# LEADING THE WAY

**2013** Annual Report

YYC CALGARY AIRPORT AUTHORITY

# In 2013, YYC led the way—in every way.

As a commercial and passenger gateway, the strength and growth of Calgary International Airport (YYC) is a key driver of the city, region and province's success. YYC is more than an aviation hub. It is at the heart of Calgary and Alberta's growing spirit and robust economy. In 2013, The Calgary Airport Authority met the challenge of handling record-breaking passenger volumes in the midst of the largest expansion project in YYC's history. As Canada's fastest growing airport, we plan to continue leading the way—for our partners, our passengers, our province and our prosperity.


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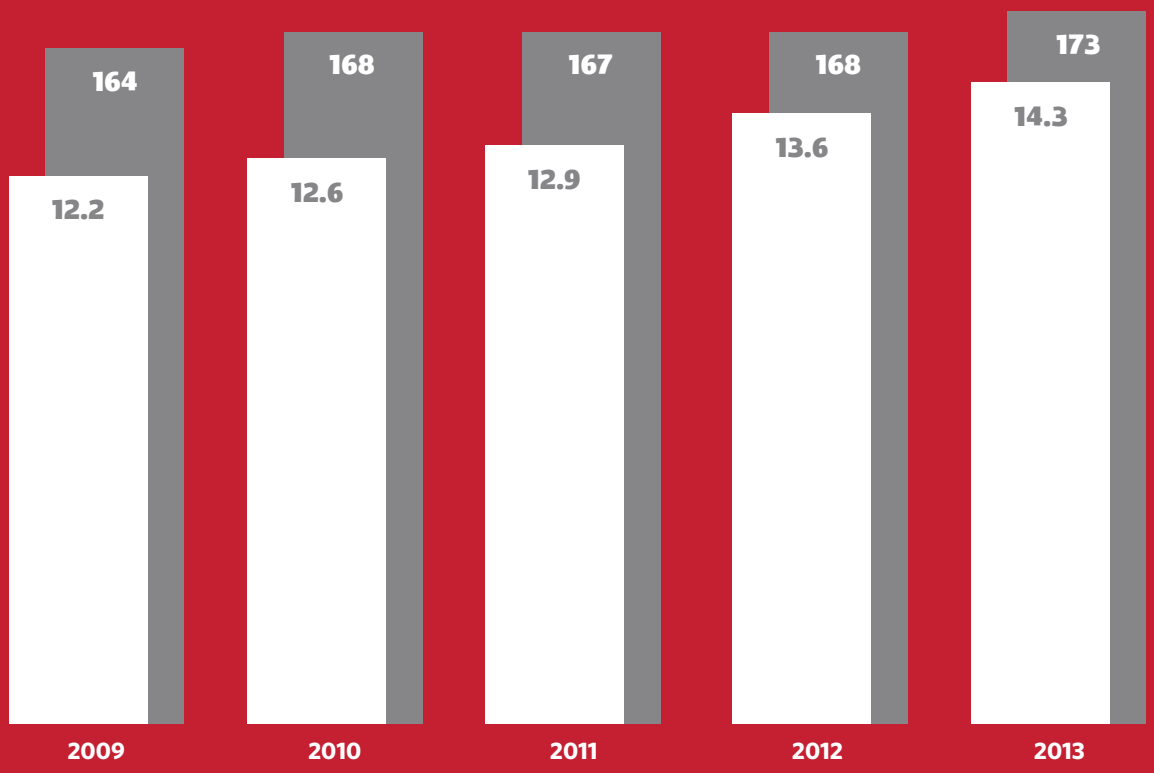
**DAVID F. SWANSON**
Board Chair,
The Calgary Airport Authority

**GARTH F. ATKINSON**
President and CEO,
The Calgary Airport Authority




**TOTAL PASSENGERS** (MILLIONS)

**TOTAL AIR CARRIER MOVEMENTS** (THOUSANDS)

| **FIVE-YEAR OUTLOOK** (MILLIONS OF DOLLARS) | **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|---|
| Total Revenues | 360 | 375 | 399 | 417 | 436 |
| Operating Expenses | 97 | 116 | 166 | 169 | 175 |
| Transport Canada Rent | 35 | 36 | 39 | 41 | 44 |
| Capital Investment | 634 | 208 | 144 | 113 | 66 |

# OPERATIONS REVIEW AND OUTLOOK

The development of a new Strategic Plan, excellent progress on the Airport Development Program expansion and the launch of WestJet Encore air service, highlighted an exceptional year at YYC. Passenger traffic increased 4.9 per cent to 14.3 million in 2013 and air carrier movements increased 2.6 per cent to 172,632. Total revenues increased 14 per cent to $351.3 million, while direct operating expenses increased 4.1 per cent to $88.7 million. Federal rent payable under the ground lease increased 18.3 per cent to $34.8 million and outstanding debentures as at December 31, 2013 totalled $1.77 billion.

Following six months of in-depth Board of Directors, staff and stakeholder development sessions, the Authority completed a new 2014–18 Strategic Plan to '**Grow the Hub**,' with four key corporate objectives:

- Safe, secure and efficient operations
- Capacity, connectivity and passenger experience
- Commercial growth and development
- Investing in our people

Excellent progress was made on the Airport Development Program (ADP) in 2013. Notwithstanding a third year of challenging weather setbacks, including the June flood which disrupted our supply chain, concrete paving on new Parallel Runway 17L-35R was largely completed and all construction works were sufficiently advanced to support the operational start-up of the runway on June 28, 2014. To support the operation of the new runway, the Authority coordinated with Nav Canada on the May 2013 opening of the new Air Traffic Control Tower, the installation of a new Category III (a) Instrument Landing System and a new multi-lateration ground radar system. The International Facilities Project (IFP) construction is now midstream with over four million person-hours of construction work completed, and the project was 96 per cent contractually committed by the end of the year.

In 2013, the Authority invested $725 million to renovate and expand airport infrastructure and to acquire vehicles, equipment and fixtures. In addition to the ADP, this investment included the following components:

- Pavement restoration and expansion
- Terminal electrical and mechanical restoration
- Redevelopment of the Airfield Maintenance Centre
- Completion of a new WestJet Encore passenger facility

In addition, a very complex project, the re-numbering of the airfield at Springbank (YBW) and Calgary (YYC) airports, was flawlessly executed and resulted in new runways 17R-35L, 11-29 and 08-26.

**Passenger traffic increased 4.9 per cent to 14.3 million.**

Operational safety and security are top priorities at YYC. The Authority completed a comprehensive external corporate safety audit in 2013 in support of the Province of Alberta – Certificate of Recognition program and was awarded a 97 per cent result. Two state-of-the-art emergency response vehicles were acquired and response time trials to the new parallel Runway 17L-35R were successfully completed. Working with our airline community, a significant improvement to ensuring consistent, reliable aircraft operations during extreme weather conditions was achieved with the installation of an Aircraft Visual Docking and Guidance System at the aircraft bridgeheads. The Authority also received a citizen's recognition award for its automated external defibrillator (AED) program after a life was saved using one of its AED units that are readily available throughout YYC.

Choices for YYC passengers increased significantly in 2013. The launch of WestJet Encore services from Calgary included new year-round non-stop flights to Ft. St. John, Nanaimo and Brandon. Air Canada increased frequency to Narita, Japan, as did KLM with their service to Amsterdam. New non-stop services were launched to Red Deer (Air Canada), Prince George (Central Mountain Air), Miami (WestJet) and Atlanta (Delta Air Lines). In addition, Air Canada announced a significant increase in YYC seat capacity to London, England and Frankfurt, Germany in the summer of 2014. Customer service continued to be foremost in the minds of our famous White Hat Volunteers. This dedicated group of over 380 volunteers brightened the day of many YYC travellers seeking information and assistance.

A significant amount of third-party aviation facility development occurred in 2013. In the YYC Global Logistics Park, Sunwest Aviation completed a new 150,000 sq. ft. hangar and charter terminal. Million Air undertook two phases of hangar and office development with a 112,000 sq. ft. addition. North West Geomatics completed 40,000 sq. ft. of new hangar and office facilities and Air Partners moved into a new 40,000 sq. ft. hangar and charter facility. Two new industrial developments with 185,000 sq. ft. were completed in other Trade Parks and construction has commenced on a hotel and new warehouse facilities in the Global Logistics Park.

The Authority's culture was recognized again with a Top 60 Employer award and we are extremely fortunate to have an agile and collaborative group of people at YYC who bring their enthusiasm, commitment and pride to work every day. Authority employees continue to be active in many community-oriented endeavours including Rotary Challenger Park, the Mustard Seed, the United Way of Calgary and Calgary Corporate Challenge.

## OUTLOOK FOR 2014

The Authority's Capital Investment Plan for 2014 is over $600 million and includes further construction on the ADP, as well as construction and acquisition in the following areas:

- Air Terminal Building restoration
- Telecommunications and IT systems improvements
- Further redevelopment of the Airfield Maintenance Centre
- Development of a new south de-icing facility

Associated with the new International Terminal Expansion, the Authority will undertake a change to the public wayfinding in 2014 in the existing Air Terminal Building. In other business operations, the Authority will undertake initiatives in the areas of safety and security, continue to expand its commercial revenue base and work with air carriers to expand YYC air services.

**Garth F. Atkinson**
*President & CEO,*
*The Calgary Airport Authority*

**David F. Swanson**
*Board Chair,*
*The Calgary Airport Authority*

# THE NEW 14,000 FT RUNWAY AND TERMINAL EXPANSION– BRINGING MORE BUSINESS TO CALGARY.

YYC's Airport Development Program is a $2 billion investment program which will enable YYC to manage passenger growth for years to come. Growth that translates into YYC being an important engine for the continued economic growth for the city, province and region.

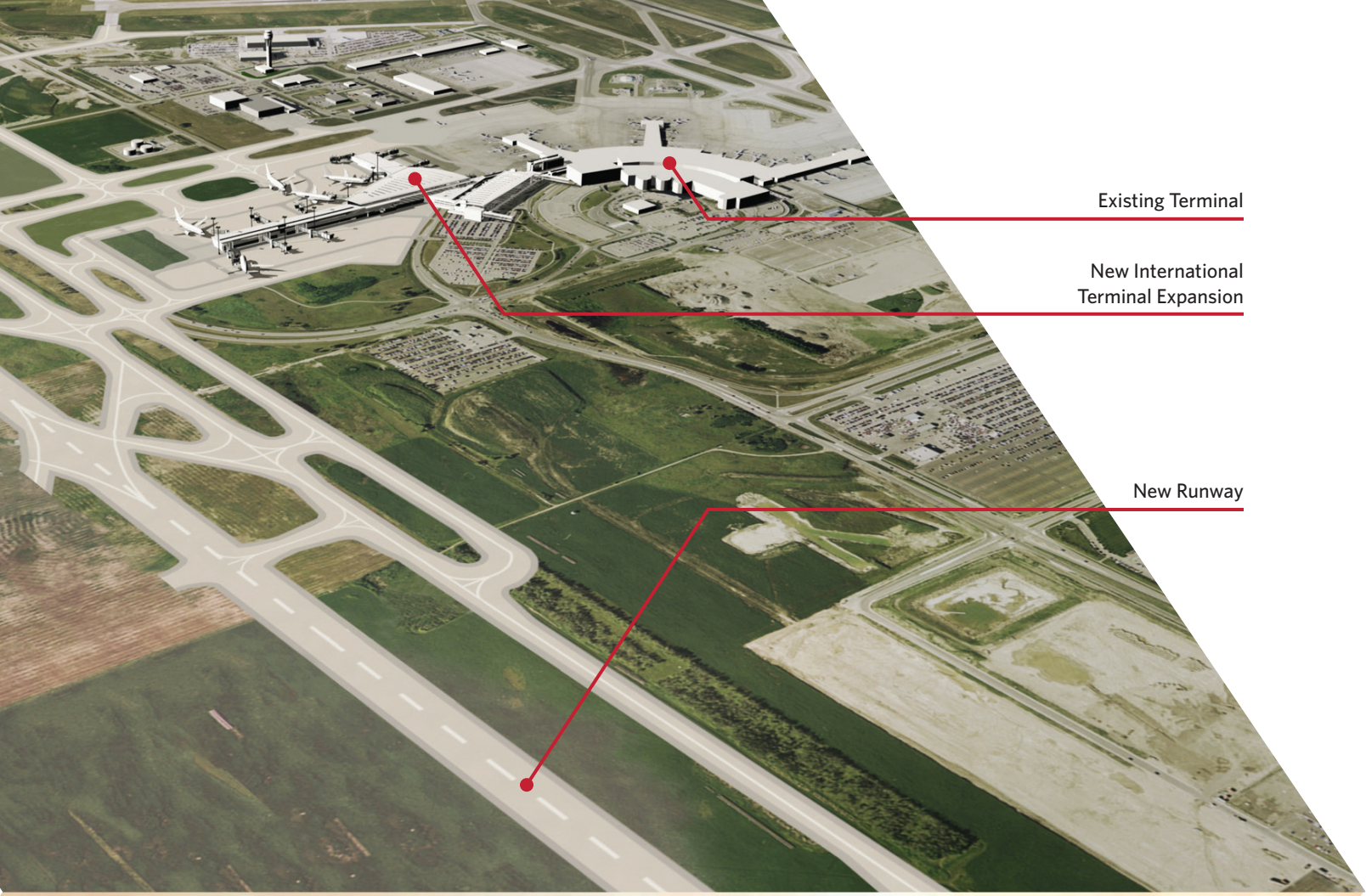
# OVERVIEW OF AIRPORT DEVELOPMENT PROGRAM

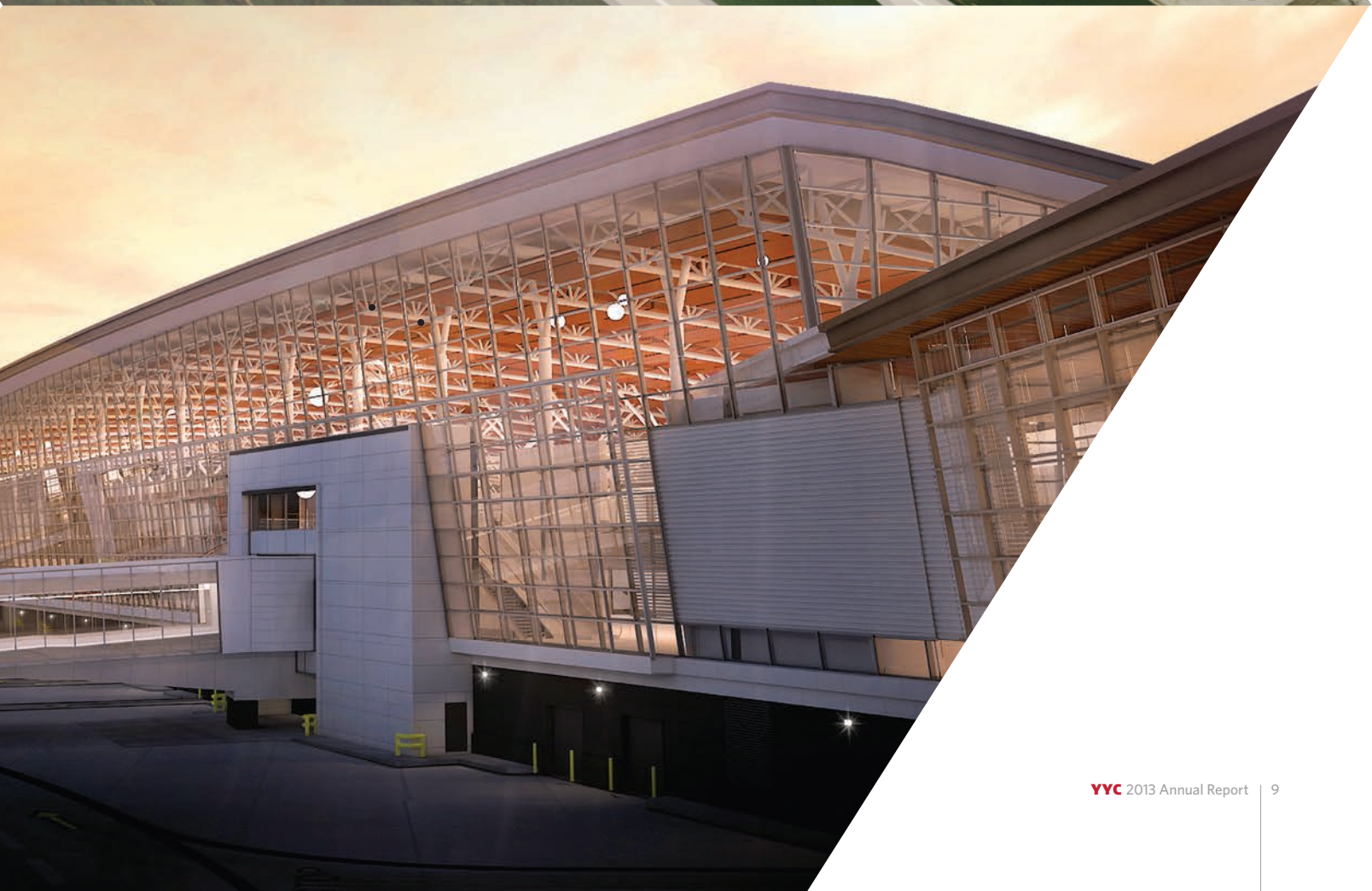
## RUNWAY DEVELOPMENT PROGRAM (RDP)

- $620 million investment
  - The project includes a 14,000 ft. long, 200 ft. wide runway
    - The runway will be code 'F' capable (A380/B747-800)
      - The new runway system will have a Cat III (a) ILS (centerline LED lighting)
        - The RDP is a complete airfield system, which includes a new runway, aircraft parking apron, taxiways and other related infrastructure
          - The RDP was constructed using:
            - 7.5 million $m^3$ of earth moved and redistributed
            - 500,000 $m^3$ of gravel
            - 260,000 $m^3$ of concrete
          - In service June 28, 2014

## INTERNATIONAL FACILITIES PROJECT (IFP)

- $1.4 billion investment
  - Five levels and 183,500 $m^2$
    - 22 new aircraft gates
      - The IFP is a green building:
        - 660 km of in-floor radiant heating tubing
        - Co-generation will save 4,900 tonnes of $CO_2$/year
        - Construction waste management – 75 per cent diversion target from landfill
        - The IFP will be developed with a high-performance building envelope
        - The concourse will operate with de-centralized mechanical and electrical systems
  - Target completion – Fall 2015


Existing Terminal
New International
Terminal Expansion
New Runway



# STRATEGIC CONTEXT

## MANDATE

We will:

- Manage and operate the airports for which we are responsible in a safe, secure and efficient manner
- Advance economic and community development by means that include promoting and encouraging improved airline and transportation service and an expanded aviation industry

For the general benefit of the public in our region.

## OUR VISION

**To be The Aviation Hub of Choice—connecting people and prosperity.**

We are an aviation hub; our business is airports. In an increasingly competitive landscape, we know people have a choice and we want people to choose YYC—a hub of economic activity, a trusted neighbour, a gateway to possibilities, a place where people, purpose and commerce connect.

## AIRPORT ROLE STATEMENTS

### Calgary International Airport

As one of Canada's busiest airports, Calgary International Airport is an important component of the Canadian civil air transportation system. The airport functions as an important hub for domestic, transborder and international passengers and air cargo. Working within the framework of the Regional Airports Authorities Act (Alberta), The Calgary Airport Authority is responsible for operating the facility in a safe and financially self-sufficient manner for the benefit of our region, Canada and the international community. The operation, development and capacity management of Calgary International Airport will be directed to supporting commercial and corporate air transport operations and their associated services.

### Springbank Airport

Springbank Airport is a certified aerodrome and the most significant general aviation airport in the Calgary region. The operations and development of Springbank Airport will be directed to supporting light aircraft activity, including flight training, recreational flying, corporate and air charter activity and compatible aircraft maintenance, manufacturing and support operations.


Our vision is to be The Aviation Hub of Choice—connecting people and prosperity.

## KEY STRATEGIC OBJECTIVES:

### 1. Safe, Secure and Efficient Operations

Safe, secure and efficient operations are essential as we work to grow the hub. Our Crew's continual focus on operational excellence makes a positive difference in the experience of our customers and the operations of our stakeholders.

***A systems based approach***

Our safety management system ensures we take a broad, systemic and proactive approach to create a safe environment – for work and for travel.

Our security systems and procedures align with other agencies to provide a seamless approach to airport security.

Emergency response processes and procedures are well documented and rigorously tested on a regular basis in cooperation with city and provincial agencies, airlines and other partners.

***Leveraging technologies and information***

Information is used as a strategic asset and our technology systems are designed to be secure and redundant and are constantly being upgraded to support our requirements and airline requirements.

***Constant vigilance***

We maintain a 24/7/365 oversight through our Airport Duty Manager office. This ensures daily operations are well coordinated and the response to issues is fast and effective.

Our operations staff are dedicated to maintaining a robust operational capability and keeping all airfield, terminal and groundside facilities functioning safely and effectively.

***A sustainable footprint***

Our environmental practices are based on a rigorous process of plans, procedures and monitoring. All new construction projects are subject to an environmental review process and we are continually assessing new technologies to improve our sustainability footprint.

***Continuous improvement***

Our YYC Crew relentlessly pursue those business practices that improve our efficiency and effectiveness. This focus means we can easily adapt and respond to changing situations and requirements.

### 2. Capacity, Connectivity and Passenger Experience

We are in the midst of completing two mega projects: a new international/transborder terminal that will add 2 million sq. ft. of space to our terminal building and a new 14,000 foot runway - the longest in Canada. Both projects will add significant capacity to YYC and the wider Canadian air transportation system.

With an expanded terminal and airfield, we will focus on ensuring passengers and baggage move and connect efficiently and effectively. By continuing to partner with local agencies, airlines and service providers and leveraging technology, we will create a simplified passenger experience that is both satisfying and memorable for all passengers travelling through YYC.

### 3. Commercial Growth and Development

Growing our commercial portfolio is key to a successful hub strategy. The focus will be on three key components:

***Passenger route network development***

Calgary is exceptionally well served today with more passenger flights to more places than any comparable city of our size. Our focus will be on working with our passenger airline partners to add new routes which provide the most strategic value to the Calgary trading region.

***Cargo route network development***

YYC has developed a significant network of dedicated cargo operations, supported by a centralized cargo village. We intend to leverage this significant base of operations to continually expand both the integrator and international all-cargo networks, supported by the synergistic growth of logistics and warehouse facilities within the cargo village.

***Commercial revenue development***

A strong portfolio of commercial revenues is essential to our long-term strategy of maintaining competitive aviation fees and being a great connecting hub airport. The new international terminal and hotel will provide significant opportunities for growth in the service sector. We also intend to be patient, strategic developers of the airport land base and ensure that land development occurs in harmony with other business objectives.

### 4. Investing in our People

Our YYC Crew is a dynamic and diverse team, committed to the success of our airports. As we undertake the most ambitious expansion program in the history of YYC, the efforts of YYC Crew members will be the foundation of our future success. By investing in our people, we will have the talent we need to take our organization forward and be sustainable over the long term. We will invest in our people through three key strategies:

***A talent management plan to support organizational development***

Our airports are developing and so must our organization. Demographic shifts, labour market changes and anticipated retirements create opportunities for effective workforce planning. We will develop a talent management plan to proactively anticipate, source, attract and retain the right talent to support a sustainable organization for the future.

***Develop our bench strength***

As a service organization, our competitive advantage lies in our people. In an industry that continually changes and an airport that continues to grow, the expectations placed on our Crew are constantly evolving. We will focus on providing our Crew with the right support, tools, training and development to continually enhance the skills and competencies needed for success.

***Deliver best in class initiatives***

We offer our Crew many programs designed to enrich the work experience at YYC. Many of our programs are best in class, including our Passport to Success orientation program, competitive total rewards package, ongoing professional development and numerous opportunities to give back to the community. We will focus on maintaining and developing programs that meet the needs of our Crew and nurture a culture where employees are recognized and valued for their contributions.

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS (AS OF DECEMBER 31, 2013)

David F. Swanson
*Board Chair*

Mel F. Belich

Larry M. Benke

Kevin E. Benson

Donald J. Douglas

Beverley K. Foy

Wendelin A. Fraser

Richard J. Hotchkiss

Donald R. Ingram

Darshan S. Kailly

Ken M. King

Laura M. Safran

B.A.R. (Quincy) Smith

P. Kim Sturgess

Stella M. Thompson

## CORPORATE SERVICE PROVIDERS

The Toronto-Dominion Bank
*Corporate Bank*

Alberta Capital Finance Authority
*Corporate Financing*

Carscallen LLP
*Corporate Legal*

Walsh LLP
*Corporate Legal*

PricewaterhouseCoopers LLP
*Corporate Auditor*

Towers Watson
*Corporate Pension Actuary*

## CORPORATE OFFICERS (AS OF DECEMBER 31, 2013)

Garth F. Atkinson
*President & Chief Executive Officer*

Bernie R. Humphries
*Vice President, Operations*

Frank J. Jakowski
*Vice President, Finance & Chief Financial Officer*

Javier Lozano
*Vice President & Chief Information Officer*

Stephan Poirier
*Senior Vice President & Chief Commercial Officer*

R.J. (Bob) Schmitt
*Senior Vice President, Planning & Engineering*

Cynthia Tremblay
*Vice President, Human Resources*

## ACCOUNTABILITY

The corporate governance processes of the Authority are structured to promote the purposes and business of the Authority as set forth in the Regional Airports Authorities Act (Alberta).

Pursuant to the Authority's Articles of Incorporation, the following four bodies appoint Directors to the Board:

- The Long Range Planning Committee of the Calgary Chamber of Commerce, which has nine members appointed to the Board
- The Corporation of The City of Calgary, which has three members appointed to the Board
- The Government of Canada, which has two members appointed to the Board
- Rocky View County, which has one member appointed to the Board

The following Board member changes occurred in 2013:

- Ken M. King – appointed April 2013
- Kevin E. Benson – term ended December 2013

## BOARD COMMITTEES

The Authority's Board of Directors has committees tasked with general oversight in specific areas. The committees and their respective chairs as of December 31, 2013, were:

| | |
|---|---|
| Audit and Finance | Donald R. Ingram |
| Governance and Compensation | B.A.R. (Quincy) Smith |
| Infrastructure Development | Mel F. Belich |
| Nominating | P. Kim Sturgess |
| Operations and Business Development | Darshan S. Kailly |

## PUBLIC AND STAKEHOLDER ACCOUNTABILITY

The Authority strives to achieve an optimal level of public and stakeholder accountability. The processes involved in achieving this level of accountability include:

- A public Annual General Meeting;
- A published Annual Report, including audited financial statements;
- An independent review of management operations and financial performance every five years, including a published report;
- Individual annual meetings with all Appointer organizations which are attended by the Board of Directors, senior management and external auditors;
- Compliance with the Canada Lease;
- Regulatory compliance;
- Meetings with key stakeholders;
- Public notice of fee changes, including the rationale for the changes;
- A community consultative committee;
- An accessibility advisory council;
- Meetings with airport operators and tenants; and
- Meetings with civic officials and community organizations.

## CODE OF BUSINESS CONDUCT AND CONFLICT OF INTEREST POLICY

The Authority Board of Directors has adopted a Code of Business Conduct and Conflict of Interest Policy. All Directors sign an attestation on an annual basis indicating knowledge of and compliance with this Policy.

## PUBLIC TENDERING

The Authority, in accordance with its Canada Lease, is required to report on all goods, services and construction contracts in excess of $100,000 that were entered into during the year and that were not awarded on the basis of a public competitive tendering process. In 2013, the following contracts met this criteria:

| Contract Description | Contract Description | Contract Value | Reason |
|---|---|---|---|
| Passenger Boarding Ramps | Keith Consolidated Industries Inc. | $180,528 | Products not supplied by any other Canadian supplier |
| Airport Trail/Barlow Trail Intersection Upgrades – Existing Traffic Signal | The City of Calgary | $214,000 | Proprietary Service Provider |
| Phase 1 of Gas Main Relocation for IFP | ATCO Gas | $160,000 | Proprietary Service Provider |

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Authority has implemented a corporate governance framework that aligns with best practices for effective corporate governance. The framework provides a structure of authority and accountability to enable the Board and Management to make timely and effective decisions, with the aim of fulfilling the stated purposes of the Authority, as set forth under the Regional Airports Authorities Act (Alberta). The Board is responsible for fostering the long-term success of the Authority, for its stewardship, for compliance with applicable laws and for promoting ethical conduct, integrity and transparency. The Directors have experience, business knowledge and sound judgment relevant to the Authority's activities; understand fiduciary responsibilities; have advocacy and consensus-building skills and abilities that complement other Board members; and are willing to devote sufficient time to the work of the Board and its committees.

The following information relates to the current corporate governance practices of the Authority:

1. The Board has adopted a strategic-planning process that includes long-term facility development and financial plans. Critical elements of these plans are reviewed by the Board on an annual basis in conjunction with the establishment of annual goals and budgets.

2. The Board is composed exclusively of unrelated, non-management Directors. Each Director must sign the Authority's Code of Business Conduct and Conflict of Interest Policy on an annual basis and follow the procedures prescribed therein with respect to disclosure of any potential conflict of interest. When a potential conflict of interest arises, the Director does not participate in any Board activities related to such potential conflict.

3. The Board has five committees and each committee has Board-approved terms of reference, an annual due diligence work plan and a chair who reports directly to the Board on the committee's activities. The Board's Chair and Governance and Compensation Committee ensure the Board's independence is respected and preserved. The Board also employs a full-time executive assistant.

4. The Authority has a number of systems in place to identify, manage and mitigate various risks, including:

   - An organizational structure with dedicated safety, security and emergency planning and response personnel;
   - Corporate policies and plans covering key governance, strategic, operational and financial issues;
   - Risk transfer through contract;
   - Environmental protection, including air and water quality, solid waste and hazardous materials management, natural resources and endangered species;
   - Incident reporting, including response and remedial procedures;
   - Comprehensive Safety Management System policies, processes and procedures; and
   - Comprehensive insurance, audit and compliance programs.

5. The Board appoints the President and CEO. Succession planning, including the appointment, training and evaluation of senior management, is regularly monitored by the Governance and Compensation Committee.

6. The Authority has a communications policy and program, which includes communication processes associated with the general public, industry stakeholders, Appointers and employees.

7. The Authority has a comprehensive management information and reporting system in place, which includes regular reporting to the Board on key financial and operational results.

8. Board appointments are made by four Appointers in accordance with the Regional Airports Authorities Act (Alberta). The Authority's Nominating Committee is responsible for providing a list of qualified nominees to the Board for submission to the Long Range Planning Committee of the Calgary Chamber of Commerce for its decision and appointment. It is also the practice of the Nominating Committee to provide suggestions regarding qualified candidates to the other three Appointers.

9. The Board has a self-evaluation process in place to review the performance of the Board and Board committees. The Authority's Governance and Compensation Committee reviews the remuneration of Directors periodically, taking into account time commitments, the scope of the responsibilities and Directors' fees at comparable airports and/or other relevant businesses.

10. Each new Director receives a comprehensive orientation, which includes a meeting with corporate counsel, facility tours and information regarding Board and corporate operations. Each Director is provided with a Directors Handbook containing relevant reference material and receives ongoing education on relevant topics.

11. A Role Statement has been developed for the Board of Directors, and position descriptions have been developed for the Board Chair and the CEO. An Authorities Framework Document, approved by the Board, defines management authorities. The Authority's corporate objectives are approved by the Board, and the CEO is assessed by the Board against these objectives on an annual basis.

12. The Authority's Governance and Compensation Committee is responsible for the monitoring of corporate governance issues and ensuring the most current applicable governance standards are recommended for Board approval. The committee's other responsibilities include:

    - Continuing assessment of the Authority's compensation policies and related practices; and
    - Providing oversight and guidance with respect to the Authority's public and governmental affairs programs.

13. All members of the Authority's Audit and Finance Committee are independent Directors. The majority of the committee members, as well as the committee chair, are required to be financially literate. The committee's responsibilities include:

    - Oversight of corporate-level financial risks and issues that affect the overall financial stewardship of the Authority;
    - Review of financial management policies and issues, including annual budgets; banking arrangements; accounting systems and procedures; internal financial controls, including fraud-risk programs; fees to airport users; significant changes to relevant legislation and accounting standards; insurance policies; statutory remittances; pension plan policies and performance; quarterly financial status reports; oversight of litigation claims, and information technology and systems;
    - Monitoring of the external and internal audit programs and preparation of the annual financial statements; and
    - Recommending the annual appointment of the external auditor.

14. Board committees have the authority to retain advisors and consultants as they deem necessary to discharge their responsibilities.

## BOARD AND COMMITTEE MEETINGS

For the period of January 1 to December 31, 2013, committee and board meeting attendance by Board members averaged 83 per cent.


**An important Canadian hub for domestic, transborder and international passengers.**

# OUR GROWING CAPACITY GENERATES GROWING PROSPERITY.

YYC generates over $6 billion in economic activity every year. Economic activity that drives Calgary and the greater region's success.

# INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of The Calgary Airport Authority**

We have audited the accompanying financial statements of The Calgary Airport Authority, which comprise the balance sheets as at December 31, 2013 and 2012 and the statements of operations and net assets and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises 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.

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Calgary Airport Authority as at December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP

**Chartered Accountants**

March 26, 2014
Calgary, Alberta

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of The Calgary Airport Authority (the "Authority") is responsible for the preparation and fair presentation, in accordance with Canadian accounting standards for private enterprises, of the financial statements. The financial statements and notes include all disclosures necessary for a fair presentation of the financial position, results of operations and cash flows of the Authority in accordance with Canadian accounting standards for private enterprises, and disclosure otherwise required by the laws and regulations to which the Authority is subject.

The Authority's management maintains appropriate accounting and internal control systems, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of the financial statements. These financial statements also include amounts that are based on estimates and judgements, which reflect currently available information.

The financial statements have been audited by PricewaterhouseCoopers LLP, an independent firm of chartered accountants, who were appointed by the Board of Directors.

The Audit and Finance Committee of the Board of Directors is composed of six directors who are not employees of the Authority. The Committee meets periodically with management and the independent external auditors to review any significant accounting, internal control and auditing matters. The Audit and Finance Committee also reviews and recommends the annual financial statements of the Authority together with the independent auditor's report to the Board of Directors which approves the financial statements.

**Garth F. Atkinson**
President & Chief Executive Officer

**Frank J. Jakowski, CA**
Vice President, Finance & Chief Financial Officer

March 26, 2014
Calgary, Alberta

# BALANCE SHEETS

| *thousands of dollars* | As at December 31 | |
|---|---|---|
| | 2013 | Restated 2012 |
| **Assets** | | |
| **Current Assets** | | |
| Cash and short-term investments | $ 233,557 | $ 283,370 |
| Interest rate swap contracts security (Note 10) | 59 | 154,322 |
| Accounts receivable | 38,158 | 35,869 |
| Inventories (Note 4) | 3,126 | 3,296 |
| Prepaid expenses (Note 19) | 2,765 | 4,429 |
| | 277,665 | 481,286 |
| **Capital and Intangible Assets** (Note 5) | 2,066,160 | 1,399,885 |
| **Other Assets** (Note 6) | 61,909 | 76,184 |
| | $ 2,405,734 | $ 1,957,355 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (Note 8) | $ 170,786 | $ 112,414 |
| Interest payable on long-term debt | 16,101 | 13,374 |
| Deferred revenue | 906 | 1,514 |
| Current portion of other long-term liabilities (Note 9) | 56,982 | 156,591 |
| | 244,775 | 283,893 |
| **Other Long-term Liabilities** (Note 9) | 13,865 | 134,304 |
| **Long-term Debt** (Note 11) | 1,772,901 | 1,365,000 |
| | 2,031,541 | 1,783,197 |
| **Net Assets** | 374,193 | 174,158 |
| | $ 2,405,734 | $ 1,957,355 |

Commitments and contingencies (Notes 7, 11, 13, 19 and 20)

Approved on behalf of the Board:

**David F. Swanson,**
Chair

**Donald R. Ingram,**
Director

(See accompanying notes to the financial statements)

# STATEMENTS OF OPERATIONS AND NET ASSETS

| *thousands of dollars* | Year ended December 31 | |
|---|---|---|
| | **2013** | **Restated 2012** |
| **Revenues** | | |
| Airport improvement fees | $ 142,239 | $ 114,454 |
| Terminal fees | 49,858 | 46,609 |
| Concessions | 49,274 | 46,220 |
| Car parking | 38,777 | 35,995 |
| Aircraft landing fees | 34,515 | 32,939 |
| Land rental | 14,108 | 12,558 |
| Other aeronautical fees | 10,563 | 9,212 |
| Space rental | 5,056 | 4,998 |
| Other revenue | 6,936 | 5,157 |
| | 351,326 | 308,142 |
| **Expenses** | | |
| Goods and services | 58,195 | 57,334 |
| Canada Lease (Note 13) | 34,761 | 29,395 |
| Interest (Note 18) | 24,320 | 25,621 |
| Salaries and benefits | 22,673 | 20,257 |
| Property taxes | 7,841 | 7,643 |
| Airport improvement fee collection costs | 7,086 | 5,704 |
| Amortization | 94,819 | 99,923 |
| | 249,695 | 245,877 |
| **Earnings from Operations** | 101,631 | 62,265 |
| **Other Income (Loss):** | | |
| Realized and unrealized change in fair value of forward starting interest rate swap contracts (Note 10) | 93,746 | (31,529) |
| Actuarial gain on post-employment pension benefits (Note 14) | 4,658 | 81 |
| **Net Income** | 200,035 | 30,817 |
| **Net Assets, Beginning of Year, as Previously Reported** | 174,158 | 152,334 |
| Change in accounting policy (Note 2, 14) | - | (8,993) |
| **Net Assets, Beginning of Year, Restated** | 174,158 | 143,341 |
| **Net Assets, End of Year** | **$ 374,193** | **$ 174,158** |

(See accompanying notes to the financial statements)

# STATEMENTS OF CASH FLOWS

| *thousands of dollars* | Year ended December 31 | |
|---|---|---|
| | 2013 | Restated 2012 |
| **Cash provided by (used for):** | | |
| **Operations** | | |
| Net Income | $ 200,035 | $ 30,817 |
| Add (deduct) non-cash items: | | |
| Amortization | 94,819 | 99,923 |
| Loss (gain) on disposals | 840 | 78 |
| Accrued retiring allowance | (2,512) | 247 |
| Interest rate swap contracts realized and unrealized (gain) loss | (93,746) | 31,529 |
| Actuarial (gain) on post-employment pension benefits | (4,658) | (81) |
| | 194,778 | 162,513 |
| Change in non-cash working capital: | | |
| Accounts receivable | (2,289) | (7,535) |
| Inventories | (91) | 91 |
| Prepaid expenses | 1,664 | 929 |
| Accounts payable and accrued liabilities | 16,541 | 16,103 |
| Interest payable on long-term debt | 2,727 | (162) |
| Deferred revenue | (608) | 126 |
| Cash flow from operations | 212,722 | 172,065 |
| **Financing** | | |
| Increase in long-term debt | 407,901 | 532,000 |
| Interest rate swap contracts settlement | (120,206) | (155,376) |
| Other asset | (231) | (66) |
| Repayments of other long-term liabilities | (210) | (505) |
| Total financing activities | 287,254 | 376,053 |
| **Investing** | | |
| Investment in capital and intangible assets | (761,906) | (494,100) |
| Investment in interest rate swap contracts security | 170,053 | 123,112 |
| Proceeds from disposals | 234 | 219 |
| Change in accounts payable and accrued liabilities related to capital and intangible assets | 41,830 | 13,468 |
| Total investing activities | (549,789) | (357,301) |
| **(Decrease) Increase in Cash** | **(49,813)** | **190,817** |
| **Cash and Short-term Investments, Beginning of Year** | **283,370** | **92,553** |
| **Cash and Short-term Investments, End of Year** | **$ 233,557** | **$ 283,370** |
| Cash and short-term investments consist of: | | |
| Cash in bank | $ 24,358 | $ 5,784 |
| Short–term investments | 209,199 | 277,586 |
| | **$ 233,557** | **$ 283,370** |

**Supplementary Information** (Note 18)

(See accompanying notes to the financial statements)

# NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

## 1 DESCRIPTION OF BUSINESS

The Calgary Airport Authority (the "Authority") was incorporated in July 1990 under the Regional Airports Authorities Act (Alberta) (the "Act") as a non-share capital corporation. The mandate of the Authority, as defined in the Act, is to manage and operate the airports for which it is responsible in a safe, secure and efficient manner and to advance economic and community development by means that include promoting and encouraging improved airline and transportation service and an expanded aviation industry; for the general benefit of the public in its region.

The Authority has operated Calgary International Airport since July 1992, under a lease from the Government of Canada (the "Canada Lease"). The Canada Lease has an initial term of 60 years with a 20-year option that was exercised in 2011. In October 1997, the Authority entered into a lease with the Government of Canada for the operation of Springbank Airport for a term concurrent with the Canada Lease term. The Authority has an option to purchase Springbank Airport for one dollar at any time during the term of the lease.

Pursuant to the Act, the Authority shall operate as a not-for-profit corporation and as such, the Authority reinvests all net income in the capital renovation and expansion requirements of the airports for which it is responsible. In addition to the investment of net income, the Authority is authorized to borrow to invest in airport infrastructure, and current borrowings are detailed in Note 11. Capital includes investment in both leasehold and freehold assets of the Authority, as detailed in Note 5. Renovation requirements are determined through life-cycle management processes and physical asset inspections, while expansion requirements are determined in reference to airport capacity and demand. Capital requirements are generally determined on an annual basis in conjunction with the Authority's Business Plan, although larger projects may involve financial commitments that extend beyond one year. The Authority conducts an annual re-evaluation of projected economic conditions and facility demand factors.

At December 31, 2013, the Authority was in compliance with all externally imposed requirements regarding the management of capital. Failure to comply with these requirements could potentially result in the Authority being deemed non-compliant with the terms of the Canada Lease, the Airport Improvement Fee Agreement (Note 3) and the Credit Agreement (Note 11).

## 2 CHANGES IN ACCOUNTING POLICIES

**Change in Accounting Policy**

In May 2013, the Canadian Accounting Standards Board issued a new accounting standard for Section 3462, Employee Future Benefits (Note 14). The accounting standard was effective as of January 1, 2014, but early adoption of the standard was permitted. Management reviewed the standard and undertook early adoption for 2013. The early adoption of the change in accounting policy from the deferral and amortization to immediate recognition of pension benefits resulted in a restatement of the previously reported December 31, 2012 financial statements including an adjustment to the opening Net Assets for January 1, 2012 of the accumulated effect of adopting the standard of $8.993M. The effect on the 2012 financial statements was a reduction in Salaries and benefits of $222,000; a reduction in Other assets of $5.315M and an increase in Other long-term liabilities of $3.375M.

## 3 SIGNIFICANT ACCOUNTING POLICIES

**Accounting Standards for Private Enterprises**

These financial statements have been prepared in accordance with Canadian Accounting Standards for Private Enterprises ("ASPE") which sets out generally accepted accounting principles ("GAAP") for Canadian enterprises which adopt ASPE.

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. Actual results could differ from these estimates.

**Airport Improvement Fees**

The Authority derives revenue from the Airport Improvement Fee (the "AIF"), which is collected by air carriers pursuant to an agreement among various airports in Canada, The Air Transport Association of Canada and air carriers serving Canadian airports that are signatories to the agreement (the "AIF Agreement"). Pursuant to the AIF Agreement, signatory airlines receive a 5 per cent collection fee. AIF revenue is used to fund the costs of new airport infrastructure and costs of major improvements to existing facilities at Calgary International and Springbank Airports, as well as related financing costs, debt repayment and the collection fee retained by the signatory airlines. The AIF as at December 31, 2013 was $30 (2012 - $25) for each originating passenger departing Calgary International Airport.

**Cash and Short-term Investments**

Cash and short-term investments comprising pooled money-market funds are recorded at fair value.

**Accounts Receivable**

Accounts receivable are reported net of any allowance for bad debts that are estimated to occur. The allowance for 2013 is $60,733 (2012 - $35,663). Bad debt expense of $1,951 (2012 - $38,484) has been included in Goods and services in the Statements of Operations and Net Assets.

**Inventories**

Inventories of consumable supplies are stated at the lower of cost (cost being determined using the weighted average cost of materiel purchased) and net realizable value.

**Capital and Intangible Assets**

Capital and intangible assets are recorded at cost and amortized over their estimated useful lives at the following annual rates:

| | | |
|---|---|---|
| Vehicles | 18–30% | declining balance |
| Machinery & equipment | 5–15 years | straight-line |
| Computer equipment | 3 years | straight-line |
| Furniture & fixtures | 10 years | straight-line |
| Intangibles – computer software | 3 years | straight-line |

The various components of the air terminal building, other buildings and structures and roadways and airfield surfaces are amortized on a straight-line basis over 5 to 60 years, based on the estimated economic useful life of the component asset, limited to the term of the Canada Lease. These assets will revert to the Government of Canada upon the expiration of the Canada Lease.

The Authority has previously purchased Land for operational purposes and future development. The Canada Lease requires that at commencement of development the applicable Land be transferred to the Government of Canada at which time the Authority reclassifies the Land to Leased land and commences amortization on a straight-line basis over the remaining full fiscal years of the Canada Lease.

Construction work in progress is capitalized to Construction in progress at cost. Costs are transferred to the appropriate capital asset account, and amortization commences when the project is completed and the assets become operational.

**Impairment of Long-lived Assets**

The Authority uses a two-step process for determining whether an impairment of long-lived assets should be recognized in the financial statements. If events or changes in circumstances indicate that the carrying value of a long-lived asset may have been impaired, a recoverability analysis is performed based on the estimated undiscounted future cash flows to be generated from the asset's operations and its projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the long-lived asset is written down to its estimated fair value and an impairment loss is recognized in the statement of operations.

**Capitalized Interest**

Interest costs associated with the long-term debt utilized for the construction of capital assets are capitalized until the assets are placed in service and are being amortized based on the estimated average life of the assets constructed on a straight-line basis over a 25-year period.

**Employee Future Benefits**

The Authority has a retirement pension plan for all permanent employees and term employees who have completed 24 months of continuous service. The retirement pension plan has both defined benefit and defined contribution components. The Authority does not provide any non-pension post-retirement benefits. Actuarial valuations for post-employment pension benefit plans are calculated annually by accredited actuaries using the projected benefits method. The related post-employment pension benefit asset/liability recognized in the statements of financial position is the present value of the post-employment pension benefit obligation at the balance sheet date less the fair value of plan assets, if any. The present value of the post-employment benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses are recognized in full in the period in which they occur, in net income. Current service cost, the recognized element of any past service cost and the interest arising on the pension plan are included in salaries and benefits on the Statements of Operations and Net Assets. Past service costs are recognized immediately to the extent the benefits are vested. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Authority can unilaterally reduce future contributions to the plan. The change in the long-term pension benefit obligation in the year is recognized in the Statements of Operations and Net Assets.

**Deferred Revenue**

Deferred revenue consists primarily of land leasing, space rental and aeronautical fee revenue received in advance of land or facilities being utilized.

**Revenue Recognition**

Landing fees, terminal fees and car parking revenues are recognized as the airport facilities are utilized. Concession revenues are recognized on the accrual basis and calculated pursuant to the related agreements if the amount to be received can be reasonably estimated and collection is reasonably assured. Rental income from land and terminal space is recognized at the commencement of each month when rent is due. Other income is recognized when earned or received. The AIF revenue is recognized when originating departing passengers board their aircraft as reported by the airlines.

**Leases**

The Canada Lease and Springbank Lease are accounted for as operating leases.

**Financial Instruments**

Cash, short-term investments, accounts receivable, accounts payable and accrued liabilities and demand operating loans are initially measured at fair value and subsequently carried at fair value. Long-term debt is initially measured at fair value and subsequently carried at amortized cost. The forward starting interest rate swap contracts are initially measured at fair value and subsequently carried at fair value (Note 10).

**Fair Value**

The fair value of the Authority's financial instruments, other than long-term debt and forward starting interest rate swap contracts, approximates their carrying value due to their short-term nature. The realized and unrealized change in the fair value of the forward starting interest rate swap contracts (Note 10) is recognized in the Statements of Operations and Net Assets and disclosed separately in the Balance Sheets until the contracts are settled.

**Forward Starting Interest Rate Swap Contracts**

The Authority has utilized forward starting interest rate swap contracts (the "Swap Contracts") (Note 10) to manage interest rate risk on its anticipated future long-term borrowings associated with the major expansion of airport infrastructure. ASPE does not recognize hedge accounting for these Swap Contracts. The realized and unrealized change in the fair value of the Swap Contracts is recognized in the Statements of Operations and Net Assets and disclosed separately in the Balance Sheets until the Swap Contracts are settled.

## 4 INVENTORIES

At December 31, 2013, all inventories are carried at weighted average cost. During the year, $2.2 million (2012 - $2.2 million) was recognized as an operational expense in Goods and services, of which a nominal amount for obsolescence for both years was written off.

## 5 CAPITAL AND INTANGIBLE ASSETS

| *thousands of dollars* | As at December 31, 2013 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| **Capital Assets** | | | |
| Land | $ 3,303 | $ - | $ 3,303 |
| Leased land | 24,513 | 2,004 | 22,509 |
| Air terminal building | 795,776 | 466,602 | 329,174 |
| Other buildings & structures | 234,815 | 74,874 | 159,941 |
| Roadways & airfield surfaces | 324,516 | 119,684 | 204,832 |
| Computer equipment | 23,558 | 20,329 | 3,229 |
| Vehicles | 31,765 | 15,115 | 16,650 |
| Machinery & equipment | 19,709 | 12,360 | 7,349 |
| Furniture & fixtures | 12,049 | 6,063 | 5,986 |
| Construction in progress | 1,223,408 | - | 1,223,408 |
| Capitalized interest | 112,631 | 24,700 | 87,931 |
| | 2,806,043 | 741,731 | 2,064,312 |
| **Intangible Assets** | | | |
| Computer software | 19,355 | 17,507 | 1,848 |
| | **$ 2,825,398** | **$ 759,238** | **$ 2,066,160** |

| *thousands of dollars* | As at December 31, 2012 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| **Capital Assets** | | | |
| Land | $ 3,303 | $ - | $ 3,303 |
| Leased land | 24,513 | 1,602 | 22,911 |
| Air terminal building | 767,722 | 415,546 | 352,176 |
| Other buildings & structures | 224,122 | 59,760 | 164,362 |
| Roadways & airfield surfaces | 306,300 | 103,680 | 202,620 |
| Computer equipment | 22,792 | 19,777 | 3,015 |
| Vehicles | 24,048 | 16,390 | 7,658 |
| Machinery & equipment | 16,726 | 11,784 | 4,942 |
| Furniture & fixtures | 11,213 | 5,546 | 5,667 |
| Construction in progress | 575,752 | - | 575,752 |
| Capitalized interest | 77,343 | 21,606 | 55,737 |
| | 2,053,834 | 655,691 | 1,398,143 |
| **Intangible Assets** | | | |
| Computer software | 18,574 | 16,832 | 1,742 |
| | **$ 2,072,408** | **$ 672,523** | **$ 1,399,885** |

Interest in 2013 of $35.3 million (2012 - $17.8 million) in respect to borrowings for infrastructure expansion under the long-term debt facility was capitalized.

## 6 OTHER ASSETS

| *thousands of dollars* | As at December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Pension benefit asset (Note 14) | $ 1,283 | $ - |
| Forward starting interest rate swap contracts security (Note 10) | 60,000 | 75,790 |
| Other assets | 626 | 394 |
| | $ 61,909 | $ 76,184 |

## 7 OPERATING LINE OF CREDIT

The Authority has a $35.0 million operating line of credit (the "Operating Facility") bearing interest at the bank's prime lending rate plus applicable pricing margin. The Operating Facility is unsecured and repayment terms are on demand. Letters of Credit drawn on the Operating Facility for specific operational expenses and capital projects amounting to $7.8 million were outstanding at December 31, 2013 (2012 - $7.5 million).

## 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Goods and services taxes payable to the Government of Canada as at December 31, 2013 were $NIL (2012 - $NIL) and are included in accounts payable and accrued liabilities.

## 9 OTHER LONG-TERM LIABILITIES

| *thousands of dollars* | As at December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Security deposits (a) | $ 2,203 | $ 1,929 |
| Retiring allowance (b) | 625 | 3,137 |
| Deferred Canada Lease rent (c) | 968 | 1,452 |
| Forward starting interest rate swap contracts (Note 10) | 67,051 | 281,002 |
| Pension benefit liability (Note 14) | - | 3,375 |
| | 70,847 | 290,895 |
| Less: Current portion | | |
| Security deposits (a) | 468 | 325 |
| Retiring allowance (b) | 543 | 1,460 |
| Deferred Canada Lease rent (c) | 484 | 484 |
| Forward starting interest rate swap contracts (Note 10) | 55,487 | 154,322 |
| | 56,982 | 156,591 |
| | $ 13,865 | $ 134,304 |

a. The Authority receives cash security deposits or letters of credit from commercial operators and new airline operators to provide the Authority with security on the associated potential accounts receivable.

b. The Authority no longer has the obligation to accrue a retiring allowance for all permanent employees. The value outstanding is the accrued amount deferred by employees until retirement.

c. In 2003, the Authority entered into an agreement with Transport Canada to defer a portion of the Canada Lease rent payments. The deferred rent is being paid, without interest, over a 10-year period to 2015. The Authority has segregated the deferred rent cash into a separate investment account (included in Cash and short-term investments), and annual payments are made from this account.

## 10 FORWARD STARTING INTEREST RATE SWAP CONTRACTS

The Authority established an interest rate hedge program (the "Hedge Program") to manage interest rate risk on its anticipated future long-term borrowings associated with the major expansion of airport infrastructure. The purpose of the Hedge Program and Swap Contracts was to fix the effective rate of interest at approximately 5% on anticipated borrowings for the Airport Development Program (Note 20) that commenced in 2011.

The Hedge Program consisted of the placement of 17 quarterly forward starting interest rate swap contracts (the "Swap Contracts") placed with the Toronto Dominion Bank (the "TD Bank"). The term, notional amount and timing of the Swap Contracts were based on the Authority's forecasted borrowing profile over the quarterly periods from March 2011 to March 2015. The anticipated borrowings will be made by debenture under the Credit Agreement (the "Credit Agreement") with the Alberta Capital Finance Authority (the "ACFA"). The first Swap Contract settled in March 2011 and the remaining 16 contracts have settled or will settle in each consecutive subsequent quarter through March 2015.

The Swap Contracts are secured by an initial cash deposit of $60.0 million and additional cash security, in minimum increments of $5.0 million, is required when the mark to market (the "MTM") value of the Swap Contracts is greater than negative $85.0 million. Correspondingly, the Authority has the right to margin call any excess amounts over the $85.0 million, in similar $5.0 million increments, in the event the MTM value of the contracts diminishes by $5.0 million or more. The MTM is determined and quoted by TD Securities. The Authority has the right to terminate any of the Swap Contracts at any time prior to maturity; however, the Authority currently has no intention of terminating the 2015 Swap Contract early.

The Swap Contracts were placed at various fixed interest rates ranging from 4.85% to 5.30% on the notional debt principal amounts ranging from $13 million to $137 million. The Swap Contracts MTM value is derived by comparing the present value of each original Swap Contract to the present value of equivalent swap contracts with the same notional value and term, but at current rates. At December 31, 2013, the MTM value of the Swap Contracts as determined by TD Bank was a negative $67.1 million (2012 - $281.0 million). The four Swap Contracts maturing in 2014 have a MTM of negative $55.5 million (2012 - $154.3 million). The total positive change in the fair value of the Swap Contracts in 2013 was $93.7 million (2012 – negative $31.5 million). The cash settlement paid for the four Swap Contracts in 2013 was $120.2 million (2012 - $155.4 million).

## 11 LONG-TERM DEBT

The Authority's Credit Agreement with ACFA was amended in August 2013 and has a maximum credit commitment of $2.5 billion to finance the construction and acquisition of capital assets. Borrowings under the Credit Agreement are secured by a Fixed and Floating Charge Debenture including Assignment of Leases and Rents.

The ACFA debentures issued and outstanding prior to December 31, 2003 (series 2002) require annual interest payments on the anniversary date of issue, while all new debentures issued subsequent to this date require semi-annual interest payments. Throughout the period when any debentures are outstanding, the Authority is required to maintain an interest coverage ratio, as defined, of not less than 1.25:1 and net cash flow greater than zero, as determined as of the end of any fiscal quarter on a rolling four fiscal quarter basis. The Authority is in compliance with all required debt covenants.

The bullet debentures issued and outstanding under the Credit Agreement are:

| *thousands of dollars* | | | As at December 31 | |
|---|---|---|---|---|
| | | | **2013** | **2012** |
| Series | Interest Rate | Due Date | Debenture Amount | Debenture Amount |
| 2002-4 | 6.0625% | February 15, 2017 | $ 50,000 | $ 50,000 |
| 2002-8 | 6.3125% | April 2, 2017 | 25,000 | 25,000 |
| 2002-9 | 6.0625% | December 16, 2022 | 70,000 | 70,000 |
| 2004-10 | 5.1245% | December 1, 2023 | 20,000 | 20,000 |
| 2005-12 | 4.5440% | February 15, 2015 | 25,000 | 25,000 |
| 2005-13 | 4.9590% | April 6, 2020 | 25,000 | 25,000 |
| 2007-14 | 4.7950% | February 15, 2027 | 50,000 | 50,000 |
| 2010-15 | 4.6790% | February 16, 2025 | 25,000 | 25,000 |
| 2010-16 | 4.6640% | March 15, 2025 | 30,000 | 30,000 |
| 2010-17 | 3.1870% | June 15, 2015 | 50,000 | 50,000 |
| 2011-19 | 4.5440% | March 15, 2031 | 13,000 | 13,000 |
| 2011-20 | 4.2760% | June 15, 2031 | 25,000 | 25,000 |
| 2011-21 | 3.7575% | August 11, 2031 | 100,000 | 100,000 |
| 2011-22 | 3.8080% | September 19, 2031 | 100,000 | 100,000 |
| 2011-23 | 3.5590% | December 15, 2031 | 75,000 | 75,000 |
| 2012-24 | 3.4750% | February 15, 2032 | 50,000 | 50,000 |
| 2012-25 | 3.4670% | March 15, 2032 | 137,000 | 137,000 |
| 2012-26 | 3.4140% | April 2, 2032 | 25,000 | 25,000 |
| 2012-27 | 3.4200% | June 29, 2032 | 200,000 | 200,000 |
| 2012-28 | 3.4005% | September 17, 2032 | 86,000 | 86,000 |
| 2012-29 | 3.2460% | October 4, 2032 | 75,000 | 75,000 |
| 2012-30 | 3.1340% | December 17, 2027 | 109,000 | 109,000 |
| 2013-31 | 3.2580% | March 15, 2028 | 89,000 | - |
| 2013-32 | 3.4090% | June 17, 2028 | 98,000 | - |
| 2013-33 | 4.2580% | September 16, 2033 | 113,000 | - |
| 2013-34 | 4.0590% | December 1, 2033 | 107,901 | - |
| | | | $ 1,772,901 | $ 1,365,000 |

The Authority has a Letters of Credit Facility ("L/C Facility") with the Toronto-Dominion Bank to a maximum of $55.0 million for issuance of Letters of Credit in respect to requirements under the Credit Agreement to secure 50% of the annual interest payable to ACFA. The L/C Facility is secured such that it ranks pari passu with the Credit Agreement. At December 31, 2013, the contingent indebtedness under the L/C Facility was $13.8 million (2012 - $9.5 million).

## 12 INCOME TAXES

Pursuant to the Canada Lease, income that may reasonably be regarded as being derived from airport business is exempt from federal and provincial income taxes. All reported income in 2013 and 2012 is considered to be derived from airport business and therefore exempt from income tax.

## 13 OPERATING LEASE COMMITMENTS

The Authority pays an annual lease rental payment based on a sliding scale percentage of gross revenue to Transport Canada pursuant to the Canada Lease.

The estimated lease rental payment obligations over the next five years are:

| *thousands of dollars* | | |
|---|---|---|
| 2014 | $ | 34,400 |
| 2015 | | 36,210 |
| 2016 | | 38,990 |
| 2017 | | 41,190 |
| 2018 | | 43,510 |

The Authority is committed to payments under operating leases for vehicles, equipment and office space for the next four years amounting to:

| *thousands of dollars* | | |
|---|---|---|
| 2014 | $ | 315 |
| 2015 | | 320 |
| 2016 | | 293 |
| 2017 | | 236 |

## 14 PENSION FUNDS

The Authority sponsors a registered pension plan (the "Plan") for its employees that has both defined benefit and defined contribution components. The defined benefit plan was closed to new employees effective August 1, 2013. For certain individuals whose benefits are limited under the Plan, that portion that is in excess of the maximum benefits permitted under the Plan by the Canada Revenue Agency is payable out of general revenue and charged to a notional pension expense. Pensions payable from the defined benefit components are generally based on a member's average annual earnings near retirement and indexed annually to 100% of the Canadian Consumer Price Index. The Authority accrues its obligations and related costs under the Plan, net of Plan assets.

The Authority has adopted various policies in respect to the Plan.

a) The cost of pensions under the defined benefit component earned by employees is actuarially determined using a funding valuation for the Registered Plan and an accounting valuation for the Non-Registered Plans which was the projected benefit method and assumptions for the discount rate, salary escalation and retirement ages of employees.

b) The pension cost for the defined contribution component is equal to the contributions made by the Authority to the Plan during 2013.

c) Plan assets are valued at fair value for the purpose of calculating the expected return on the Plan assets.

d) At December 31, 2013, the assets for the defined benefit component were invested in various pooled funds managed by Pyramis Global Advisors, a Fidelity Investments Company and certain TD Securities index funds.

e) Due to the nature of the benefit promise, the Authority's defined benefit obligation cannot be accurately predicted. Gains and losses arise because of changes in assumptions and from experience differing from what has been assumed. Under CICA 3462, these gains and losses are recognized immediately in the Statements of Operations and Net Assets.

f) Differences in the actual return on plan assets and the return using the discount rate are recognized immediately in the Statements of Operations and Net Assets.

g) The last actuarial valuation for funding purposes was prepared as at January 1, 2013. The next scheduled actuarial valuation for funding purposes will be performed as at January 1, 2014.

h) The Authority uses a December 31 measurement date.

The Authority's pension cost for 2013 amounted to a negative $1.0 million (2012 – positive $3.6 million) for the defined benefit component and $164,000 (2012 – $144,000) for the defined contribution component, and the pension expense in respect of the notional account is $95,000 (2012 – $66,000).

Based on an actuarial valuation dated January 1, 2013, and extrapolated to December 31, 2013, the status of the Authority's Plan is as outlined below.

| *thousands of dollars* | As at December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Market value of Plan assets | $ 72,651 | $ 60,966 |
| Pension benefit obligations | 71,368 | 64,341 |
| Pension benefit (asset) liability | $ (1,283) | $ 3,375 |

Accrued pension benefit obligations as of December 31, 2013 include $12.2 million (2012 – $11.9 million), which will be funded from the Authority's general revenues rather than Plan assets. This pension obligation is pursuant to the Letter of Undertaking signed June 1992, which guaranteed that benefits earned after the Plan's effective date will not be less than the pension and indexing provisions under the Public Service Superannuation Act and the Supplementary Retirement Benefits Act (Minimum Guarantee) in respect of eligible Plan members at that date.

The Authority's policy is to invest fund assets primarily in a balanced or diversified manner in accordance with the Pension Benefits Standards Act, with set maximums and minimums in Fixed income securities, Canadian equities, Foreign equities and Short-term investments. The asset allocation of the defined benefit balanced fund at December 31 was:

| | 2013 | 2012 |
|---|---|---|
| Fixed income securities | 37% | 42% |
| Canadian equities | 28% | 28% |
| Foreign equities | 35% | 30% |
| Short-term investments | 0% | 0% |

The significant actuarial assumptions adopted in measuring the Authority's pension benefit obligation are:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Registered Plan | Non-Registered Plan | Registered Plan | Non-Registered Plan |
| Discount rate | | | | |
| a) Year-end pension benefit obligation | 6.00% | 4.75% | 6.00% | 4.00% |
| b) Net benefit cost | 6.00% | 4.00% | 6.00% | 4.50% |
| Rate of salary increases | 3.00% | 3.00% | 3.00% | 3.00% |
| Pre/Post retirement indexing | 2.25% | 2.25% | 2.25% | 2.25% |

Other information about the Authority's Plan is:

| *thousands of dollars* | 2013 | 2012 |
|---|---|---|
| Employer contributions (defined benefit and minimum guarantee) | $ 1,484 | $ 1,513 |
| Employer special contribution (defined benefit) | 2,298 | 2,232 |
| Employer contributions (defined contribution) | 164 | 144 |
| Employee contributions (defined contribution) | 482 | 464 |
| Benefits paid | 1,650 | 1,461 |

The employer special contribution of $2.3 million ($2.2 million in 2012) was the required annual payment in 2013 to fund the solvency deficiency as determined by the January 1, 2013 actuarial valuation.

## 15 FINANCIAL ASSETS AND LIABILITIES

**Risk Management**

The Authority's Board is responsible for understanding the principal risks of the business in which the Authority is engaged, achieving a proper balance between risks incurred and the legislated purpose of the Authority and confirming that there are systems in place that effectively monitor and manage those risks with a view to the long-term viability of the Authority. The Board

has established the Audit and Finance Committee, which reviews significant financial risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Authority's ability to achieve its strategic and operational targets. The Board is responsible for confirming that management has procedures in place to mitigate identified risks.

**Credit Risk**

The Authority is subject to credit risk through its accounts receivable, which consist primarily of aeronautical fees and Airport Improvement Fees owing from air carriers and concession fees owing from concession operators. The majority of concession fees owing are settled on a monthly basis 15 days after the end of each month. The majority of aeronautical fees owing are billed every seven days and settled 15 days thereafter. The majority of Airport Improvement Fees owing are settled on a monthly basis on the first day of each subsequent month. Accounts receivable credit risk is reduced by the Authority's requirement for letters of credit, customer credit evaluations and maintaining 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. In addition, the Authority's ability to increase its rates and fees provides further mitigation of these risks. At December 31, 2013, the aging analysis of accounts receivable identified no impairments.

**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. The Authority achieves mitigation of liquidity risk through funds generated by operations and ready access to sufficient long-term funds as well as committed lines of credit through a credit facility. The Authority has a policy to invest its cash balances in short-term pooled money market funds whose underlying investment policy restricts these investments to federal and provincial government securities and in securities of larger, high investment-grade rated Canadian institutions.

**Foreign Currency Risk**

The Authority's functional currency is the Canadian dollar, and major purchases and revenue receipts are transacted in Canadian dollars. Management believes that foreign exchange risk from currency conversions is negligible.

**Interest Rate Risk**

Interest rate risk arises because of fluctuations in interest rates. The Authority is exposed to interest rate risk on its cash in interest-bearing accounts, short-term investments and its operating line of credit which are maintained to provide liquidity while achieving a satisfactory return. The Authority is also exposed to interest rate risk associated with future borrowings and refinancing requirements and the Authority's Hedge Program and Swap Contracts were established to offset and mitigate these risks (Note 10).

**Market Risk**

The Authority has no market risk other than the Foreign Currency Risk and Interest rate Risk noted above.

## 16 DIRECTORS' AND OFFICERS' REMUNERATION AND EXPENSES

In compliance with the Authority's governance practices and as required by the Regional Airports Authorities Act (Alberta) and the Canada Lease, the Authority outlines individually the Directors' and Officers' remuneration and in the aggregate their respective remuneration and expenses.

a) Authority Directors' Remuneration and Expenses

The remuneration schedule for the Board of Directors during 2013 was as follows:

| | | | |
|---|---|---|---|
| Non-executive Authority Chair | $ | 80,000 | per annum |
| Committee Chairs | | 6,500 | per annum |
| Directors (excluding Authority Chair) | | 12,000 | per annum |
| Board meeting fees | | 1,250 | per meeting |
| Board Committee meeting fees | | 1,250 | per meeting |
| Ad hoc meeting fees | | 1,250 | per meeting |
| Telephone attendance meeting fees | | 625 | per meeting |

Total compensation during 2013 for each Director:

| | | | |
|---|---|---|---|
| Swanson, David F. (Chair) | $ 120,625 | Ingram, Donald R. | $ 44,125 |
| Belich, Mel F. | 44,125 | Kailly, Darshan S. | 31,667 |
| Benke, L.M. (Larry) | 33,875 | King, Ken M. | 19,125 |
| Benson, Kevin E. | 21,375 | Safran, Laura M. | 27,625 |
| Douglas, Donald J. | 31,958 | Smith, B.A.R. (Quincy) | 41,625 |
| Foy, Beverley K. | 39,500 | Sturgess, P. Kim | 41,625 |
| Fraser, Wendelin A. | 28,875 | Thompson, Stella M. | 28,250 |
| Hotchkiss, Richard J. | 24,500 | | |

Total remuneration for the Board of Directors during 2013 was $578,875 (2012 – $379,882). Expenses incurred by Authority Directors during 2013 totalled $7,365 (2012 – $13,623). Changes to the Authority's Board of Directors during 2013 were as follows:

| | | |
|---|---|---|
| Appointed: | April 2013 | King, Ken M. |
| Term Completed: | December 2013 | Benson, Kevin E. |

b) Authority Officers' Remuneration and Expenses

| Officer Position | Incumbent as of December 31, 2013 | Base salary as of December 31, 2013 |
|---|---|---|
| President & CEO | Garth F. Atkinson | $ 420,714 |
| Senior VP & Chief Commercial Officer | Stephan Poirier | 272,431 |
| Senior VP Planning & Engineering | R.J. (Bob) Schmitt | 272,431 |
| VP Operations | Bernie R. Humphries | 237,415 |
| VP Finance & CFO | Frank J. Jakowski | 237,415 |
| VP & Chief Information Officer | Javier Lozano | 225,000 |
| VP Human Resources | Cynthia M. Tremblay | 225,000 |

Total remuneration to Officers during 2013 was $2,449,212 (2012 – $2,034,342). Expenses incurred by Authority Officers during 2013 totalled $359,661 (2012 – $345,600).

## 17 RELATED PARTY TRANSACTIONS

During the year, the following related party transactions occurred with individuals who are Board members of the Authority. These transactions occurred in the normal course of business.

Mr. David Swanson, Chairman of the Board, is the Director of Business Development for GEC Architecture ("GEC"). The Authority contracted with GEC to act as Prime Consultant for the design and planning for the renovation and expansion of the existing terminal building at Calgary International. The Authority paid GEC for service rendered in 2013 of $1,028,744 (2012 - $1,599,270) which are capitalized to work in progress. Included in accounts payable is an amount due GEC of $133,140 (2012 - $214,991).

Mr. Richard Hotchkiss, Director of the Authority, is the President and CEO of Sunwest Aviation Ltd. ("Sunwest"). Sunwest leases land at Calgary International providing both hangar and aviation charter services. Sunwest made payments to the Authority in respect to the land lease and aeronautical fees in 2013 of $1,019,012 (2012 - $690,645), which are included in revenue under Land rental, Aircraft landing fees and other Aeronautical fees. Included in accounts receivable is an amount due from Sunwest of $102,004 (2012 - $71,920).

## 18 SUPPLEMENTARY INFORMATION

| *thousands of dollars* | | As at December 31 | | |
|---|---|---|---|---|
| | | **2013** | | **2012** |
| **a)** | **Cash Interest Paid and Received** | | | |
| | Interest paid | $ 56,784 | $ | 43,860 |
| | Interest income received | 4,271 | | 4,925 |
| **b)** | **Interest Expense** | | | |
| | Interest on long-term debt | $ 24,223 | $ | 25,548 |
| | Other interest expense | 97 | | 73 |
| | | $ 24,320 | $ | 25,621 |

## 19 CONTINGENCIES

The Authority is party to legal proceedings in the ordinary course of business. Management does not expect the outcome of any proceeding to have a material adverse effect on the financial position or results of operations of the Authority.

In 2006, the Authority became a subscriber to the Canadian Airports Reciprocal Insurance Exchange ("CARIE"). CARIE was established for the purpose of collectively insuring airport property by permitting the subscribers to exchange reciprocal contracts of indemnity or inter-insurance as provided for in applicable legislation. CARIE has purchased full property reinsurance in excess of $2.0 million per occurrence and $4.0 million in aggregate, with subscribers carrying $100,000 deductible per occurrence. The Authority made a subscriber's contribution to CARIE in respect to possible future property losses and additional premiums attributable to CARIE, based on the Authority's total insured property value as compared to the total insured property value of the seven subscribing airports. The contribution to CARIE is carried by the Authority as a prepaid expense.

In June 2011, the Authority entered into a Tunnel Sublease and Licence (the "Tunnel Agreement") with the City of Calgary (the "City"). The Tunnel Agreement, which has an initial term of 41 years with an option under certain conditions to extend the term for a further 20 years, requires the City to extend Airport Trail east, across airport lands and, among other things, to construct, operate and maintain an associated tunnel under Runway 17L/35R. Under the terms of the Tunnel Agreement the Authority will provide all required airport lands at no cost to the City. The Tunnel Agreement also provides for a cost-sharing arrangement regarding future interchanges along Airport Trail at 19th Street and Barlow Trail. The first phase of these interchanges, which will enhance access to and egress from airport facilities, will be constructed at a time to be determined by the City and at that time, the Authority has agreed to pay $20 million towards the associated cost. Although there is no timeframe specified in the Tunnel Agreement, the Authority expects the first phase of interchanges may be constructed within ten years of the opening of the tunnel, which is scheduled for 2014. The second phase of the interchanges, or components thereof, will be constructed when traffic volume service levels at the first phase of interchanges reach a proscribed level and, at that time, the Authority has agreed to contribute 50% towards the acquisition cost of the necessary third-party land and the associated construction project. The second phase of interchanges is not expected to be required until at least 20 years after the completion of the first phase and the scope, timing and cost, which is subject to further agreement with the City, is not reasonably determinable at this time.

## 20 CONTRACTUAL OBLIGATIONS

In November 2010, the Board approved the Airport Development Program ("ADP") which is comprised of two major projects, the Runway Development Project ("RDP") and the International Facilities Project ("IFP") and major construction on both projects commenced in 2011. The ADP has a budget of $2,047.0 million and the scheduled construction completion dates for the RDP and IFP are May 2014 and October 2015 respectively. As at December 31, 2013, the contractually committed portion of total construction work on the RDP and IFP was 100% and 96% respectively.

## 21 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

# THE CALGARY AIRPORT AUTHORITY 2013 EMPLOYEES

Ackerman, Nedine
Adair, Ivan
Adams, Blaine
Adams, Christopher
Adamson, Merilee
Adelantar, Ashley
Affleck, Cathy
Ahmed, Michael
Allana, Shahid
Allen, Arthur
Allen, Bobbi
Armstrong, Chris
Arnott, Billie-Jo
Arsenault, Garnette
Atkinson, Garth
AuCoin, Byron
Ayers, Don
Baisi, Joe
Baziuk, Dan
Bentley, Susan
Berger, Chad
Bernard, Lisa
Bieche, Leo
Blacklock, Peggy
Bliss-Richer, Natascha
Borgo, Lori
Boyd, Nathalie
Broom, Karen
Brown, Jason
Brown, Jessica
Bruce, Shelley
Carr, Kari
Caton, Steve
Chan, Ray
Charlesworth, Stephen
Cheng, Paul
Chenier, Dionne
Chin, Christine
Chowdhury, Tanvir
Christie, Charlene
Chua, Sam
Clark Hatch, Shannon
Cook, Art
Correa, Francisco
Croll, Jim
Dancause, Stephanie
Dean, Liana
Demers, Stacy
Devlin, Colleen
Dillon, John
Dragon, Linda
Duguay, Carol
Edwards, Don
Eng, Robin
Epp, Les
Erskine, Jackie
Evaskevich, Patti
Fang, Allen
Ferguson, Barry
Fernandez, Ryan
Fessler, Ken
Flette, Dale
Fox, Phil
Francoeur, Doug
Fredette, Gerry
Gadhoke, Ashvin
Gaida, Brad
Galambos, David
Gamboa, Ivonne
Garrett, Colleen
Gayle, Chris
Gayle, Karina
Geeson, Neil
Giefert, Pam
Grant, Jim
Green, George
Grey, Debi
Grey, Lenn
Guerin, Jeanie
Gyorfi, Robert
Hatch, Falon
Hayher, Amitpal
Heath, Mike
Heffernan, Kevin
Hein, Derwin
Herback, Paul
Hexspoor, Carolynn
Higgins, Mike
Hilton, Jackie
Hobbs, Kim
Hof, Tim
Hoffer, Wade
Horne, Laura
Huisman, Jason
Humphries, Bernie
Hunchak, Rod
Hutchinson, Raymond
Ingram, Brad
Ip, Anita
Jakowski, Frank
Janssen, Betty
Jensen, Darin
Johnston, Scott
Jones, Doug
Kadwal, Kulwant
Kam, Peggy
Kelly, Shannon
Kindrat, Gary
Kirk, Darcy
Kirsch, Bernadette
Klein, Paulette
Knowles, Sharon
Koehler, Gary
Kolsun, Don
Koshowski, Natasha
Kowalski, Keith
Kucy, Ginny
Kutac, Stefan
Langley, Mike
Latter, Roy
Lavigne, Len
Lawn, Alan
Lawrence, Paul
Leduke, Shauna
Leedham, Simon
Leeman, David
Leroux, Ruth
Lightfoot, Jim
Liu, John
Lozano, Javier
Machalek, Darren
Mackay, Mark
Maher, Derek
Maher, Elise
Maher, Kaleigh
Mantle, Sara
Martsch, Sheila
Mazur, Lauren
McClung, Russ
McFarlane, Bruce
McGillan, James
McLeod, Roy
McNichol, Jill
Mejia, Marco
Mills, Bill
Moseley, Jody
Munn, Evelyn
Murphy, Dylan
Myers, Joanne
Nagassar, Dalip
Newland, Larry
Nicolson, Cameron
Niergarth, Cathy
Ostensoe, Derek
Pajak, Ola
Papp, Dennis
Paron, Tony
Partington, Brian
Pelletier, Devan
Penman, Bruce
Pezzetta, Candace
Poirier, Stephan
Praestegaard, James
Price, Greg
Procyk, Christopher
Quintin, Susan
Quinton, Gerry
Ralph, Robbie
Raven, Nicole
Read, Matthew
Reddiar, Shanti
Rehill, Partap
Reid, Doug
Reid, Thomas
Rodrigues, Sergio
Rohling, Mary Ann
Rooney, Cliff
Ruel, Mark
Sanders, Terry
Sands, Sean
Schmidt, Ron
Schuler, Yvette
Searcy, James
Sehn, Cory
Servos, John
Shearing, Caroleigh
Sidhu, Ravjeet
Slupski, Alan
Smith, Amanda
Smith, Bart
Smoliak, Chris
Stahl, Debbie
Stamp, Colette
Stanfield, Logan
Stanley, Keith
Stevenson, Kevin
Stock, Larry
Stockall, Dwight
Stolz, Paul
Sturtevant, Laura
Tarleton, Grant
Tchir, Bryan
Tharakan, Mammen
Thompson, Terry
Tremblay, Cynthia
Trnavskis, Melyssa
Tuazon, Jeffrey
Undheim, Sig
Urbanowski, Sarah
Vieira, Susana
Wald, Michael
Ward, Steve
Warme, Steve
Waterhouse, Rich
Watson, Rex
Whittaker, Shawnah
Wiltshire, Jennifer
Wirsch, Brian
Yates, Greg
Yu, Andy
Zachary, Shaun
Zyderveld, Leonard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**THE CALGARY AIRPORT AUTHORITY**
2000 Airport Road NE, Calgary, AB T2E 6W5
Tel: 403 735 1200 Fax: 403 735 1281

**ANNUAL GENERAL MEETING**
**Aero Space Museum of Calgary**
4629 McCall Way NE, Calgary, AB
April 17, 2014, 11 a.m.