENEFIT PLANS		
Discount rate to determine expense		
Health care	**4.00**	3.50
Severance program	**3.75**	3.25
Discount rate to determine year-end obligation		
Health care	**3.25**	4.00
Severance program	**3.00**	3.75
Rate of average compensation increases	**3.00**	3.00
Rate of increases in health care costs		
Trend rate for the next fiscal year	**7.10**	7.40
Ultimate trend rate	**5.00**	5.00
Fiscal year the ultimate trend rate is reached	**2028**	2028

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:

	CHANGE IN ASSUMPTION	IMPACT ON OBLIGATION AFTER INCREASE IN ASSUMPTION $	IMPACT ON OBLIGATION AFTER DECREASE IN ASSUMPTION $
DEFINED BENEFIT PENSION PLAN			
Discount rate	1%	(8,751)	11,027
Inflation	1%	9,886	(8,091)
Compensation	1%	551	(104)
Life expectancy	1 year	2,164	—
Discount rate – solvency liability at December 31, 2018	1%	(9,660)	12,375
OTHER POST-EMPLOYMENT BENEFIT PLANS			
Discount rate	1%	(1,624)	2,145
Health care costs	1%	1,903	(1,437)
Life expectancy	1 year	387	(378)

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, 2019 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 2018 to adopt a strategy based on plan maturity with segmentation based on retirees and all other members. This approach involved setting up a liability matching fund for retirees and a balanced growth fund for managing the assets related to the liabilities of all other members. Under this strategy, the proportion of liability matching assets [fixed income funds and indexed annuity arrangements] will be increased and the proportion of growth assets [equity and other funds] will be decreased over time as the average age of members rises. The defined benefit plan is a closed plan. As at the date of the most recent actuarial valuation at December 31, 2018, the average age of the 16 active members was 54 years of age. The average age of the 58 retired members was 69 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.

The percentage distribution of total fair value of assets of the pension plans by major asset category as at December 31 is as follows:

	2019 %	2018 %
Fixed income fund	**14**	25
Annuity buy-in contract	**60**	62
Equity funds – Canadian funds	**6**	3
Equity funds – US funds	**0**	1
Equity funds – International and global funds	**12**	4
Emerging market fund	**3**	2
Real estate fund	**5**	3

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:

	2019 $	2018 $
Employer contributions – defined contribution plan	**1,205**	1,093
Employee contributions – defined contribution plan	**1,347**	1,215
Net expense recognized in salaries and benefits expense	**1,205**	1,093

10. FAIR VALUE MEASUREMENT

Fair values are measured and disclosed in relation to the fair value hierarchy [as discussed in *note 2*] that reflects the significance of inputs used in determining the estimates.

The Authority has assessed that the fair values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Authority's long-term debt, including Revenue Bonds outstanding, is reflected in the financial statements at amortized cost [*note 8*]. As at December 31, 2019, the estimated fair value of the long-term Series B and Series E Revenue Bonds is $151.2 million and $332.9 million, respectively [2018 – $155.3 million and $310.1 million for Series B and Series E, 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.

11. 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:

	2019		2018	
	CARRYING VALUE $	EFFECTIVE YEAR-END INTEREST RATE %	CARRYING VALUE $	EFFECTIVE YEAR-END INTEREST RATE %
Debt Service Reserve Fund [floating rates]	**6,745**	**2.41**	6,604	2.03
Cash and cash equivalents [floating rates]	**21,677**	**2.25**	30,499	2.25
Long-term debt [at fixed cost]	**407,427**	**See note 7**	415,957	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 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 the Debt Service Reserve Fund. These funds are invested from time to time in short-term bankers' acceptances and Guaranteed investment Certificates as 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 $0.2 million as a result of the Authority's exposure to interest rates on its floating rate assets and liabilities. The Authority believes, however, that this exposure is not significant 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. The Authority believes it 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 has unfettered 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 *[note 7]*, the Authority is required to take action, such as increasing its rates, should its projected debt service coverage ratio fall below 1.0. If this debt service covenant is not met in any year, the Authority is not in default of its obligations under the Master Trust Indenture as long as the test is met in the subsequent year. Because of the Authority's unfettered ability to increase rates and charges, it expects to continue to have sufficient liquidity to cover all of its obligations as they
come due, including interest payments of approximately $20.3 million per year. The future annual principal payment requirements of the Authority's obligations under its long-term debt are described in note 7(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 24 days [2018 – 27 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. Expected credit losses are maintained, consistent with the credit risk, historical trends, general economic conditions and other information, as described below, and is taken into account in the financial statements.

Impairment analysis is performed at each reporting date using a credit loss provision model to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns [i.e., airlines, concessionaires, land tenants, etc.]. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

The Authority has adopted the simplified method to evaluate the required expected credit losses provision for trade and other receivables. Approximately 98% of the Authority's accounts receivables are in the current category [less than 30 days overdue]. The Authority has recognized $260 in 2019 as an expected credit loss provision [2018 – $260] which is largely represented by the 2.52% (2018 – 2.88%) of expected credit loss rate in the less than 30 days over due category.

The Authority derives approximately 52% [2018 – 50%] 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 94% [2018 – 94%] 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. 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.

In 2005, the Government of Canada announced the adoption of a new rent policy that 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.

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.

The Authority recognizes its ground lease, as short-term lease given the payments are variable in nature. 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 a lease in the statement of operations and comprehensive income.

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:

	$
2020	10,963
2021	11,516
2022	12,044
2023	12,556
2024	13,102

The Authority as lessor

Finance leases

The Authority has entered into two land lease arrangements as a lessor that are considered finance leases. This is the result of the Authority transferring substantially all of the risks and rewards of ownership of these assets to the lessee and Authority as the lessor recognises these agreements as a receivable pursuant to the IFRS 16 standard.

Finance lease receivables are classified under non–current assets.

The maturity analysis of the finance lease receivables, including the undiscounted lease payments to be received are as follows:

	2019 $
Less than 1 year	504
1–2 years	512
2–3 years	519
3–4 years	527
4–5 years	534
Over 5 years	25,475
Total undiscounted lease payments receivable	28,071
Unearned finance income	(16,496)
Net Investment in the leases	11,575

Operating leases

In addition, the Authority also 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 under operating leases for the next five years is approximately as follows:

	$
2020	6,816
2021	7,312
2022	7,613
2023	7,844
2024	8,002

13. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2019 $	2018 $
Trade and other receivables	**(2,643)**	208
Prepaid expenses, advances and consumable supplies	**(283)**	15
Accounts payable and accrued liabilities	**(2,674)**	2,748
Other	**22**	(21)
	(5,578)	2,950

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:

	2019 $	2018 $
Salaries and short-term benefits	**2,401**	2,379
Post-employment benefits	**196**	184
	2,597	2,563

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 9 is a related party to the Authority. The Authority's transactions with the pension plan include contributions paid to the plan, which are disclosed in note 9. The Authority has not entered into other transactions with the pension plan and has no outstanding balances with the pension plan 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 *[note 12]*.

Operating and capital commitments

As at December 31, 2019, the Authority has total operating commitments from the ordinary course of business in the amount of $25.2 million [2018 – $30.7 million]. For which payments of $13.5 million relate to 2020 and diminishing in each year over the next five years as contracts expire. In addition to these operating commitments, there are further capital investment commitments related to contracts for the purchase of property, plant and equipment of approximately $25.6 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 19, 2020, when the financial statements were authorized for issue.

17. COMPARATIVE FIGURES

Certain comparative information in the balance sheet, statement of operations and comprehensive income and statement of changes in equity has been reclassified to conform with this year’s presentation.