The airport that works

Annual Report 2004

Ottawa Macdonald-Cartier International Airport Authority
Ottawa Macdonald-Cartier International Airport Authority 2004 Annual Report

Vision
Building connections to the world

Mission
Working with its partners, the Airport Authority will be a leader in providing affordable, safe and secure world-class airport facilities and services to the community and all airport customers.

Strategic directions
- to provide affordable and safe world-class facilities that integrate proven technologies and processes;
- to provide the Airport’s diverse and dynamic customer base with a high level of customer service;
- to foster and maintain partnerships that contribute to the viability of the airport and the economic growth of the community;
- to optimize earnings for reinvestment in airport improvements while keeping airline charges constant; and
- to maintain and enhance our employees’ commitment to the Airport Authority’s mission and objectives.

Organizational values
- to meet and exceed the expectations of our stakeholders; and
- to conduct our affairs responsibly, with integrity and transparency.
Chairman’s Message

Without a doubt, 2004 was a banner year for the Ottawa International Airport despite the challenges we continued to face in the industry as a whole. Because many of the crises had diminished somewhat, the Authority could focus on operations in its new home.

After many years of planning and construction, 2004 marked the first full year of operations in the new terminal. It is difficult to imagine that a project of this magnitude could be so successful, but it was — and we are thrilled with the results. Based on the feedback we have received, so is the community.

The numbers tell the story. We surpassed the results that were achieved in 2001, when we were set to break all traffic records until the tragic events of September 11th unfolded. The subsequent decline in travel, the failure of airlines and the increased costs for security and policing have had an impact. Fortunately, however, people are flying again — and in record numbers. In 2004, 3,609,885 passengers flew to or from the Ottawa Airport, making this the best year in our history.

In 2004, the Airport Authority received the results of an economic impact study that confirmed that the Ottawa Airport is a significant economic generator for the region; more than 4,200 direct jobs, 4,900 indirect jobs, and $283 million in total annual employment income are directly attributable to the airport. Overall the airport is responsible for more than $1 billion in economic activity each year, and plays a major role in supporting business and tourism and quality of life in the National Capital Region, which makes us very proud.

Success does not come without vision, leadership, hard work and above all, commitment. I extend my personal thanks to Paul Benoit who has provided the team with an extraordinary level of stewardship since the Airport Authority was formed in 1997. Working closely with the senior management team, the Airport Authority has consistently met and exceeded its objectives.

The entire team is to be commended for staying focused, taking ownership of the new terminal and displaying the initiative necessary to make positive changes. Together, this group has made the new terminal a symbol of pride for the entire community, and I thank every one of them for their efforts.

I have the good fortune of working with an outstanding group of colleagues on the Board of Directors. Each brings his or her own unique perspective and expertise, and I would like to thank them for their continued dedication to the Authority.

We said farewell to several Board members whose terms expired in 2004. I would like to take this opportunity to formally acknowledge them and thank them, on behalf of my colleagues, for their contributions over the years.

Claude Bennett saw us through much of the Airport Expansion Program as Chairman of the Board. His leadership and dedication to the program contributed significantly to the outstanding results that were achieved.

Carmen Rodrigue and Regis Trudel served the Board with distinction during their tenures, and we will miss their wise counsel and commitment to the success of both the airport and the Airport Authority.
We had the pleasure of welcoming several new directors to the Board including Michel Belley, Eric McSweeney and Michael Skrobica. Based on their contributions to date, I am confident that their addition to the team will reflect positively on the Airport Authority in the coming years.

I speak for the entire Board when I say that the future looks bright for the Ottawa International Airport. In collaboration with the senior management team, we have developed a comprehensive long-term vision that will set increasingly high standards for safety, security, customer service, prudent financial management and environmental responsibility. These areas represent the foundation upon which the Airport Authority was established, and they will continue to provide a solid footing for the future.

Operating this airport is truly a team effort, a passion and a culture. When you add it all up, the result is undeniable: this is the airport that works.

Signature

Snow removal on the runways
President’s Message

It was a busy year at the Ottawa International Airport after the long-awaited passenger terminal building became a reality near the end of 2003. We spent much time, particularly early in 2004, getting accustomed to our new home and working together to make adjustments and improvements to the systems that we had installed.

I would like to begin by thanking the many customers who contacted us this year – we received many suggestions that we incorporated into the adjustments that we made during 2004. In fact, we received 244 comment cards, 1,164 comments via the Internet and 50 letters over the course of the year. That is almost 1,500 contacts – on average, four notes per day – each one of which received a personal reply. It is obvious that people care about their airport and want to make it the best that it can be.

Passenger volumes hit record levels in 2004. In the first half of 2001, we were on track to break all previous records for passenger traffic. Then, as we all know, tragedy struck on September 11th. The airline industry felt the impact immediately. In 2002, people started to fly again, albeit gradually, and in 2003 the numbers were even more encouraging.

This past year, more than 3.6 million people flew in and out of the Ottawa Airport, a 10.7% increase over 2003. A combination of more direct flights from Ottawa, more charter flights to southern destinations and the public’s need to get out of the cold winter weather all contributed to the strength of the results.

Higher passenger volumes have resulted in the need for more covered parking. The planning and design for the expansion of our parking facilities began in 2004 – construction will start in 2005. As well as keeping a very close eye on the finances, we will do our best to minimize the disruption for our customers.

In May, the Transportation Health and Safety Association of Ontario (THSAO) recognized the Airport Authority for its commitment to maintaining a healthy and safe work environment. THSAO presented the Authority with an achievement award for operating with an injury frequency and cost rate factor below the rate group average for three consecutive years. In fact, out of 1,300 employers in the transportation sector, our results were 20% lower than the sector average. The team’s commitment to health and safety is to be commended.

October 12, 2004, was a very proud moment for the entire Airport Authority team. It was on that day, the first anniversary of the opening of the new passenger terminal, that we launched Project Clear Skies, a community giving program designed to give back to our community, one that has been so essential to the success of our operations.

In 2004, we funded a number of registered charitable organizations in the community through Project Clear Skies. Knowing that someone who is visually impaired will have a guide dog or that a person who is facing death because of a terminal illness will have a comfortable bed in a peaceful environment is very important to us. These are just two of the seven projects that were funded this year. My thanks to the committee and all those who helped bring Project Clear Skies to fruition.

I have addressed the issue of federal rent in past reports, but feel that it is an issue that bears repeating.

By way of background, the Ottawa Airport had a net book value of $75 million when it was transferred to the Airport Authority in 1997. Since that time, we have paid more than $52 million in federal rent and invested more than $310 million to build the new terminal, combined services...
building and de-icing facility. We have also generated surplus revenues that were invested directly back into the operation to make improvements such as modernizing the airport’s heavy equipment, some of which dated back to the 1960s.

The government must address the rent issue and offer a fair and equitable solution for all airports. Why, for example, should this community be required to pay more in airport rent than the combined rents of the Edmonton, Winnipeg and Halifax airports, when all three have similar passenger volumes to ours? How much studying does the government need to do the right thing? We have no choice but to keep fighting on behalf of our community.

The outstanding results that were achieved in 2004 are possible only through the collaboration of a first-rate group. The Authority employees and the Infoguide volunteers are creative, hard-working, focused and responsible, and they strive to make the customer experience a better one each and every day. I extend my thanks and appreciation to every member of the Authority team.

I would also like to thank the Board of Directors, under the leadership of Chairman Jim Durrell, for its guidance and trust.

Let me end by thanking the community for the enthusiastic support that has been shown to the Ottawa International Airport. The partnership that we have developed over the years is an important key to our success — past, present and future.
More visitors, stronger partnerships as we settle into our new home

After the excitement of completing Phase I of the Airport Expansion Program (AEP) in October 2003, the question on everyone’s mind was, what now? As it turned out, there was plenty to do in 2004, a year filled with challenges, triumphs and good news for the community.

Not unlike moving into a newly constructed house, we still had work to do after taking occupancy of the new terminal literally overnight. Input from the general public and from employees around the campus provided excellent direction as we determined where to focus our attention. Adding significantly more seating throughout the terminal, streamlining systems and making technical adjustments, improving signage, and constructing a protected waiting area for taxi queues are just a few of the improvements that occurred during the year.

And, we are not done yet.

We will continue to make adjustments in collaboration with our tenants and partners as we go forward.

Record-setting passenger volumes

The airport was a hive of activity this past year, with more passengers flying than ever before. We ended the year with excellent results in all sectors.

This 10 percent hike in volume over 2003 set a new record for the Ottawa International Airport. As a result, every aspect of the operation was busier. From greater demand on the common use systems and equipment, to more customers being served in the restaurants, business at the airport saw significant growth in 2004.

We commissioned an economic impact survey during 2004 that confirmed what we have believed all along: providing 4,200 direct jobs, the Ottawa International Airport has a major impact on the economic landscape of Ottawa-Gatineau, injecting more than $1 billion into the local economy every year.

The kind of success we have experienced – particularly in 2004 – since the Airport Authority was established is largely the result of the strong, unwavering and unparalleled support from our partners and the community. As a fitting way to mark our first anniversary in the new terminal, we launched Project Clear Skies, a charitable giving program. Project Clear Skies gives us the opportunity to say thank you and to make a difference from the ground up in the communities that we serve.

Without a doubt, 2004 was an outstanding year, one on which we can build for the future together as we continue to offer the airport that works.

<table>
<thead>
<tr>
<th>Passengers</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>2,736,779</td>
</tr>
<tr>
<td>Transborder</td>
<td>641,157</td>
</tr>
<tr>
<td>International</td>
<td>231,949</td>
</tr>
<tr>
<td>Total</td>
<td>3,609,885</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Passengers</th>
<th>Increase over 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>9.8%</td>
</tr>
<tr>
<td>Transborder</td>
<td>9.0%</td>
</tr>
<tr>
<td>International</td>
<td>27.1%</td>
</tr>
</tbody>
</table>
2004 at a glance:
Putting our strategic objectives into action

We provided safe world-class facilities...

Baggage screening

Working in partnership with the Canadian Air Transport Security Authority, new screening equipment was successfully integrated into our baggage-handling systems. This allowed us to implement 100 percent hold-bag screening for all domestic, transborder, and international flights, which means that every piece of baggage that is loaded onto an aircraft will be electronically screened.

Crime Stoppers

The airport community came together early in the year to plan and launch a campus-wide Crime Stoppers Program in cooperation with the Ottawa Police Service. This is the first such program in a Canadian airport. With all employees keeping a closer eye on what happens in and around the airport, the program has already achieved results. As just one example, several members of a counterfeiting ring were arrested as they attempted to fly to their next Canadian target city, tools of their trade in hand.

Crime Stoppers is an excellent companion program to our already successful Airport Watch. In 1999, in partnership with the Ottawa Police Service and the RCMP, the Airport Authority developed the first Canadian Airport Watch program. Under the program, security-cleared aviation enthusiasts are recruited to voluntarily provide additional security around the airport. Spotters monitor general aviation, the airport perimeter, parking lots and other airport property, suspicious behaviour and flying debris, such as newspapers and candy bar wrappers. This program is now being used as a model at other airports around the world.

Emergency preparedness

The Airport Authority leads and participates in regular exercises designed to prepare various stakeholders for emergency situations. These exercises involve not only Airport Authority employees, but all partners who may have a role to play should we find ourselves facing a real-life crisis.

Other organizations working with us include the Ottawa Police Service, the Ottawa Fire Services, the Canadian Red Cross and the Ottawa Paramedic Service, among others.

Paramedics

The City of Ottawa provided, on a trial basis in 2004, on-site paramedics to attend to all ground-side (non-secure areas of airport property) medical emergencies from 7:00 a.m. to 7:00 p.m., Monday to Friday. Having this level of medical attention on site has proven to be a positive experience for
everyone involved — our passengers, visitors and employees receive immediate attention, the paramedics have the opportunity to assess and treat situations, and ambulances are dispatched to the airport only when necessary, leaving them available for other emergencies in Ottawa.

Winter operations and airside maintenance

The new year came in with a flurry of snow — and it exited in much the same way. We had 56 what are known as “snow events” during 2004, giving us a total of 188.7 cm of snow, seven freezing-rain events for a total of 23.8 mm of ice, along with significant rainfall over the course of the year.

When inclement weather hits, whether it is freezing rain, heavy snow or frigid cold, aircraft filled with passengers still manage to take off and land at the Ottawa Airport, mainly on time, thanks, in large part, to the valiant efforts of Airport Authority employees.

Maintaining the airside (secure area) surfaces such as runways, taxiways and aprons during the winter months is a tremendous challenge and requires the collaboration of our seasonal mechanical driver–operators, our equipment mechanics, the airside operations team and employees from the Airport Operations Response Centre.

During a heavy snowfall cleanup, the operation can look like a carefully choreographed ballet with each member of the team playing a well-defined role. Knowing the location of each piece of equipment at all times compensates for little or no visibility during such events. Meanwhile, an equally competent response team takes care of the roadways in and around the airport, including the parking structure and parking lots.

The Airport Authority also introduced “pre-event” meetings in 2004, to ensure a coordinated approach to impending snowstorm or freezing rain conditions. All airlines, ground handlers and de-icing providers discuss their concerns with the Airport Authority and share information with respect to issues and concerns based on past events.

State-of-the-art technology

The new passenger terminal was designed to include state-of-the art technology both for the comfort of our visitors and for the efficiency of the facility. In addition to the highly integrated systems that were installed in the new terminal, we continue to introduce technologies and features that further enhance the technological platform.

As an example, in 2004 we implemented an energy-conservation program that includes photo sensors in the lighting system that control certain fixtures, adjusting them depending upon the availability of natural light in the terminal. As well, our new escalators are designed to slow down — thereby using less energy — when they are not carrying people. Increased attention to conservation is yielding important energy savings for the Airport Authority and helping the environment at the same time.

Airport Operations Response Centre (AORC)

The AORC was established to provide a single point of contact for reporting issues and concerns regarding the terminal building, airside operations, parking structure and airport property.

Using Helpstar technology, the centre is able to track all calls, assign trouble-ticket numbers, confirm the receipt and number back to the originator, and track activity on the file until it is closed. Summary reports allow us to track trouble areas, which then allows us to implement solutions as required.
BizPark

BizPark, an innovative parking option for frequent business travellers, has been a great success. As of December 31, 2004, the system boasted more than 400 registered users. For a small premium over regular parking rates, BizPark customers are guaranteed a parking spot close to the enclosed walkways to the new terminal building. This provides easy access to check-in kiosks and pre-boarding screening.

Here we grow again

The use of our new covered parking facility, which opened on October 12, 2003, has exceeded our expectations. During peak times, the facility is more than 80 percent full. The result? We need more space. Planning and design work have begun on an extension to the parking facility that will add 900 spaces. Construction will start in 2005 with completion expected in 2006.

We are currently exploring Phase II of the Airport Expansion Program, which will involve both building an addition to the domestic end of the new terminal and demolishing the old terminal. This is a project that will be undertaken only when the passenger volumes dictate its necessity and our finances dictate its feasibility.

We provided our customers with excellent service...

Accessibility

Barrier-free access for all is a continuing priority for the Airport Authority. To improve the level of assistance to our visitors and passengers who are disabled, we equipped all entrances to the terminal with telephones that are linked directly to our Infoguide kiosks during business hours and to the Airport Operations Response Centre at all other times. The Airport Authority brought in representatives from The Rehabilitation Centre at the Ottawa Hospital who trained the Infoguide team to provide directions and assistance to those with special needs.

Measuring service

The Airport Authority enrolled in the AETRA Customer Satisfaction and Performance program in June 2004. (AETRA is derived from the Latin word AETHRA, which stands for “clear sky, upper sky.”)

AETRA, a joint venture of the International Air Transport Association and the Airports Council International, is an airport customer satisfaction benchmarking program that provides demographic and travel profiles and compares airport performance for 31 service items of more than 58 airports worldwide. The survey is conducted quarterly and offers unparalleled insight into customers satisfaction and loyalty.

The third quarter of 2004 provided our first survey results and they were very encouraging. Our customers tell us that they are very pleased with the airport’s overall performance.

Going forward, our goal is to exceed the customer-service “norms” for similar world airports and to establish a solid reputation both in the community and among peer airports for exemplary customer service.
Volunteers

The Infoguide volunteers continue to be a key element in the Airport Authority’s ability to provide excellent customer service. Comprising approximately 85 enthusiastic people, the volunteer program is evolving to play the dual role of providing assistance and acting as an Ambassador, welcoming visitors to the National Capital Region and promoting local events and attractions.

We built stronger links with our community and contributed to the social and economic health of the region...

Giving back to the community

To mark the first anniversary of the new terminal, the Airport Authority launched Project Clear Skies, a charitable giving program intended to help charities in the National Capital Region over the next five years. We gave a total of $95,000 to seven registered charitable organizations in 2004 and intend to distribute an additional $100,000 per year up to and including 2008.

We recognize that our success is tied directly to the support of our community — and that is why Project Clear Skies is so important to us, it allows us the chance to give something back in a thoughtful and meaningful way. (Information concerning Project Clear Skies is available on our website at www.ottawa-airport.ca/clearskies.)

Economic impact

In 2004, the Airport Authority commissioned a study of the economic impact that the Ottawa International Airport has had and continues to have on the community. The study made several important findings.

- the airport facility accounts for approximately 4,200 direct jobs annually, the equivalent of 3,900 full-time person-years;
- the total direct wages for the airport is $147 million, with a mean annual individual wage of $37,500;
- the airport’s employment base has grown 13 percent since 2000; and
- the total economic output attributable to the airport is $1.06 billion annually or just under $3 million per pay, an increase of 11 percent since 2000.

Summary of amounts spent in the Ottawa region ($ 000)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage Bill</td>
<td>$ 7,762</td>
<td>$ 8,417</td>
<td>$ 9,160</td>
<td>$ 10,050</td>
<td>$ 11,250</td>
<td>$46,639</td>
</tr>
<tr>
<td>Payments in lieu of municipal taxes</td>
<td>4,421</td>
<td>3,700</td>
<td>3,654</td>
<td>3,466</td>
<td>3,515</td>
<td>18,756</td>
</tr>
<tr>
<td>Operations costs</td>
<td>9,300</td>
<td>10,000</td>
<td>9,500</td>
<td>12,000</td>
<td>15,000</td>
<td>55,800</td>
</tr>
<tr>
<td>Capital Costs</td>
<td>12,400</td>
<td>49,000</td>
<td>125,000</td>
<td>110,000</td>
<td>9,000</td>
<td>305,400</td>
</tr>
<tr>
<td></td>
<td>$33,883</td>
<td>$71,117</td>
<td>$147,314</td>
<td>$135,516</td>
<td>$38,765</td>
<td>$426,595</td>
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</table>

Note:
- Wage bill includes benefits
- Payments in lieu of municipal taxes (PILT) - paid to the City of Ottawa
- Operation costs do not include rent, PILT, payroll, amortization and interest expenses
The study also determined that the very presence of an airport in a community has a positive impact on the quality of life and opportunities presented to the residents and businesses; air transportation facilitates the ability for businesses to operate effectively, to move people and products around the world and to expand their reach into the global marketplace.

Increased passenger travel will have a measurable impact on the economic health of the region. For every additional million passengers served, employment will increase by 1,200. Given that the new passenger terminal building was designed to handle five million passengers annually, the potential for employment and economic growth is significant.

We optimized our earnings, reinvested in airport improvements and kept airport charges constant...

The Airport Authority has consistently demonstrated fiscal responsibility since its inception in 1997. Thanks to the watchful eyes of all Airport Authority employees, creative ways of doing more with less have resulted in a surplus that has allowed us to go forward with capital expenditures that had been put on hold due to difficulties in the industry during the past three years.

The Airport Authority strives to keep aeronautical fees constant and raises them only when necessary to cover large increases in specific costs, such as the rent we pay to the federal government. Effective January 1, 2004, the Airport Authority actually decreased its landing fees by 10 percent to mark the end of a surcharge that was used to pay for runway improvements.

Our terminal fees were increased on a cost-neutral basis to cover the expense of operating common use facilities, previously provided and paid for by the airlines. Common use services include, among other things, check-in counters, flight information displays, baggage systems and gate signage.

These and other examples of sound management contributed to the Ottawa International Airport Authority maintaining its extremely favourable credit rating. In 2004, Moody’s Investors Service, Dominion Bond Rating Service and Standard & Poors reconfirmed our A1, A (high) and A+ ratings, respectively.

<table>
<thead>
<tr>
<th>Five-year review ($ 000)</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$53,140</td>
<td>$52,985</td>
<td>$55,308</td>
<td>$63,320</td>
<td>$69,632</td>
</tr>
<tr>
<td>Expenses before amortization</td>
<td>28,938</td>
<td>31,646</td>
<td>40,777</td>
<td>45,191</td>
<td>60,712</td>
</tr>
<tr>
<td>Excess</td>
<td>24,202</td>
<td>21,339</td>
<td>14,531</td>
<td>18,129</td>
<td>8,920</td>
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<tr>
<td>Capital Expenditure</td>
<td>13,763</td>
<td>56,784</td>
<td>147,473</td>
<td>111,064</td>
<td>9,420</td>
</tr>
<tr>
<td>Net Cash (Net Debt), at Dec. 31</td>
<td>12,369</td>
<td>(14,617)</td>
<td>(145,591)</td>
<td>(244,310)</td>
<td>(258,437)</td>
</tr>
<tr>
<td>AlF Revenues</td>
<td>14,949</td>
<td>14,082</td>
<td>13,690</td>
<td>20,838</td>
<td>23,670</td>
</tr>
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</table>
Airport Authority employees continue to demonstrate their commitment to the organization…

The strength of the Airport Authority comes from the collective effort of its entire team, as demonstrated by the following two milestone events that occurred in 2004.

Collective Bargaining Agreement signed

After very productive negotiations, a new three-year collective bargaining agreement was reached with the Public Service Alliance of Canada. The new contract will be effective until the summer of 2007.

Job Evaluation Plan complete

Led by the Human Resources team, a three-year effort was concluded in 2004 that resulted in comprehensive job evaluations and documentation for each position with the Airport Authority.

What else did we do?

We continued to make the environment a key priority…

Environmental Management System

Efforts to implement a full Environmental Management System began in 2003 with an overall analysis of all potential issues. Further work in 2004 helped define the issues allowing us to develop Standard Operating Procedures to provide a framework for resolving the issues. The process should be completed in 2005 when we anticipate receiving ISO 14000 standards certification for our Environmental Management System.

…we grew the business…

Air Service Development

Air service development is critical not only to the Airport Authority, but also to the community as it seeks expanded opportunities for travel and new markets for its business. To that end, we work closely with our carriers to develop new and viable markets. We saw results in 2004; several carriers expanded or started scheduled service out of Ottawa including WestJet Airlines, CanJet Airlines, Jetsgo, Zoom Airlines, United Express, Continental Airlines and Northwest Airlines.

We also saw increased international charter service in both the winter and summer seasons. Five years ago, Ottawa area residents were offered limited non-stop service to only three sunshine destinations in the winter and one European summer destination. Today, residents can fly to several destinations.
in Mexico, the Dominican Republic, Florida, Cuba and Jamaica on more than ten flights weekly through the winter and to two European destinations; London and Scotland, with weekly flights during the summer.

**Land Development**

Land development continued to flourish in 2004. The Lowe-Martin Group broke ground on what promises to be a major development on Hunt Club Road. As well in 2004, the new National–Alamo Car Rental maintenance facility on Canadair Private was completed.

**New Business Opportunities**

The Airport Authority was recognized as a leader in the airport industry for its program management skills in bringing Phase I of the Airport Expansion Program to completion on budget and six months ahead of schedule. Because of this success, the Airport Authority is partnering with the airport and aviation consulting firm Sypher:Mueller International Inc. on several Caribbean projects including a training program for the Airport Authority in Jamaica.

**Passenger Statistics**

Toward the end of 2003, we could start to see positive signs reflected in passenger statistics. Growth continued into and throughout 2004. In fact, we had our best passenger numbers ever, with consistent increases in all sectors throughout the year.

We welcomed a total of 3.61 million passengers in 2004, surpassing the previous record of 3.43 million in 2000 at the height of the high-technology boom.

**Passenger growth by sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>%</th>
<th>Transborder</th>
<th>%</th>
<th>International</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>2,435,534</td>
<td>9.51%</td>
<td>502,072</td>
<td>-5.20%</td>
<td>108,762</td>
<td>4.28%</td>
<td>3,046,368</td>
<td>6.60%</td>
</tr>
<tr>
<td>1998</td>
<td>2,414,355</td>
<td>-0.87%</td>
<td>563,085</td>
<td>12.15%</td>
<td>133,108</td>
<td>22.38%</td>
<td>3,110,548</td>
<td>2.11%</td>
</tr>
<tr>
<td>1999</td>
<td>2,426,288</td>
<td>0.49%</td>
<td>628,203</td>
<td>11.56%</td>
<td>157,116</td>
<td>18.04%</td>
<td>3,211,607</td>
<td>3.25%</td>
</tr>
<tr>
<td>2000</td>
<td>2,562,282</td>
<td>5.61%</td>
<td>719,200</td>
<td>14.49%</td>
<td>152,863</td>
<td>-2.71%</td>
<td>3,434,345</td>
<td>6.94%</td>
</tr>
<tr>
<td>2001</td>
<td>2,625,630</td>
<td>2.47%</td>
<td>618,694</td>
<td>-13.97%</td>
<td>146,971</td>
<td>-3.85%</td>
<td>3,391,295</td>
<td>-1.25%</td>
</tr>
<tr>
<td>2002</td>
<td>2,445,770</td>
<td>-6.85%</td>
<td>600,365</td>
<td>-2.96%</td>
<td>170,751</td>
<td>16.18%</td>
<td>3,216,886</td>
<td>-5.14%</td>
</tr>
<tr>
<td>2003</td>
<td>2,491,691</td>
<td>1.88%</td>
<td>588,088</td>
<td>-2.04%</td>
<td>182,566</td>
<td>6.92%</td>
<td>3,262,345</td>
<td>1.41%</td>
</tr>
<tr>
<td>Actual 2004</td>
<td>2,736,779</td>
<td>9.84%</td>
<td>641,157</td>
<td>9.02%</td>
<td>231,949</td>
<td>27.05%</td>
<td>3,609,885</td>
<td>10.65%</td>
</tr>
<tr>
<td>Forecast 2005</td>
<td>2,915,000</td>
<td>6.50%</td>
<td>696,000</td>
<td>8.50%</td>
<td>250,000</td>
<td>7.80%</td>
<td>3,861,000</td>
<td>6.90%</td>
</tr>
<tr>
<td></td>
<td>3,516,000</td>
<td>4.10%</td>
<td>909,000</td>
<td>6.10%</td>
<td>331,000</td>
<td>6.50%</td>
<td>4,756,000</td>
<td>4.60%</td>
</tr>
<tr>
<td></td>
<td>4,076,000</td>
<td>3.00%</td>
<td>1,054,000</td>
<td>3.00%</td>
<td>384,000</td>
<td>3.00%</td>
<td>5,514,000</td>
<td>3.00%</td>
</tr>
<tr>
<td></td>
<td>4,725,000</td>
<td>3.00%</td>
<td>1,222,000</td>
<td>3.00%</td>
<td>445,000</td>
<td>3.00%</td>
<td>6,392,000</td>
<td>3.00%</td>
</tr>
</tbody>
</table>
...and we prepared to meet new transport regulations.

The Airside Operations group is responsible for airside maintenance services, equipment maintenance, maintaining a Transport Canada emergency response service and maintaining the airport Certificate of Registration under Canadian Aviation Regulations.

As it is every year, in 2004, emphasis was put on staying current with respect to the regulatory environment, especially given that there are new regulations anticipated in 2005. Regulations currently being drafted involve Safety Management Systems, Airport Wildlife Management and Planning, Airport Winter Maintenance and Planning, Airside Access and Vehicle Control Planning. All of these regulations are expected to be in place next year.

Safety Management System regulations will have significant resource implications given that compliance will require awareness and participation by all those who operate on the airside. Much educational and preparatory work has been done to this end.

All current and future regulatory developments are monitored through our participation in the Canadian Airports Council’s Operations and Technical Affairs Committee, the Canadian Aviation Regulation Advisory Committee meetings and by providing assistance to Transport Canada employees who are drafting the guidance materials. Also in preparation for regulatory change, the Airport Authority has created the position of Airside Safety Manager and established an Airside Safety Committee.

Direct Flights per day

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Transborder</th>
<th>International (weekly)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>82</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>1998</td>
<td>88</td>
<td>23</td>
<td>6</td>
</tr>
<tr>
<td>1999</td>
<td>101</td>
<td>39</td>
<td>7</td>
</tr>
<tr>
<td>2000</td>
<td>93</td>
<td>43</td>
<td>7</td>
</tr>
<tr>
<td>2001</td>
<td>84</td>
<td>30</td>
<td>7</td>
</tr>
<tr>
<td>2002</td>
<td>80</td>
<td>35</td>
<td>8</td>
</tr>
<tr>
<td>2003</td>
<td>81</td>
<td>35</td>
<td>7</td>
</tr>
<tr>
<td><strong>2004</strong></td>
<td><strong>71</strong></td>
<td><strong>35</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>
Where do we go from here?

Our five-year Strategic Plan

Updated in collaboration with the Board of Directors in 2004, the strategic objectives for the next five years are the result of a comprehensive discussion of the activities that will ensure continued success for the Airport Authority and even better service for our passengers.

- **Airport services** – Our goal is to continue to develop our outstanding reputation of being an industry leader in the planning, development and operation of airport facilities. We will market the airport services line of business aggressively, develop a brochure for this activity and continue to work with appropriate consultants on projects and opportunities that arise.

- **Customer service** – We want to build on our reputation both within our customer base and among peer airports for exemplary customer service. Our plan is to implement the customer service/customer care programs for all internal clients and staff and enhance service to both tenants and the public. We will also monitor airport performance and customer service through customer satisfaction surveys with a target of exceeding the “customer service norm” for similar world airports.

- **Employee commitment** – We will continue to maintain and enhance our employees’ commitment to the Airport Authority’s mission and objectives.

- **Environmental Management Plan** – We will continue the development of a comprehensive Environmental Management System for the Airport Authority and its tenants and we will continue to manage the operations of the airport in an environmentally responsible manner.

- **Key community partnerships** – The Airport Authority will continue to foster and develop its partnerships with key community organizations and the three primary sectors of tourism, business and government. This will include continuing our work with the Community Consultative Committee.

- **Municipal issues and affairs** – The Airport Authority will continue a more proactive role in working with the cities of Ottawa and Gatineau, various communities and other government agencies on municipal issues and affairs. We will focus our efforts on supporting the expansion of the Ottawa Congress Centre, as well as education and advocacy, particularly as they relate to the Airport Operations Influence Zone, an area around the airport that was defined in partnership with the municipal and provincial governments and protected from certain types of noise-sensitive developments. We will also continue to play an active role in both south urban economic development and area transportation planning processes.

- **Safety and security** – The Airport Authority will continue to work with the Canadian Air Transport Security Authority and Transport Canada to ensure a balance between security regulation and airport operation.

- **Airport Expansion Program, Phase II** – We will proceed with the design and construction of the parking garage for delivery in 2006 of approximately 900 spaces to the garage, or an additional net 550 parking spots to public parking. The timing of the terminal expansion is still to be determined.
Project Clear Skies – Launched in 2004, this new initiative enhances the Airport Authority’s social responsibility within the National Capital Region and is designed to fund charitable projects through 2008. The Airport Authority will budget $100,000 per year and will make the funding available to organizations in need.

Business opportunities – We will continue to strengthen the commercial focus of the Airport Authority through increased and proactive air service development and commercial land development.

Five-year forecast

<table>
<thead>
<tr>
<th></th>
<th>Passengers</th>
<th>Annual Growth</th>
<th>Aircraft Movements</th>
<th>Annual Growth</th>
<th>Rent to Transport Canada</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>3,046,368</td>
<td>6.6%</td>
<td>67,867</td>
<td>–</td>
<td>$3,977,000</td>
<td>–</td>
</tr>
<tr>
<td>1998</td>
<td>3,110,548</td>
<td>2.1%</td>
<td>77,202</td>
<td>13.8%</td>
<td>$5,301,000</td>
<td>33.3%</td>
</tr>
<tr>
<td>1999</td>
<td>3,211,607</td>
<td>3.3%</td>
<td>81,808</td>
<td>6.0%</td>
<td>$5,948,000</td>
<td>12.2%</td>
</tr>
<tr>
<td>2000</td>
<td>3,434,345</td>
<td>6.9%</td>
<td>78,301</td>
<td>-4.2%</td>
<td>$6,145,000</td>
<td>2.6%</td>
</tr>
<tr>
<td>2001</td>
<td>3,391,295</td>
<td>-1.3%</td>
<td>72,630</td>
<td>-7.2%</td>
<td>$8,840,000</td>
<td>43.9%</td>
</tr>
<tr>
<td>2002</td>
<td>3,216,886</td>
<td>-5.1%</td>
<td>68,499</td>
<td>-5.7%</td>
<td>$11,005,000</td>
<td>24.5%</td>
</tr>
<tr>
<td>2003</td>
<td>3,262,345</td>
<td>1.4%</td>
<td>69,798</td>
<td>1.9%</td>
<td>$11,329,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>2004</td>
<td>3,609,885</td>
<td><strong>10.7%</strong></td>
<td><strong>69,626</strong></td>
<td><strong>-0.2%</strong></td>
<td><strong>$11,643,000</strong></td>
<td><strong>2.8%</strong></td>
</tr>
<tr>
<td>2005</td>
<td>3,861,000</td>
<td>6.9%</td>
<td>71,000</td>
<td>2.0%</td>
<td>$13,000,000</td>
<td>11.7%</td>
</tr>
<tr>
<td>2006</td>
<td>4,051,000</td>
<td>4.9%</td>
<td>72,000</td>
<td>2.0%</td>
<td>$13,300,000</td>
<td>2.3%</td>
</tr>
<tr>
<td>2007</td>
<td>4,209,000</td>
<td>3.9%</td>
<td>74,000</td>
<td>2.0%</td>
<td>$13,200,000</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2008</td>
<td>4,369,000</td>
<td>3.8%</td>
<td>75,000</td>
<td>2.0%</td>
<td>$13,500,000</td>
<td>2.3%</td>
</tr>
<tr>
<td>2009</td>
<td>4,561,000</td>
<td>4.4%</td>
<td>76,500</td>
<td>2.0%</td>
<td>$15,100,000</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

Note:
Federal Government Net Book Value at time of transfer - $75M
Total rent projected 1997-2010 - $157M
Excludes participation rent of approximately $2,800,000 per year starting in 2007
2004 Financial Review

For the year ended December 31, 2004, earnings before amortization were $8.9 million compared to $18.1 million for the year ended December 31, 2003. A $10.5 million increase in the amount of interest expense reflected in the statement of operations was the largest factor that impacted results. After subtracting amortization, the excess of expenses over revenues in 2004 amounted to $4.3 million as compared to an excess of revenues over expenses of $12.4 million in 2003. Amortization increased from $5.7 million in 2003 to $13.2 million in 2004 to reflect depreciation of the new terminal facility commencing October 12, 2003, over its estimated economic life.

Passenger volumes in 2004 were 10.7% higher than passenger volumes in 2003, and established new record high volumes for the Ottawa International Airport which exceed the record volumes experienced pre-September 11th, 2001. 2003 volumes in the second and third quarters were depressed somewhat due to Air Canada’s financial struggles, the SARS (severe acute respiratory syndrome) scare during the spring of 2003, and the August 2003 extended power blackout. However, the increase over 2003 has been consistent in each of the quarters of 2004. By quarter, passenger volumes were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>804,757</td>
<td>882,610</td>
<td>9.7%</td>
</tr>
<tr>
<td>Q2</td>
<td>804,741</td>
<td>907,019</td>
<td>12.7%</td>
</tr>
<tr>
<td>Q3</td>
<td>819,734</td>
<td>895,308</td>
<td>9.2%</td>
</tr>
<tr>
<td>Q4</td>
<td>833,113</td>
<td>924,948</td>
<td>11.0%</td>
</tr>
<tr>
<td>Total</td>
<td>3,262,345</td>
<td>3,609,885</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Travel increased over 2003 to all sectors consistently throughout the year as follows: domestic 9.8%, transborder 9.0%, and international 27.1%. Domestically, Air Canada’s passenger volumes increased by over 5% as its market share declined somewhat and then stabilized. Significant growth came from low cost carriers such as WestJet, Jetsgo and CanJet flying to Canadian destinations, CanJet and various US carriers flying to transborder destinations, and international charters flying to sunshine destinations and the United Kingdom. By sector, for each quarter of 2004 passenger volumes compared to 2003 as follows:

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Transborder</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Higher by 8.8%</td>
<td>Higher by 8.9%</td>
<td>Higher by 17.2%</td>
</tr>
<tr>
<td>Q2</td>
<td>Higher by 9.3%</td>
<td>Higher by 16.1%</td>
<td>Higher by 70.1%</td>
</tr>
<tr>
<td>Q3</td>
<td>Higher by 9.5%</td>
<td>Higher by 5.7%</td>
<td>Higher by 20.1%</td>
</tr>
<tr>
<td>Q4</td>
<td>Higher by 11.7%</td>
<td>Higher by 5.9%</td>
<td>Higher by 20.6%</td>
</tr>
</tbody>
</table>

Ed Hodgins – Airport Operations
Response Centre Coordinator
On October 12, 2003, Phase I of the Airport Expansion Program (AEP) was completed with the opening of the new terminal building. Once the terminal was operational, the Authority commenced amortization of capital costs, and ceased capitalizing interest costs for accounting purposes at the same time. Accordingly, amortization and interest expense reflected in the statement of operations have increased from 2003.

Revenues

In 2004, the Authority generated $69.6 million in total revenues, compared to $63.3 million in 2003. Airport improvement fees accounted for $2.8 million of the increase and aeronautical revenues accounted for $2.6 million of the increase.

Airport Improvement Fees (AIFs) collected increased by 13.6% from $20.8 million in 2003 to $23.7 million in 2004, commensurate with the increase in passenger volumes. The Authority increased its AIF from $10 to $15 per enplaned passenger effective January 1, 2003. Accordingly, during the early months of 2003, the airlines ramped up collection of the fee at the $15 rate while tickets sold before January 1 included the fee at $10. Under an agreement with the airlines, AIFs are collected by the airlines in the price of a ticket, and are paid to the Airport Authority on an estimated basis on the first of the month following the month of enplanement. Final settlement based on actual passenger volumes occurs at the end of the month following the month of enplanement.

Aeronautical revenues represent the largest source of revenues for the Authority. At $24.4 million in 2004, total aeronautical revenues, which include terminal fees, loading bridge charges, and landing fees charged to air carriers, were $2.5 million higher than revenues of $21.9 million in 2003. This was due, in part, to increased charter activity to sunshine destinations and increased flights by low cost carriers in 2004.

In addition, effective October 12, 2003 the Authority adjusted its fee structure to recover, on a cost-neutral basis to the airlines, its ongoing operating costs for the common use systems that were implemented as part of the AEP. These systems include common use ticket counters and queuing, flight information display systems (operated by Air Canada in the old terminal building), and common use baggage handling rooms and systems. To effect this change, the Authority increased its general terminal fee rates and eliminated exclusive use space rent for ticket counters and baggage handling rooms effective October 12th, 2003. The increase in general terminal rates, together with increased use of loading bridges, with more bridges available in the new facility, resulted in higher terminal fee revenues starting October 12, 2003. Offsetting volume increases due to increased activity, effective January 1, 2004, the Authority decreased its landing fee rates by 10% to mark the end of a 10% landing fee surcharge which had been used to pay for runway improvements.

Revenues from concessions increased from $6.4 million in 2003 to $8.2 million in 2004, also reflecting higher passenger volumes. In addition, all retail, food and beverage and car rental concessions were re-tendered prior to commencing operations in the new terminal building resulting in higher revenue guarantees under new concession agreements.

Car parking revenues increased from $6.3 million in 2003 to $7.6 million in 2004, which represents an increase of 20%. The increase in passenger volumes and demand for parking, the availability of more convenient parking options provided by the AEP and an increase in overnight parking rates in the parkade have all contributed to the increase in parking revenues.
Rents for exclusive use baggage rooms and ticket counters and queuing were blended into increased general terminal fees, starting on October 12, 2003 to accommodate the new common use format of the terminal building. Space rates for exclusive use terminal space were adjusted by 6.6% effective October 12, 2003, the second of a two stage increase to better recover a portion of the Authority’s increased costs for ground rent payable to the Government of Canada.

Interest income reflects the result of investing, on a short-term basis, the net proceeds from the Authority’s bond offering of May 2002, which had not yet been expended on the AEP. Interest income has decreased as funds have been spent on the expansion program.

**Expenses**

Total expenses before amortization increased from $45.2 million in 2003 to $60.7 million in 2004. In addition, amortization increased from $5.7 million in 2003 to $13.2 million in 2004, largely due to depreciation of the new terminal building and support facilities which started on October 12, 2003.

Ground rent payable to the Crown increased by 2.8% from 2003 to 2004. The Ottawa International Airport Authority operates the airport under the terms of a Ground Lease with the Federal Government that sets out the calculation of the annual ground rent payable. This rent is based on a fixed charge per passenger, adjusted annually for inflation, to a maximum threshold of:

- 3,000,000 passengers for the years 2003 and 2004;
- 3,100,000 passengers for the years 2005 to 2009;
- 3,200,000 passengers for the years 2010 to 2017; and
- 3,300,000 passengers beyond 2017 (year 20 of the lease).

Payment of participation rent, based on a percent of incremental revenues, will commence in 2007. For 2004, the ground rent of $11.6 million increased from $11.3 million in 2003 as a result of an increase in the consumer price index.

On July 16, 2003, the Minister of Transport announced short-term rent relief for airports. Under this program, the Authority was able to defer approximately 10% of its rent for the 2-year period that started July 1, 2003 (a total of $2.3 million). The deferral is to be repaid, interest-free, over a period of 10 years starting on January 1, 2006. Because this is a deferral and not a permanent reduction of rent, the full amount of rent applicable to each year has been recorded as an expense, with the deferred portion reflected as a liability.

Expenses related to materials, supplies and services increased from $13.0 million in 2003 to $16.5 million in 2004. The increased cost of policing and security not fully covered by the Canadian Air Transport Security Authority (CATSA) and service agreement costs relating to common use systems accounted for $1.4 million of the increase. The increased cost of operating the physical plant with the opening of the new expanded terminal facility accounted for an additional $1.8 million of the increase. Increased physical plant costs include higher utilities and building maintenance costs, plus costs related to maintaining the old terminal building.
Salaries and benefits increased, mainly reflecting contracted rate increases, but also increased costs for pensions and other employee benefits. In addition, the Authority increased its payroll in the last quarter of 2003 and in early 2004 to accommodate the requirements of a much larger terminal building and the new common use systems.

In December 2000, the Province of Ontario passed new legislation that, commencing in 2001, caused airport payments-in-lieu of municipal taxes (PILTs) to be based on the previous year’s passenger throughput rather than on market value assessments. The amount paid for 2004 of $3.5 million reflects this legislation and passenger levels in 2003.

Interest expense reflected in the statement of operations accounted for $10.5 million of the increase in expenses for 2004. Prior to October 12, 2003, the Authority capitalized interest on debt directly attributable to the cost of the AEP before the project became operational, but only to the extent that cash had been invested in the AEP. All interest expense is now reflected in the statement of operations.

Capital Resources

In accordance with the Authority’s mandate, all earnings are retained and reinvested in airport operations and development, including investment in capital expenditures to meet ongoing operating requirements.

During 2004, the Authority made cash payments, including the release of holdbacks, of $25.4 million for capital expenditures related to the AEP and an additional $3.7 million for maintenance capital expenditures. During the year, Moody’s, Standard & Poors, and DBRS reaffirmed the Authority’s credit ratings of A1, A+, and A(high), respectively, in connection with the Authority’s bond offering.

The Authority commenced the construction of Phase I, the most significant part of its AEP, in 2002. This phase, with a budgeted cost of $310 million, included construction of a new passenger terminal building alongside the airport’s 40-year-old terminal building, a parking structure, and extensive airside and groundside infrastructure to support the new terminal and parking facilities, and was completed on October 12, 2003. The Authority is proceeding with the planning and design of Phase II of the AEP, but will only commit to proceeding with construction when passenger volumes warrant. Phase II, which includes expansion of the new terminal building and demolition of the old terminal building, is expected to be required before 2010. Expansion of the parking garage, also part of Phase II, will proceed during 2005 at an estimated total cost of $10 to $15 million. This cost will be financed out of existing cash. Phase III of the expansion is expected to be required by 2020.

As at December 31, 2004, accounts receivable had decreased from December 31, 2003 by $4.9 million. $2.7 million of the amount included in the 2003 balance was due from tenants, including Transport Canada and CATSA in connection with fit up work done on behalf of these tenants as part of the AEP. In addition, the agreement under which the airlines collect AIFs on behalf of airports and remit these to the airports was amended in January 2004 to include improved payment terms. This resulted in a decrease in AIF included in accounts receivable of $1.6 million from 2003 – approximately one month of AIF revenues.
Cash and short-term investments of $11.5 million as at December 31, 2004 include short-term investments permitted by the Master Trust Indenture. In addition to these cash resources, the Authority maintains access to an aggregate of $120 million in 364-day revolving credit facilities with two Canadian banks.

The Government of Canada has extended an indemnification for third-party aviation war risk liability for all essential aviation service operators in Canada. The Government of Canada provided this indemnification in response to a decision by international insurers to withdraw third-party aviation war risk liability coverage that was available before September 11th, 2001.
Corporate Governance, Accountability and Transparency

The Ottawa International Airport Authority’s mission is to work with its partners to be a leader in providing affordable, safe and secure world-class airport facilities and services to the community and all airport customers.

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 first created with a community-appointed Board of Directors which was tasked with overseeing the management of their local facility.

The Ottawa International Airport Authority’s Board of Directors follows these guidelines:

- 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 at least 8-9 times during the year;
- views its principal responsibility as overseeing the conduct of the business and supervising management to ensure that long-term goals and strategies are met; and
- must meet Conflict of Interest rules, adhere to the Code of Business Conduct, and the Public Accountability Principles.

Each director has filed a Conflict of Interest Declaration for 2004, as required by the Authority’s by-laws. Furthermore, all directors are in compliance with the above-noted guidelines which are included in the by-laws.

Revised by-laws

The Authority adopted revised by-laws on April 23, 2003 to replace the original by-laws that were established at incorporation in 1995. The revised by-laws specify the composition of the Board of Directors and the process for nominating members to the Board. The selecting bodies that will provide nominees to the 14-member Board are as follows:
### Selecting Bodies

<table>
<thead>
<tr>
<th>Selecting Bodies</th>
<th>Number of Directors Nominated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister of Transport (Government of Canada)</td>
<td>2</td>
</tr>
<tr>
<td>Government of Ontario</td>
<td>1</td>
</tr>
<tr>
<td>City of Ottawa</td>
<td>2</td>
</tr>
<tr>
<td>City of Gatineau</td>
<td>1</td>
</tr>
<tr>
<td>Air Transport Association of Canada</td>
<td>1</td>
</tr>
<tr>
<td>Ottawa Chamber of Commerce</td>
<td>1</td>
</tr>
<tr>
<td>Ottawa Tourism and Convention Authority</td>
<td>1</td>
</tr>
<tr>
<td>Chambre de commerce de Gatineau</td>
<td>1</td>
</tr>
<tr>
<td>Ottawa Centre for Research and Innovation</td>
<td>1</td>
</tr>
<tr>
<td>OMCIAA (at large)</td>
<td>3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

A director’s term of office is three years, and each director may serve up to three terms, thereby allowing a director to serve a maximum of nine years.

The qualifications required of a director are included in the by-laws. Collectively, the directors shall have experience in the fields of law, engineering, accounting and management, and air carrier management. In addition, the by-laws include restrictions to eliminate possible conflicts of interest arising from relationships with selecting bodies, thereby ensuring the independence of directors and reinforcing their fiduciary responsibilities to the Authority. The Governance Committee has the power to ensure that the selecting bodies provide candidates for nomination to the Board having the skills and expertise necessary for the Board as a whole to carry out its duties.

The draft *Canada Not-for-profit Corporations Act*, Bill C-21, currently before Parliament, will potentially require changes to these by-laws and require the Authority to continue under this new Act in lieu of incorporation under Part II of the Canada Corporations Act.

The following represents the composition of the Board of Directors as at December 31, 2004. The transition to the nomination of all directors by the above list of selecting bodies will be complete by 2006.
### Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>Committees of the Board</th>
<th>Nominated by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jim Durrell</td>
<td><strong>Chairman of the Board</strong>&lt;br&gt;Chair, Executive Committee&lt;br&gt;Chair, Governance, Human Resources &amp; Compensation Committee&lt;br&gt;Chair, AEP Overview Committee</td>
<td>City of Ottawa</td>
</tr>
<tr>
<td>Whitman Tucker</td>
<td><strong>Vice-Chairman</strong>&lt;br&gt;Vice-Chair, Executive Committee&lt;br&gt;Member, Governance, Human Resources &amp; Compensation Committee&lt;br&gt;Member, Audit Committee</td>
<td>City of Ottawa</td>
</tr>
<tr>
<td>Michel Belley</td>
<td><strong>Member, Governance, Human Resources &amp; Compensation Committee</strong>&lt;br&gt;Member, Business Development &amp; Communications Committee</td>
<td>Chambre de commerce de Gatineau</td>
</tr>
<tr>
<td>Raymond Brunet</td>
<td><strong>Member, Audit Committee</strong>&lt;br&gt;Member, AEP Overview Committee</td>
<td>Ville de Gatineau</td>
</tr>
<tr>
<td>Jeffrey M. Dale</td>
<td><strong>Member, Audit Committee</strong>&lt;br&gt;Member, Business Development &amp; Communications Committee</td>
<td>City of Ottawa</td>
</tr>
<tr>
<td>Michael Darch</td>
<td><strong>Member, AEP Overview Committee</strong>&lt;br&gt;Member, Business Development &amp; Communications Committee</td>
<td>Minister of Transport (Government of Canada)</td>
</tr>
<tr>
<td>Larry Malloy</td>
<td><strong>Chair, Business Development &amp; Communications Committee</strong>&lt;br&gt;Member, Executive Committee</td>
<td>Government of Ontario</td>
</tr>
</tbody>
</table>
Committees of the Board

Eric McSweeney
- Member, Business Development & Communications Committee
- Member, AEP Overview Committee

Jean-Marie Séguin
- Member, Business Development & Communications Committee
- Member, AEP Overview Committee

Michael Skrobica
- Member, Audit Committee
- Member, Business Development & Communications Committee

Carol Stephenson
- Member, Executive Committee
- Member, Governance, Human Resources & Compensation Committee

Pamela Sweet
- Member, Audit Committee
- Member, AEP Overview Committee

Peter Vice
- Member, Executive Committee
- Member, Governance, Human Resources & Compensation Committee

James Wright
- Chair, Audit Committee
- Member, AEP Overview Committee
- Member, Executive Committee

Nominated By

Ottawa Chamber of Commerce

Minister of Transport (Government of Canada)

Air Transport Association of Canada

Ottawa Centre for Research and Innovation

City of Ottawa

At Large

At Large
Directors’ Compensation in 2004

Fixed Annual Retainer
- Chair: $25,000
- Vice-Chair: $15,000
- Committee chairs: $15,000
- Other directors: $12,000

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

Executive Committee
- annual review and assessment of the performance of the President;
- review the Annual Report as prepared by the President;
- evaluate human resources through a bi-annual satisfaction survey of employees;
- recommend chairs of committees; and
- recommend directors for the Governance, Human Resources & Compensation Committee.

AEP Overview Committee
- oversee the development and progress of the Airport Expansion Program.

Audit Committee
- the external auditors report to the Audit Committee. Review matters relating to the appointment of external auditors, including fees, and recommend to the Members the appointment of the external auditors;
- annual review of proposed fiscal operating and capital budgets for recommendation to and approval by the Board;
- review of the annual audited financial statements of the Authority for recommendation to and approval by the Board;
- annual review with the external auditors and management matters relating to conduct of the annual audit and any recommendations of the auditors regarding internal controls;
- review and approval of quarterly financial statements of the Authority; and
- review of matters having a material financial impact on the Authority, including financing requirements and options and recommendation to the Board.

Business Development & Communications Committee
- review major marketing initiatives;
- review in-terminal customer survey results;
- review land development plans; and
- review communication strategies and major initiatives.

We say thank you and best wishes to the following Members who left the Board of Directors in 2004:

Claude Bennett
Carmen Rodrigue
Regis Trudel
Governance, Human Resources & Compensation Committee

- establish the nomination procedures, the skill sets required for nominees and the length of term of selected nominees;
- evaluate nominees and report to the Board;
- review succession plans and provide advice on development and career planning for potential successors;
- recommend the remuneration plan to the Board;
- annual review of Board governance and compensation;
- oversee the application of Conflict of Interest rules to Board members and nominees;
- evaluate the performance of the Board and individual directors;
- evaluate the communications flow between the Board and management;
- review the governance section of the Annual Report; and
- study and adopt evolving best practices in corporate governance.

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 both accountable to the community and transparent in its relations with business and its customers. The Authority’s mandate, as set out in its Letters Patent, establishes a standard against which its performance can be measured.

The mandate of the Authority is:

- to manage, operate and develop the Ottawa International Airport, which is 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.

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 last updated in 1998, and the Land Use Plan, which was last updated in 2003, and which requires approval by the Minister of Transport; and

- by maintaining a corporate Website at www.ottawa-airport.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 done in early 2002.

Transparency

Procurement and Contracting

The Authority ensures transparency 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 $91,500 ($75,000 in 1994 dollars adjusted for CPI), must be awarded through a competitive public tendering process, or be disclosed in the Authority’s Annual Report together with justification for deviation from the competitive process.

Contracts that exceeded the stipulated value, and were not awarded on the basis of a public competitive process during 2004 were:

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Contract Description</th>
<th>Reason for Sole Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Girit Projects Inc.</td>
<td>$118,045 Supply, deliver and install CCTV cameras</td>
<td>To ensure integration and functionality with existing CCTV systems, which were awarded on the basis of a public competitive process</td>
</tr>
<tr>
<td>Viscount Glass and Aluminum</td>
<td>$150,000 Provide skylight maintenance/ window glazing and repair as and when required</td>
<td>To maintain existing warranty provisions on materials installed on the basis of a public competitive process</td>
</tr>
<tr>
<td>ARUP Napa Canada Inc.</td>
<td>$207,620 AEP program definition document Phase II</td>
<td>To ensure continuity and consistency with Phase I of the AEP</td>
</tr>
</tbody>
</table>
Executive Management Salary Ranges

The base salary range for the President of the Authority in 2004 was from $150,000 to $200,000. The base salary range for each of the Vice Presidents in 2004 was from $90,000 to $140,000.

Fees and Charges

The Authority provides 60 days advance notice in local news media for all changes in user charges (excluding rent), together with an explanation for the noted increase. This includes parking rates, aeronautical fees, and airport improvement fees (AIF).

While the Authority’s goal is to keep the aeronautical fees it charges air carriers constant, it has been necessary to adjust these fees on a few occasions. The Authority’s process for adjusting aeronautical fees and charges includes:

- consulting with air carriers, with necessary explanations and calculations showing how these fees were determined, prior to any change through the Airline Consultative Committee; and
- providing 90 days notice of the increase in fees to airlines.

The Authority publicizes the reason for imposing an AIF, or for making changes to the fee, as it last did when it increased its fee to $15 on January 1, 2003. The purpose of the existing AIF is to pay for the construction of and the debt associated with the Airport Expansion Program.

The process for adjusting AIFs is similar to the process for adjusting aeronautical fees and charges, including public notice in the local news media.

Public Access to Documents

In accordance with Public Accountability Principles for Canadian Airport Authorities, the Ottawa International Airport Authority makes available 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.
Contacting the Authority

There are a number of methods available to the public for contacting and providing input to the Authority:

- submit questions, comments or concerns through the Authority’s website www.ottawa-airport.ca;
- complete a customer comment card which is available at both of the airport’s Infoguide kiosks;
- call the general inquiries lines at (613) 248-2125 or 248-2141;
- call the noise information line at (613) 248-2023;
- call or write to individual Authority departments at the following address: Suite 2500, 1000 Airport Parkway Private, Ottawa, ON Canada K1V 9B4; and
- fax questions, comments or concerns to (613) 248-2068.

In addition, the Authority conducts customer satisfaction surveys on an annual basis in the passenger terminal building.

The Authority’s policy is to respond to all questions, comments and concerns as expeditiously as possible.
The Ottawa International Airport Authority has a system that complies with the Toronto Stock Exchange Guidelines for Corporate Governance as follows:

**TSX GUIDELINE:**

1. The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and as part of the overall stewardship responsibility should assume responsibility for the following matters:

   1.(a) Adoption of a strategic planning process;

   1.(b) The identification of the principal risks of the corporation’s business and ensuring the implementation of appropriate systems to manage these risks;

   1.(c) Succession planning, including appointing, training and monitoring senior management;

   1.(d) A communication policy for the corporation;

   1.(e) The integrity of the corporation’s internal control and management information systems.

2. The board of directors…should be constituted with a majority of individuals who qualify as unrelated directors.

3. The board will be required to disclose on an annual basis whether the board has a majority of unrelated directors. …Management directors are related directors. The board will also be required to disclose on an annual basis how the conclusion was reached.

**COMMENTS:**

- The Board of Directors reviews the Authority’s Strategic Plan annually.

- As part of the annual review of the Strategic Plan, the Authority identifies its top 10 risks and its strategies to manage, mitigate, or avoid these risks. These are reviewed the Board annually as part of the strategic planning review process.

- The Board has a succession plan for senior management.

- At the February 2005 meeting, the Board adopted the communication policy that considers the timeliness and accuracy of communications, and identifies how important board messages are communicated and by whom.

- Annually, the Audit Committee of the Board meets with the Authority’s external auditors and reviews matters relating to internal controls.

- As required by the Authority’s by-laws, all directors are unrelated directors. The by-laws include a list of persons who may not be directors of the Board, including employees of the Authority.

- As required by the Authority’s by-laws, all directors are unrelated directors. Directors are required to file conflict of interest disclosure statements annually. The absence of board conflicts of interest is disclosed in the Authority’s Annual Report.
**TSX GUIDELINE:**

4. The board of directors...should appoint a committee of directors composed exclusively of outside, (i.e. non-management), directors, a majority of whom are unrelated directors, with the responsibility of proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

**COMMENTS:**

As required by the Authority’s by-laws, all directors are unrelated, outside directors.

The Governance Committee of the Board is responsible for reviewing nominations and selecting new directors to the Board from nominations provided by outside Selecting Bodies.

The Governance Committee is responsible for assessing performance of the Board and individual members.

5. Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.

**COMMENTS:**

The Governance Committee has established criteria and a process for assessing performance of individual Board members, effectiveness of the Board as a whole and the Committees of the Board.

6. Every corporation, as an integral element of the process of appointing new directors, should provide an orientation and education program for new recruits to the board.

**COMMENTS:**

New directors are provided an information manual and a comprehensive indoctrination to the Authority, including meetings with the CEO and management personnel. Board agendas include periodic presentations by inside and outside resources on matters that relate to directors’ duties, and matters relating to the business of the Authority.

7. Every board of directors should examine its size and with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

**COMMENTS:**

Board composition and number of directors is prescribed by the Authority’s by-laws, and this is disclosed in the Annual Report. The size of the Board was reviewed in 2003 in connection with a change in by-laws, and this resulted in a reduction in the number of Board members to 14 from 15.

8. The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

**COMMENTS:**

The Executive Committee of the Board annually reviews and recommends remuneration of directors taking into consideration time commitments and scope of responsibilities.
**TSX GUIDELINE:**

9. Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors. An inside director is...an officer or employee of the corporation or of any of its affiliates.

10. Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation’s approach to governance issues.

11. The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management’s responsibilities.

11. (cont.) In addition, the board should approve or develop corporate objectives which the CEO is responsible for meeting.

12. Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be to appoint a chair of the board who is not a member of management…

**COMMENTS:**

The Governance Committee of the Board has a mandate which includes responsibility for ensuring adherence to these guidelines.

The Governance Committee has clearly established mandate and responsibilities of the Board and its committees as a governing Board. This clearly distinguishes the Board’s responsibilities from the responsibilities of the CEO for managing the Authority.

The CEO’s corporate business objectives are approved annually by the Executive Committee of the Board. The Executive Committee subsequently evaluates the CEO against these objectives.

As required by the Authority’s by-laws, all directors are unrelated, outside directors.

Board meetings may periodically include in-camera sessions without management or the CEO present.
TSX GUIDELINE:

13. The financial audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties.

13. (cont.) The financial audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.

13. (cont.) The financial audit committee duties should include oversight responsibilities for management reporting on internal control. While it is management’s responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.

14. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.

COMMENTS:

All Board members and members of its committees are outside directors.

The mandate of the Audit Committee clearly outlines the committee’s duties and responsibilities.

The Authority does not have an independent internal audit function. The Audit Committee meets formally with the external auditors at least once a year. This meeting includes an in-camera session with no Authority management present.

The Audit Committee meets formally with the external auditors at least once a year. The Audit Committee meets with the Authority’s external auditors and reviews matters relating to internal controls on an annual basis.

The Governance Committee is responsible for approving the hiring of external advisors by individual board members, and establishes circumstances when it is appropriate and inappropriate to do so.
Financial Statements of

Ottawa Macdonald-Cartier International Airport Authority

December 31, 2004

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. 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 independent auditors to review performance and to discuss audit, internal control, accounting policy, and financial reporting matters. The Audit Committee reports its findings to the Board of Directors which reviews and approves annual financial statements. These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by Deloitte & Touche LLP, who were appointed at the annual general meeting. Their report follows.

Paul Benoit       John G. Weerdenburg, C.A.
President and       Vice President and
Chief Executive Officer     Chief Financial Officer
Auditors’ Report

To the Directors of
Ottawa Macdonald-Cartier International Airport Authority

We have audited the balance sheet of Ottawa Macdonald-Cartier International Airport Authority as at December 31, 2004 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Deloitte & Touche LLP
Chartered Accountants
Ottawa, Ontario
January 28, 2005
Balance Sheet

as at December 31, 2004

(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>$11,485</td>
<td>$25,690</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4,492</td>
<td>9,436</td>
</tr>
<tr>
<td>Consumable supplies</td>
<td>739</td>
<td>429</td>
</tr>
<tr>
<td>Prepaid expenses and advances</td>
<td>448</td>
<td>520</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>17,164</td>
<td>36,075</td>
</tr>
<tr>
<td>Debt Service Reserve Fund (Note 6(a))</td>
<td>8,823</td>
<td>8,647</td>
</tr>
<tr>
<td>Deferred Financing Costs (Note 6(g))</td>
<td>3,321</td>
<td>3,694</td>
</tr>
<tr>
<td>Capital Assets (Note 3)</td>
<td>326,057</td>
<td>329,844</td>
</tr>
<tr>
<td>Other Assets (Note 4)</td>
<td>4,316</td>
<td>3,287</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>359,681</td>
<td>381,547</td>
</tr>
<tr>
<td><strong>Liabilities and Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable &amp; accrued liabilities</td>
<td>$9,465</td>
<td>$26,813</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>244</td>
<td>368</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,709</td>
<td>27,181</td>
</tr>
<tr>
<td>Accrued Benefit Liability (Note 8)</td>
<td>1,468</td>
<td>1,180</td>
</tr>
<tr>
<td>Security Deposits</td>
<td>525</td>
<td>620</td>
</tr>
<tr>
<td>Long-Term Debt (Note 6)</td>
<td>273,520</td>
<td>273,830</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>285,222</td>
<td>302,811</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>74,459</td>
<td>78,736</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>359,681</td>
<td>381,547</td>
</tr>
</tbody>
</table>

ON BEHALF OF THE BOARD

[Signatures]

(See accompanying notes to the financial statements)
Statement of Operations and Changes in Net Assets

year ended December 31, 2004
(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airport improvement fees (Note 7)</td>
<td>$23,670</td>
<td>$20,838</td>
</tr>
<tr>
<td>Terminal fees and loading bridge charges</td>
<td>15,088</td>
<td>12,151</td>
</tr>
<tr>
<td>Landing fees</td>
<td>9,388</td>
<td>9,770</td>
</tr>
<tr>
<td>Concessions</td>
<td>8,223</td>
<td>6,405</td>
</tr>
<tr>
<td>Car parking</td>
<td>7,552</td>
<td>6,296</td>
</tr>
<tr>
<td>Land and space rentals</td>
<td>3,460</td>
<td>3,817</td>
</tr>
<tr>
<td>Interest income</td>
<td>562</td>
<td>2,649</td>
</tr>
<tr>
<td>Other revenue</td>
<td>1,689</td>
<td>1,394</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>69,632</td>
<td>63,320</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground rent (Note 10)</td>
<td>11,643</td>
<td>11,329</td>
</tr>
<tr>
<td>Materials, supplies and services (Note 11)</td>
<td>16,507</td>
<td>12,999</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>11,264</td>
<td>10,066</td>
</tr>
<tr>
<td>Payments in lieu of municipal taxes</td>
<td>3,515</td>
<td>3,466</td>
</tr>
<tr>
<td>Interest expense (Note 6(e))</td>
<td>17,783</td>
<td>7,331</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>60,712</td>
<td>45,191</td>
</tr>
<tr>
<td><strong>EARNINGS BEFORE AMORTIZATION</strong></td>
<td>8,920</td>
<td>18,129</td>
</tr>
<tr>
<td><strong>AMORTIZATION</strong></td>
<td>13,197</td>
<td>5,724</td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)</strong></td>
<td>(4,277)</td>
<td>12,405</td>
</tr>
<tr>
<td><strong>NET ASSETS, BEGINNING OF YEAR</strong></td>
<td>78,736</td>
<td>66,331</td>
</tr>
<tr>
<td><strong>NET ASSETS, END OF YEAR</strong></td>
<td>$74,459</td>
<td>$78,736</td>
</tr>
</tbody>
</table>

(See accompanying notes to the financial statements)
Statement of Cash Flows

year ended December 31, 2004
(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH PROVIDED BY (USED IN)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OPERATIONS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenues over expenses (Expenses over revenues)</td>
<td>$(4,277)</td>
<td>$12,405</td>
</tr>
<tr>
<td>Add non-cash items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization</td>
<td>13,197</td>
<td>5,724</td>
</tr>
<tr>
<td>Amortization of deferred financing costs</td>
<td>373</td>
<td>390</td>
</tr>
<tr>
<td>Loss on disposal of capital assets</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>120</td>
<td>112</td>
</tr>
<tr>
<td>Deferred rent (Note 6(d))</td>
<td>1,161</td>
<td>566</td>
</tr>
<tr>
<td>Changes in non-cash working capital related to operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4,944</td>
<td>(3,224)</td>
</tr>
<tr>
<td>Prepaids and consumable supplies</td>
<td>(238)</td>
<td>(35)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>2,299</td>
<td>2,404</td>
</tr>
<tr>
<td>Increase in accrued benefit asset</td>
<td>(1,029)</td>
<td>17</td>
</tr>
<tr>
<td>Increase in accrued benefit liability</td>
<td>288</td>
<td>427</td>
</tr>
<tr>
<td>Increase (decrease) in Security deposits</td>
<td>(95)</td>
<td>109</td>
</tr>
<tr>
<td><strong>TOTAL OPERATIONS</strong></td>
<td>16,753</td>
<td>18,945</td>
</tr>
<tr>
<td><strong>FINANCING ACTIVITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(1,715)</td>
<td>(273)</td>
</tr>
<tr>
<td>Debt service reserve fund (Note 6(a))</td>
<td>(176)</td>
<td>114</td>
</tr>
<tr>
<td><strong>TOTAL FINANCING ACTIVITIES</strong></td>
<td>(1,891)</td>
<td>(159)</td>
</tr>
<tr>
<td><strong>INVESTING ACTIVITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital asset expenditures</td>
<td>(9,420)</td>
<td>(111,064)</td>
</tr>
<tr>
<td>Change in accounts payable and accrued liabilities related to investing activities</td>
<td>(19,647)</td>
<td>(6,441)</td>
</tr>
<tr>
<td><strong>TOTAL INVESTING ACTIVITIES</strong></td>
<td>(29,067)</td>
<td>(117,505)</td>
</tr>
<tr>
<td><strong>DECREASE IN CASH AND SHORT-TERM INVESTMENTS</strong></td>
<td>(14,205)</td>
<td>(98,719)</td>
</tr>
<tr>
<td><strong>CASH AND SHORT-TERM INVESTMENTS,</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BEGINNING OF PERIOD</strong></td>
<td>25,690</td>
<td>124,409</td>
</tr>
<tr>
<td><strong>CASH AND SHORT-TERM INVESTMENTS,</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>END OF PERIOD</strong></td>
<td>$11,485</td>
<td>$25,690</td>
</tr>
<tr>
<td><strong>CASH AND SHORT-TERM INVESTMENTS CONSISTS OF:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in bank</td>
<td>5,498</td>
<td>7,717</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>5,987</td>
<td>17,973</td>
</tr>
<tr>
<td><strong>$11,485</strong></td>
<td>$25,690</td>
<td></td>
</tr>
</tbody>
</table>

(See accompanying notes to the financial statements)
Notes to the Financial Statements
for the year ended December 31, 2004

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. 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 International Airport, the premises of which are leased to the Authority by Transport Canada (see Note 10), and any other airport in the National Capital Region for which the Authority becomes responsible, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;

b) to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities; and

c) to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

On January 31, 1997, the Authority signed a 60 year ground lease with Transport Canada and assumed responsibility for the management, operation and development of the Ottawa International Airport.

The Authority is exempt from federal and provincial income tax, federal large corporation tax, and Ontario capital tax.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada for commercial enterprises. 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. Examples of such estimations and assumptions include the useful lives of capital assets, valuation adjustments, and provisions for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

Short-term investments

Short-term investments consisting of highly liquid term deposits and bankers’ acceptances are valued at the lower of cost including accrued interest and net realizable value.

Consumable supplies

Inventories of consumable supplies are valued at the lower of cost, determined on a first-in, first-out basis, and estimated replacement value.

Deferred financing costs

Costs relating to the issue of Series A and Series B bonds, including underwriting fees, professional fees, termination of interest-rate swap agreements, and bond discounts, are deferred and amortized on a straight-line basis over the term of the related debt. Amortization is included in interest expense.

Capital assets

Capital assets are recorded at cost, net of government assistance, if any, and are amortized over their useful lives on a straight-line basis as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Useful Life Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and support facilities</td>
<td>10 – 40 years</td>
</tr>
<tr>
<td>Runways, roadways and other paved surfaces</td>
<td>10 – 40 years</td>
</tr>
<tr>
<td>Land improvements</td>
<td>5 – 40 years</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>5 – 20 years</td>
</tr>
<tr>
<td>Computer equipment and systems</td>
<td>2 – 10 years</td>
</tr>
<tr>
<td>Vehicles</td>
<td>7 – 15 years</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>3 – 10 years</td>
</tr>
</tbody>
</table>

Construction in progress includes costs associated with the Airport Expansion Program. 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 placed in service.

Ground lease

The ground lease with Transport Canada is accounted for as an operating lease.

Revenue recognition

Landing fees, terminal fees, and parking revenues are recognized as the airport facilities are utilized. Concession revenues are
recognized on the accrual basis and calculated using agreed percentages of reported concessionaire sales, with specified minimum rent guarantees. Rental (and licence) revenues are recognized over the lives of respective leases, licences, and permits. Airport improvement fees (AIF), net of airline administrative fees, are recognized upon the enplanement of passengers.

Pension plan and post retirement benefits

The Authority accrues its obligations under pension and post retirement benefit plans as employees render the services necessary to earn these benefits. The costs of these plans are actuarially determined using the projected benefit method prorated on services. This determination reflects management’s best estimates at the beginning of each fiscal year of the rate of return on plan assets, rate of salary increases, and various other factors including mortality, termination, and retirement rates. For the purpose of calculating expected return on pension plan assets, those assets are valued at fair value. Experience gains and losses will 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. These experience gains and losses are deferred and amortized over future years on the following basis: the excess of these gains or losses over 10% of the greater of the accrued benefit obligation at the beginning of the year, or the fair value of plan assets at the beginning of the year, is amortized on a straight line basis over the average remaining service period of active employees. The average remaining service period of active employees is approximately 10 years.

3. Capital Assets

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and support facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>$242,061</td>
<td>$236,475</td>
</tr>
<tr>
<td>De-icing facility</td>
<td>6,998</td>
<td>6,998</td>
</tr>
<tr>
<td>Pedestrian bridges</td>
<td>6,457</td>
<td>6,457</td>
</tr>
<tr>
<td>Utilities infrastructure</td>
<td>5,394</td>
<td>5,394</td>
</tr>
<tr>
<td></td>
<td><strong>260,910</strong></td>
<td><strong>255,324</strong></td>
</tr>
<tr>
<td>Runways, roadways and other paved surfaces</td>
<td>28,077</td>
<td>28,069</td>
</tr>
<tr>
<td>Land improvements</td>
<td>20,422</td>
<td>19,965</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>18,694</td>
<td>18,255</td>
</tr>
<tr>
<td>Computer equipment and systems</td>
<td>12,734</td>
<td>12,639</td>
</tr>
<tr>
<td>Vehicles</td>
<td>8,233</td>
<td>6,638</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>2,383</td>
<td>1,782</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>529</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td><strong>351,982</strong></td>
<td><strong>342,672</strong></td>
</tr>
<tr>
<td><strong>Less accumulated amortization:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and support facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>8,683</td>
<td>2,347</td>
</tr>
<tr>
<td>De-icing facility</td>
<td>888</td>
<td>608</td>
</tr>
<tr>
<td>Pedestrian bridges</td>
<td>394</td>
<td>72</td>
</tr>
<tr>
<td>Utilities infrastructure</td>
<td>457</td>
<td>241</td>
</tr>
<tr>
<td></td>
<td><strong>10,422</strong></td>
<td><strong>3,268</strong></td>
</tr>
<tr>
<td>Runways, roadways and other paved surfaces</td>
<td>3,933</td>
<td>2,818</td>
</tr>
<tr>
<td>Land improvements</td>
<td>1,113</td>
<td>291</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>3,199</td>
<td>1,562</td>
</tr>
<tr>
<td>Computer equipment and systems</td>
<td>2,947</td>
<td>1,305</td>
</tr>
<tr>
<td>Vehicles</td>
<td>3,231</td>
<td>2,886</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>1,080</td>
<td>698</td>
</tr>
<tr>
<td></td>
<td><strong>25,925</strong></td>
<td><strong>12,828</strong></td>
</tr>
<tr>
<td></td>
<td><strong>326,057</strong></td>
<td><strong>329,844</strong></td>
</tr>
</tbody>
</table>

Interest costs of $10,615 thousand were capitalized during 2003 (Nil in 2004).
4. Other Assets

(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued benefit asset (Note 8)</td>
<td>$1,386</td>
<td>$357</td>
</tr>
<tr>
<td>Interest in future proceeds from 4160 Riverside Drive, at cost</td>
<td>2,930</td>
<td>2,930</td>
</tr>
<tr>
<td></td>
<td>$4,316</td>
<td>$3,287</td>
</tr>
</tbody>
</table>

In an agreement signed on May 27, 1999, the Authority agreed to assist the Regional Municipality of Ottawa-Carleton (now the City of Ottawa) in acquiring lands municipally known as 4160 Riverside Drive by contributing to the City of Ottawa 50% of the funds required for the acquisition. In return, the City agreed to place restrictions on the use of the lands to ensure the lands are used for purposes that are compatible with the operations of the Authority. In addition, the Authority will receive 50% of the net proceeds from any future sale, transfer, lease, or other conveyance of the lands.

5. Credit Facilities

The Authority maintains credit facility agreements with two Canadian banks. Under these credit facilities the Authority is provided with a 364-day revolving operating facility in an amount of up to $20 million plus 364-day revolving credit facilities up to $100 million in the aggregate for general corporate purposes and for the financing of construction costs associated with the Authority’s Airport Expansion Program. These facilities are secured under the Master Trust Indenture (see Note 6), are due on October 31, 2005, and will be reduced with any new debt issuance. They are available by way of overdraft, Prime Rate Loans, or Banker’s Acceptances. As at December 31, 2004, $5.8 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 6). These credit facilities remained undrawn throughout 2004.

6. Long-term Debt

(tabular amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.973% 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, semi-annual instalments of principal payable on each interest payment date commencing November 25, 2004</td>
<td>$149,922</td>
<td>$150,000</td>
</tr>
<tr>
<td>5.64% Revenue bonds, Series A, due May 25, 2007, interest payable on May 25 and November 25 of each year until maturity commencing November 25, 2002</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Note payable to the City of Ottawa, bearing interest at 6.125%, repayable in equal annual instalments of principal and interest of $390 thousand, and due on July 7, 2008</td>
<td>–</td>
<td>1,637</td>
</tr>
<tr>
<td>Non-interest bearing debt to the Province of Ontario, discounted at a rate of 6.0%, payable over a 5 year period commencing in 2007</td>
<td>2,115</td>
<td>1,995</td>
</tr>
<tr>
<td>Deferred rent repayable to the Minister of Transport, without interest in equal monthly instalments over a ten year period commencing in 2006</td>
<td>1,727</td>
<td>566</td>
</tr>
<tr>
<td></td>
<td>273,764</td>
<td>274,198</td>
</tr>
<tr>
<td>Less: current portion</td>
<td>244</td>
<td>368</td>
</tr>
<tr>
<td></td>
<td>$273,520</td>
<td>$273,830</td>
</tr>
</tbody>
</table>

(A) Bond Issue

In May 2002, the Authority completed a $270 million Revenue Bond issue with two series. The $120 million Revenue bonds, Series A at 5.64% are due on May 25, 2007. The $150 million Revenue bonds, Series B at 6.973% are due on May 25, 2032. The net proceeds from this offering are being used to finance the Airport Expansion Program (AEP) and for general corporate purposes. These include refinancing existing bank indebtedness incurred by the Authority in connection with the AEP and the funding of a $8.6 million Debt Service Reserve Fund required by the Master Trust Indenture entered into by the Authority in connection with the offering.

The bonds are direct obligations of the Authority ranking pari passu with all other indebtedness issued under the Master Trust Indenture. All indebtedness, including indebtedness under bank
credit facilities, are secured under the Master Trust Indenture by an assignment of revenues and related book debts, a security interest on money in reserve funds and certain accounts of the Authority, and an unregistered mortgage of the Authority’s leasehold interest in the Airport.

Pursuant to the terms of the Master Trust Indenture, the Authority is required to establish and maintain with a trustee a Debt Service Reserve Fund with a balance at least equal to 50% of annual debt service costs. At December 31, 2004, the Debt Service Reserve Fund included $8.8 million in interest-bearing deposits held in trust. These trust funds are held for the benefit of the bondholders for use and application in accordance with the terms of the Master Trust Indenture. In addition, the Authority is required to maintain an Operating and Maintenance Reserve Fund of approximately $5.8 million. The Operating and Maintenance Reserve Fund may be satisfied by cash, letters of credit, or the undrawn availability under a committed credit facility described above.

(B) The note payable to the City of Ottawa relates to the interest in future proceeds of 4160 Riverside Drive included in other assets. This note was paid in full during 2004.

(C) The amount payable to the Province of Ontario relates to land transfer tax resulting from the long-term lease of the Airport to the Authority in 1997.

(D) On July 16, 2003, the Minister of Transport announced short-term rent relief for airports. Under this program, the Ottawa International Airport Authority is able to defer approximately 10% of its rent for the 2 year-period that started July 1, 2003 (a total of $2.3 million). The deferral is to be repaid, interest-free, over a period of 10 years starting on January 1, 2006. Because this is a deferral and not a permanent reduction of rent, the full amounts of rent are being recorded as a liability in the accounts.

(E) Interest expense

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond interest</td>
<td>$17,237</td>
<td>$17,227</td>
</tr>
<tr>
<td>Interest expense – Other</td>
<td>546</td>
<td>719</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17,783</strong></td>
<td><strong>17,946</strong></td>
</tr>
</tbody>
</table>

(F) As it is expected that the Series A Revenue Bonds due in 2007 will be refinanced in 2007, the future annual principal payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>244</td>
</tr>
<tr>
<td>2006</td>
<td>656</td>
</tr>
<tr>
<td>2007</td>
<td>1,273</td>
</tr>
<tr>
<td>2008</td>
<td>1,510</td>
</tr>
<tr>
<td>2009</td>
<td>1,765</td>
</tr>
</tbody>
</table>

(G) Deferred financing costs

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred financing costs</td>
<td>$4,327</td>
<td>$4,327</td>
</tr>
<tr>
<td>Less: Accumulated amortization</td>
<td>(1,006)</td>
<td>(633)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,321</strong></td>
<td><strong>$3,694</strong></td>
</tr>
</tbody>
</table>

7. Airport Improvement Fees (AIF)

(in thousands of dollars)

On September 1, 1999, the Authority implemented an AIF of $10 per local boarded passenger to fund the cost of major capital expenditures under the Authority’s Airport Expansion Program (AEP). This fee was increased to $15 effective January 1, 2003. These fees are collected by air carriers under an agreement between the Authority, the Air Transport Association of Canada, and the air carriers serving the Ottawa International Airport. Under the agreement, AIF revenues may only be used to pay for the capital and related financing costs of major airport infrastructure development as jointly agreed with the air carriers.
8. Pension Plan And Post Retirement Benefits

(in thousands of dollars)

The Authority sponsors and funds a pension plan on behalf of its employees, which has defined benefit and defined contribution components. The defined benefit component is for employees who were employees of the Authority on the date of transfer including former Transport Canada employees, some 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. Benefits are indexed annually to reflect the increase in the consumer price index to a maximum of 8% in any one year. Pension plan costs are charged to operations as services are rendered based on an actuarial valuation of the obligation.

In addition to pension plan benefits, the Authority provides other post-employment and retirement benefits to its employees including health care insurance and severance pay 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.
Total cash payments for employee future benefit plans were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer contributions, defined benefit pension plan</td>
<td>$1,508</td>
<td>$596</td>
</tr>
<tr>
<td>Employee contributions, defined benefit pension plan</td>
<td>228</td>
<td>224</td>
</tr>
<tr>
<td>Benefits paid, defined benefit pension plan</td>
<td>405</td>
<td>283</td>
</tr>
<tr>
<td>Employer contributions, defined contribution plan</td>
<td>180</td>
<td>152</td>
</tr>
<tr>
<td>Employee contributions, defined contribution plan</td>
<td>180</td>
<td>152</td>
</tr>
</tbody>
</table>

The next required actuarial valuation of the pension plan as at December 31, 2004 is scheduled to be completed and filed by its June 2005 due date. Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2003 and extrapolated to December 31, 2004, the status of the pension plan is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of pension plan assets</td>
<td>$21,826</td>
<td>$18,237</td>
</tr>
<tr>
<td>Accrued pension benefit obligation</td>
<td>23,044</td>
<td>19,569</td>
</tr>
<tr>
<td>Funded Status – plan surplus (deficit)</td>
<td>(1,218)</td>
<td>(1,332)</td>
</tr>
<tr>
<td>Balance of unamortized amounts</td>
<td>2,604</td>
<td>1,689</td>
</tr>
<tr>
<td>Accrued benefit asset</td>
<td>$1,386</td>
<td>$ 357</td>
</tr>
</tbody>
</table>

The accrued benefit asset is included in the balance sheet with other assets.

In accordance with the investment policy for the pension plan’s funds, the plan’s non-current, non-cash assets are invested as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Funds – Canadian funds</td>
<td>35%</td>
<td>56%</td>
</tr>
<tr>
<td>Equity funds – US and foreign funds</td>
<td>25%</td>
<td>14%</td>
</tr>
<tr>
<td>Fixed income funds</td>
<td>39%</td>
<td>26%</td>
</tr>
<tr>
<td>Money market funds</td>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
</table>

In addition to pension benefits, the Authority provides other post-employment and retirement benefits to its employees.

The status of post employment and retirement benefit plans as at December 31 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued benefit obligation</td>
<td>$2,759</td>
<td>$2,204</td>
</tr>
<tr>
<td>Balance of unamortized amounts</td>
<td>1,291</td>
<td>1,024</td>
</tr>
<tr>
<td>Accrued benefit liability</td>
<td>$1,468</td>
<td>$1,180</td>
</tr>
</tbody>
</table>

The accrued benefit liability is included in the balance sheet as a long-term liability.

The costs of the defined benefit component of the pension plan and of other post employment and retirement 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 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.0%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Expected long-term rate of return on plan assets</td>
<td>7.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Rate of compensation increases</td>
<td>3.75%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Rate of increases in health care costs</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>The trend rate for increases in health care costs decreases gradually to ultimately increase after 10 years by</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

The net costs for the Authority’s pension benefit plans recognized in the Authority’s statement of operations are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit pension plan component</td>
<td>$ 470</td>
<td>$ 612</td>
</tr>
<tr>
<td>Defined contribution pension plan component</td>
<td>180</td>
<td>152</td>
</tr>
<tr>
<td>Other post retirement and employment benefits</td>
<td>450</td>
<td>426</td>
</tr>
</tbody>
</table>
9. Financial Instruments

Fair value

The Authority’s cash, accounts receivable, debt service reserve fund, accounts payable and accrued liabilities, and security deposits are reflected in the financial statements at carrying values which approximate fair values due to the immediate and short-term maturity of these financial instruments. As at December 31, 2004, the fair value of the long-term bonds was $126.2 million and $170.5 million for the Series A and Series B Revenue bonds respectively. Fair values of other long-term debt are similar to their carrying values taking into account their maturity dates and current market rates for the same or similar instruments.

Interest rate risk

Prior to 2002, the Authority entered into interest-rate swap agreements with its bank to reduce the financial risk associated with future anticipated borrowings related to its expansion plans. In May 2002, coincident with the Authority’s offering of Revenue bonds, the Authority terminated all interest rate swap agreements, resulting in an amount payable of $1,428 thousand. This amount is included in deferred financing costs.

The Authority’s exposure to interest rate risk relates to its future anticipated borrowings and refinancing.

Credit risk

The Authority is subject to credit risk through its accounts receivable. A significant portion of the Authority’s revenues, and resulting receivable balances, are derived from airlines. The Authority performs ongoing credit valuations of receivable balances and maintains provisions for potential credit losses. The Authority derives approximately 56% (62% in 2003) of its landing fee and terminal fee revenue from one airline. However, management believes that the Authority’s long term exposure to any single airline is mitigated by the fact that approximately 90% 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.

10. Commitments

On January 31, 1997, the Authority signed a 60 year ground lease with Transport Canada for the management, operation and development of Ottawa International Airport. The ground lease contains provisions for compliance with a number of requirements, including environmental standards, minimum insurance coverage, specific accounting and reporting requirements, and various other matters that have a significant effect on the day-to-day operation of the Airport. The Authority believes that it has complied with all requirements under the ground lease.

The lease contains a 20 year renewal option which may be exercised at the end of the lease term. At the end of the renewal term, unless otherwise extended, the Authority is obligated to return control of the Airport to the landlord.

Rent payable under the ground lease with Transport Canada includes base rent and participation rent and is calculated based on a formula reflecting annual passenger volumes, annual revenues, and predetermined base operating costs. Base rent is calculated on a capped passenger volume formula subject to adjustments for inflation. Participation rent is based on a measure of incremental revenues and commences in year 11 (2007) of the lease. The Authority and other Canadian airports are currently engaged in negotiations with Transport Canada to revise the rent formula.

Minimum estimated lease payments under the ground lease for the next five years excluding participation rent are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$13.0 million</td>
</tr>
<tr>
<td>2006</td>
<td>$13.3 million</td>
</tr>
<tr>
<td>2007</td>
<td>$13.2 million</td>
</tr>
<tr>
<td>2008</td>
<td>$13.5 million</td>
</tr>
<tr>
<td>2009</td>
<td>$15.1 million</td>
</tr>
</tbody>
</table>
In addition to the above, at December 31, 2004, the Authority had operating commitments in the ordinary course of business of approximately $7.8 million per year extending for various periods up to 5 years in duration.

11. Contribution Agreements

In 2002, the Authority entered into a policing contribution agreement with the Canadian Air Transport Security Authority (CATSA), an agent of the Government of Canada, for the purposes of contributions by CATSA to the costs of policing incurred by the Authority in carrying out its responsibilities. Contributions are determined annually by CATSA up to a maximum amount not to exceed the actual allowable costs incurred by the Authority in providing these services. This agreement is to be extended annually as required. In connection with this agreement, the Authority has recorded contributions of $1,000,000 (2003 - $1,000,000) as a reduction of related operating costs included in the statement of operations.

12. Comparative Figures

Certain of the 2003 comparative figures, primarily those on the statement of operations, have been reclassified to conform to the financial statement presentation adopted in 2004.
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