

**OTTAWA MACDONALD-CARTIER
INTERNATIONAL AIRPORT AUTHORITY
ANNUAL REPORT 2005**

**WORLD
CLASS**

Ottawa



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ANNUAL REPORT 2005

Vision:

Building connections to the world

Mission:

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

Organizational Values:

- To meet and exceed the expectations of our stakeholders; and
- To conduct our affairs responsibly, with integrity and transparency.



Ottawa Macdonald-Cartier International Airport Authority

1000 Airport Parkway Private, Suite 2500

Ottawa, ON CANADA K1V 9B4

Tel: (613) 248-2000

Fax: (613) 248-2003

Media Relations: (613) 248-2050

www.ottawa-airport.ca

Chairman's Message

Jim Durrell

AFTER a few years of publishing news about mega events like the opening of the new terminal in 2003 and record-breaking passenger volumes in 2004, it may seem like we spent a quiet year in 2005. Quite the contrary: 2005 was an outstanding year for many reasons. Let me tell you about some of the highlights.

The year started off with a busy charter season as many of you escaped the winter snow in the sunny south. Growth remained consistent throughout the year and ultimately ended on a high note setting yet another record for passenger volume at 3,735,433 arriving and departing guests.

As the snow melted, the Authority finalized its plans to expand the Parkade facility, and broke ground on April 25th. Originally expected to take a full year, the first half of the project was completed in November, and the remainder in December, providing an additional 900 spaces for our clients just in time for the holiday and charter rushes.

Increased passenger numbers mean that during daily peak times, we are near capacity in the new terminal, and have opened up seven gates in the old terminal to handle the extra volume. In order to meet the growing needs of this community well into the future, we announced that we would start design work on an expansion at the south end of the terminal. \$13 million has been committed to the design, \$6 million of which was committed in 2005. We still have some work to do, but when the decision is made to proceed with construction, we will be ready with a great design that will blend Phases I and II together beautifully.

The Authority continued to give back to the community through Project Clear Skies. I am very proud to say that after carefully considering more than 100 applications for project funding, the committee was able to disperse \$106,000 to charities in Ottawa and Gatineau that truly needed our support. The Authority will be able to keep making a small difference in the quality of life for many in our community. I am extremely proud of the work that the committee, which is comprised of Authority employees and members of the Board, has been able to accomplish. I honour the respect that they show each application.

In 2005 we continued to participate in the quarterly AETRA customer service survey program, which is offered through a partnership between Airports Council International (ACI) and the International Air Transport Association (IATA). The sample involves 65 airports and includes separate quarterly surveying of domestic and international passengers; both of which we participate in. We were honoured to learn that the airport received 2nd place in three categories, including "overall airport" in 2005. What an excellent result for our first full year in the program; one that speaks highly to the commitment and support of the entire airport community.



The Authority also partnered with the Ontario Tourism Education Corporation to deliver a program called Customer Service Excellence to our employees, which we will expand upon in 2006. These efforts, coupled with your feedback can only mean even better service for our customers in the future.

As you know, the City of Ottawa celebrated its 150th Anniversary in 2005. Given that the airport contributes more than \$1 billion, directly and indirectly, to the local economy on an annual basis, and that we have played a significant role in the history of Ottawa, it was fitting that the Airport Authority participated as a major sponsor. We were particularly proud to be involved with Doors Open Ottawa, which highlights interesting architecture and facilities in the City. The event gave us the opportunity to take residents on guided tours through the terminal, and to share some interesting facts and stories about the new facility.

The highlights that have been noted above do not happen in isolation; they are the result of hard work and excellent collaboration with our partners. I would like to express my appreciation to the members of the Airport Authority team who, under the guidance of CEO Paul Benoit, work tirelessly to ensure that the facility is well-managed, the airfield is kept safe and secure, and that the operation unfolds smoothly. Whether during emergency situations or during day-to-day activities, you make a difference here, and for that I thank each of you.

I would also like to express my appreciation to the Airport Authority Board of Directors. I am pleased to work with a dedicated group of men and women who share their talents and experience so willingly for the good of the Authority to which they are deeply committed. As a group, we have put a lot of thought and energy into ensuring that we represent the Authority responsibly and transparently, and I believe that our governance practice is first-rate.

We believe that the Authority is a private company managing a public trust and therefore that it is critical to not only do things right, but also, to do the right things. The Board recognizes that the Authority must manage its economic, social and environmental impacts in a responsible manner, and as such has adopted a Corporate Social Responsibility Program that includes a plan to review every aspect of our business operations from the environment to our contribution to the community. We are currently developing benchmarks against which to measure our progress and we look forward to sharing our progress in this area in future reports.

The Board of Directors and senior management team collaborate every year to develop the plans that will guide the organization in future years. Based on the work that was done in 2005, I am confident that the priorities are solidly in place to ensure that the Ottawa International Airport will be a continued source of pride for this community for many years to come.

A handwritten signature in black ink, appearing to read "Paul Benoit", with a long horizontal flourish underneath.

President's Message

Paul Benoit

2005 was another excellent year for the Ottawa International Airport for many reasons, not the least of which was continued growth in passenger numbers. We had 3,735,433 enplaned and deplaned passengers through the doors, which translated into a 3.5% increase over 2004 – it was another record-breaking year!

Continued growth through 2004 and 2005 meant the need for more covered parking in our Parkade facility. After plans for an addition were completed in the first quarter of 2005, we broke ground in April. Construction was expected to take a full year, but thanks to the excellent effort by our consultants at Dessau Soprin, our contractor, PCL, and the Airport Authority team, all of whom took advantage of ideal weather conditions, the project was completed in December. We now have more than 2,500 parking spaces in the Parkade, there is a new, double entrance into the facility, we have better roadway signage, and as a result, many more happy customers. The best news of all is that the project was completed within budget.

As the passenger volumes continued to grow, the availability of gates during peak periods began to shrink. We promised the community that we would embark on Phase II of the Airport Expansion Program when volumes dictated its need. Well, growth over the past two years confirmed the need. In May 2005, we announced that we would start designing an expansion to the domestic end of the terminal. We engaged a design team as well as project managers who are working diligently on the project. Having the design in place so that we can move ahead when the market and financial conditions are right will give us cost certainty when we finally do break ground. Rest assured that we will take the same thoughtful approach to the project that served the Authority and the community so well in Phase I.

Summer brought us gloriously hot but volatile weather. Ottawa Airport was on the receiving end of weather-related diversions almost weekly. On August 2nd, one of the most severe weather days, we received more than a dozen diverted flights; initially due to the weather, but ultimately due to an aircraft crash at Toronto Pearson Airport, which thankfully had no casualties. In short order, the entire airport team rallied to accept 14 diverted flights, handle several in-flight emergencies and medical situations, and welcomed more than 1,500 unanticipated passengers into the terminal, most of whom required processing through Canada Customs. Within 24 hours, the short-term visitors were all on their way to their final destinations. The sheer number of diverted aircraft, their size and international routing was a test of our ability to process inbound flights at maximum capacity. We passed the test; the teamwork that happened on August 2nd was nothing short of amazing, and I thank all those who stepped forward to help.

One of the most important highlights of 2005 was the great news that was delivered in May regarding airport rent. I would like to extend my personal thanks to the Honourable Jean C. Lapierre, then Minister of Transport, for fulfilling his commitment to fix the airport rent situation. His effort, combined with the hard work of an excellent team at Transport



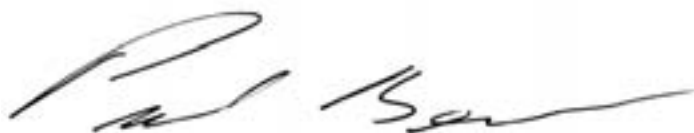
Canada, resulted in a meaningful rent reduction formula that will allow the Ottawa Airport Authority to invest in its operations and plan for the future. We too will keep our promise to reduce the aeronautical fees that we charge airlines for the portion that is attributed to the cost of rent.

We received more good news from Airports Council International – North America (ACI-NA) when their Environmental Committee chose Ottawa Airport's glycol biotreatment system as the winner of its annual Environmental Award for our class of North American airport. ACI-NA recognized the importance of the treatment system which protects the Rideau River and other smaller tributaries from the damaging effects of glycol which can leech during de-icing. The system was developed and tested in Ottawa. Congratulations to Yvon Larochelle, Director, Environmental Services and his team for their award-winning solution.

Whether it's breaking new ground to find a unique solution, going the extra step to help a customer, or finding innovative ways to reduce costs, the Ottawa International Airport Authority team is always ready to handle any situation that presents itself. It can often mean long hours, uncertainty, and a lot of pressure, but they always rise to the occasion. The team is well known in the industry and very well regarded and I am proud to work with each of them every day.

I am also very pleased to have the support of an excellent Board of Directors, and the leadership of Chairman Jim Durrell; they recognize the abilities of our employees and support their actions and decisions. Thank you all for your continued trust and your commitment to our collective success.

Finally, I would like to express my appreciation to our engaged community. You continue to get in touch with the Authority to pass on words of thanks and suggestions for improvement. Your feedback does make a difference and, to a large extent, it guides our planning and activities. I encourage you to keep writing and I promise we'll keep listening.



Paul Benoit and Jim Durrell on opening day of the Parkade expansion.

Recognition



Customer Satisfaction Program

In 2004, we told you about our participation in the AETRA Customer Satisfaction and Performance Program. AETRA is derived from the Latin word AETHRA, which stands for “clear sky, upper sky”.

AETRA is a joint venture between the International Air Transport Association and the Airports Council International, and is an airport customer satisfaction benchmarking program that provides demographic and travel profiles and compares airport performance for 31 service items at 65 airports worldwide. The survey is conducted quarterly and offers unparalleled insight into customer satisfaction and loyalty.

Ottawa participated in its first survey in the third quarter of 2004, and received very favorable feedback. Results for all of 2005, however, were even better than our expectations. The Ottawa International Airport team is extremely proud to have been awarded second place in three specific categories in 2005:

- **2nd in customer satisfaction for all enrolled airports of between 0 and 5 million passengers;**
- **2nd in customer satisfaction for all enrolled airports in the Americas (out of 16 airports); and**
- **2nd in customer satisfaction for all enrolled domestic passenger airports (out of 34 airports).**

Meeting our customers’ needs and providing them with the best possible customer service have always been key objectives of the Airport Authority and our staff. Receiving this confirmation from our passengers that we are indeed meeting our objectives and doing so at a high level in comparison to our peer airports is very rewarding, and we thank our clients for their continued confidence and support.

The entire airport team, including everyone from airline staff to cleaners, security personnel and Customs Agents, and all service providers, is to be commended for these amazing results.

Recognition Continued

Energy

The Airport Authority was recognized by the Ontario Power Authority for its efforts to reduce energy consumption during the critical summer peak period. The state-of-the-art terminal is already extremely energy efficient. However efforts such as reducing lighting, raising the temperature, turning off the waterfeature and setting office area lights on timers resulted in the Authority lowering consumption during peak periods by as much as 30%.



minimal operational cost. Ideal indigenous soil conditions and a network of perforated pipes have allowed them to treat the glycol-impacted storm water underground using bacteria. This innovative system has proven that glycol-impacted storm water can be treated in-situ with no impact to neighboring bodies of water”.

Waterfeature

In November, the design of the airport’s signature “Ottawa Lock” waterfall that terminates in Arrivals on level 1, was recognized with the *Award of Excellence, Urban Elements* in the City of Ottawa’s Urban Design Awards.

Environmental

Ottawa Airport’s glycol biotreatment system was singled out by ACI-NA for its *Environmental Achievement Award* at its National Conference last summer. According to ACI-NA’s Environmental Committee, “Ottawa Macdonald-Cartier International Airport Authority designed and constructed a glycol biotreatment system to prevent glycol from being released into the neighboring Rideau River, which discharges into the Ottawa River, a tributary of the St. Lawrence River. The system was designed to capture the glycol-impacted storm water and treat it in a manner that would not attract wildlife and at a

Lighting Design

The Illuminating Engineering Society of North America bestowed their 2005 International *Illumination Design Award* upon the lighting engineers who designed the public space lighting system in the passenger terminal building.



Airport Rent Was Resolved!

Arguably the most notable event of 2005 came in May, when after years of studying the issue, the federal government finally delivered the good news airports in Canada had been waiting for. On May 9th, the Honourable Jean C. Lapierre, then Minister of Transport, held a press conference at the Ottawa International Airport during which he announced the new rent formula for Canadian airports. The formula uses a progressive scale based on airport gross revenues to set out a more modern and equitable rent for each airport.

The impact for Ottawa Airport is significant; beginning in 2006, the reduction will be phased in, with increasing savings until a baseline rent is reached in 2010. The savings are as follows:

Year	New Formula	Old Formula	Actual Paid
2005			\$13.0 million
2006	\$12.5 million	\$13.3 million	
2007	\$11.5 million	\$15.9 million	
2008	\$10.1 million	\$16.3 million	
2009	\$ 7.3 million	\$17.8 million	
2010	\$ 5.4 million	\$18.3 million	

The financial impact between 2006 and 2010 is expected to be over \$34.8 million: the savings will be invested back into the operation of the Ottawa International Airport for the benefit of the communities that it serves. It will also allow us to decrease fees or avoid increases in fees to airlines.

Other than that how did we do?

This Annual Report covers the highlights of 2005 in the context of the Strategic Plan, which is developed in collaboration with the Board of Directors.

■ 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

Speaking of finances...

2005 was another successful year for the Authority, financially speaking. With increased passenger numbers, Airport Improvement Fees (AIF) collected also increased. The AIF is used to directly pay for Airport Expansion Program costs and related financing costs, and to reduce and pay down the debt service costs associated with construction of the new terminal.

Because the rent formula will not be put into effect until 2006, the Authority experienced an 11% increase in ground rent payable in 2005. As a result, while the Authority endeavours to keep its aeronautical costs as low as possible, it did impose a 4.9% increase for certain aeronautical charges in order to better recover a portion of the increase in rent payable to the federal government. Despite the increase, Ottawa Airport's aeronautical fee rates remained the lowest in Canada in 2005.

Once revenues and operating expenses were calculated, the Authority finished the year with a cash surplus, which will allow us to go forward with certain capital projects in 2006. Based on the Authority's sound approach to its finances, Moody's, Standard & Poors and DBRS all reaffirmed the Authority's credit ratings of A1, A+ and A(high) respectively.

of business aggressively, develop a brochure for this activity and continue to work with appropriate consultants on projects and opportunities that arise.

When Phase I of the Airport Expansion Program was completed, the Ottawa Airport Authority team had earned the reputation as industry leaders in the planning, development and operation of airport facilities. In an effort to capitalize on the extensive experience that had been developed, the team initiated a line of

business to market these services to other airports worldwide. With the launch of Phase II, it was decided that the talent would be better utilized on our own project. Therefore this particular initiative has been put on hold for now.

■ 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.

Significant progress was made in 2005 on several airport land development files. The Lowe-Martin Group opened their new corporate headquarters in the fall, after a very efficient construction project. Longtime airport tenant, IOGEN, in partnership with CAC Canada Ltd. (Aeroterm), broke ground on a new corporate centre on Hunt Club Road. Owners of a new Keg Restaurant also began construction on Hunt Club Road and are scheduled to open for business in the summer of 2006. The final design has been approved with a new fixed base operator, Express Air, for a hangar on Comet Private which will also be completed in 2006. Last, but not least, the Authority awarded a contract to BONA Building and Management to build a new Hilton Garden Hotel on the site that was once home to our long term parking lot. BONA is currently awaiting site

plan approval from the City, and we look forward to construction commencing in 2006.

Air Service Development

Hard work on the air service development front paid-off in 2005 with new United Airlines flights to Chicago and with Thomas Cook flying directly to Manchester, UK during the summer. In December, the Authority welcomed a new charter airline to the airport: Sunwing Airlines launched direct flights to Cuba, Mexico and the Dominican Republic for the 2005/2006 season. And, last fall we received news from Air Transat that they would be flying direct from Ottawa to Paris during the summer of 2006.

Passenger Volumes

Record-breaking passenger numbers and growth in 2004 set high expectations for 2005, and we weren't disappointed. 3,735,433 passengers travelled through Ottawa during the year. The breakdown is as follows: domestic was 1.6% higher, transborder grew by 12.2% and international was up by 1.9%.

Overall, we are very pleased with the results; continued growth is good news for both the Ottawa Airport and for the aviation industry as a whole.



Lowe-Martin Group

In operation since 1908, Lowe-Martin is one of Ottawa's most successful printing firms that, until 2005, was spread out across the city at a variety of locations. In September 2005, the company integrated their production and customer service business lines under one roof at their new corporate headquarters at 400 Hunt Club Road. The brand new 117,000 square foot home was constructed in 14 short months, and is spacious enough to house their massive state-of-the-art printing equipment and some 270 employees very comfortably.

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

	2001	2002	2003	2004	2005	Total
Wage bill	\$8,417	\$9,160	\$10,050	\$11,250	\$12,050	\$50,927
Payments in lieu of municipal taxes	3,700	3,654	3,466	3,515	3,690	18,025
Operations costs	10,000	9,500	12,000	15,000	16,000	62,500
Capital costs	49,000	125,000	110,000	9,000	17,000	310,000
	\$71,117	\$147,314	\$135,516	\$38,765	\$48,740	\$441,452

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, Depreciation and interest expense

WiFi Service

On January 19th, 2005, the Airport Authority launched wireless fidelity (WiFi) service in the terminal, making Ottawa International the first major airport in eastern Canada to offer the much requested service. Passengers and the general public now have access to wireless service in the terminal.

The Authority partnered with Concourse Communications and BOLDstreet Wireless to provide the service. Concourse installed a dedicated fiber-optic local area network that feeds a total of 21 wireless access points, all of which support the latest version of the WiFi standard, 802.11g. Through the BOLDstreet Wireless portal, users can access news, weather and sports content. Future applications will provide passengers with the ability to print remotely and download video and music files to create their own in-flight entertainment packages on their laptop computers.

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.

Customer Satisfaction

As reported in the Recognition section at the beginning of this report, the Ottawa International Airport was honoured with three 2nd place

finishes in the AETRA Customer Satisfaction Program for 2005.

The program has undergone several changes, most significantly a name change to Airport Service Quality — the Customer Satisfaction Analysis and Benchmarking Programme (ASQ). The programme will be administered by ACI going forward.

The Ottawa International Airport will continue to participate in ASQ; it will help us better understand our customers' views and expectations and make effective changes based on their feedback.

Training

Customer service has been and will continue to be a key priority. The Authority engaged the services of the Ontario Tourism Education Corporation to deliver the first module of Service Excellence training to the Airport Authority team in 2005. The Service Excellence series consists of programs that are tailored to meet the needs of specific organizations and delivered in an interactive format to provide teams and individuals with the tools they need to provide better service. Additional modules are planned for 2006.

Comment cards/Web comments

In 2005, we received 1,190 web comments, 120 comment cards and dozens of letters, all of which were answered. Many offered compliments regarding particular employees, volunteers or situations, while some offered suggestions for improvement. Because of the feedback we received, the Authority took action and installed 14 new flight information display screens (FIDs), two more drinking fountains,

better roadway signage, additional seating, children's play stations, images of Canada and we reconfigured the FIDs to offer weather information, flight path maps and analogue clocks. Getting in touch really does make a difference.

Airport Volunteers

The airport is fortunate to have the assistance of almost 125 individuals, who give of their time to ensure that the passengers and visitors who use the airport are well situated, well informed, and left with an excellent impression of both our facility and the National Capital Region.

The **Infoguide** team of volunteers is 85-strong, and has been in existence for more than 20 years. Comprised of retired professionals, students, and those who want to fill spare time in a meaningful way, the volunteers are stationed at information kiosks in Arrivals and Departures. They answer questions regarding ground transportation, hotels, tourist attractions and specific flights, to name but a few topics. They are also ready to help when a crisis of any kind occurs. In 2005, they filled 2,916 hours in Departures and 4,428 hours in Arrivals for a total of 7,344 volunteer hours.

The **Airport Watch** program was developed in 1999 when a group of aviation enthusiasts organized themselves with the help of the R.C.M.P. and Ottawa Police Service. The approximately 40 members volunteer their time to monitor the airport perimeter, general aviation procedures, the condition of perimeter fencing, wildlife activity, parking lots, flying debris and suspicious behavior. The program is highly successful and is being emulated worldwide. The most recent adopter of the "Ottawa Model" is the Greater Toronto Airports Authority, and discussions are underway to launch programs in Calgary, Halifax and Vancouver. In 2005, Airport

Watch volunteers dedicated more than 1,400 hours to the program.

Note: Should you wish to join either group of volunteers, contact the Authority's Director of Communications, Krista Kealey.



■ Employee Commitment

Continue to maintain and enhance our employees' commitment to the Authority's mission and objectives.

Succession planning is a key priority of the Human Resources Department. To further the Authority's program, an analysis was completed for each senior management position that identified the knowledge, skills and attributes required for these key positions. This analysis will help recognize talent within the organization who will benefit from further development with a view to filling critical leadership roles in the future.

Stars of the Airport

The Airport Merchants' Association developed a reward and recognition program in 2005 called Stars of the Airport. Members of the Association can nominate employees who have demonstrated excellent customer service; the nominations are evaluated and the Stars are selected. All Stars are featured in Contact, the monthly airport campus newsletter, and they are given "YOW Dollars" which can be spent at participating retail outlets in the airport.

Congratulations to the 2005 Stars:

- Carla Akiki – Ice Currency
- Viviana Garofalo – Cara Operations Ltd.
- Candice Gervais – Cara Operations Ltd.
- Anita Kelly – Cara Operations Ltd.
- Heine Mar – Cara Operations Ltd.
- Elwood McCorriston – Ice Wine Store
- Chan Ngan – Cara Operations Ltd.
- Heather Ritchie – Cara Operations Ltd.



Pauline Murakami, Infoguide since 1999.

■ Environmental Management Plan

We will continue the development of a comprehensive Environmental Management System for the Authority and its tenants; continue to manage the operations of the airport in an environmentally responsible manner.

The framework for the Authority's Environmental Management System (EMS) was completed in 2005. In all, 25 standard operating procedures (SOPs) were developed for various environmental elements of the airport's operation, including the Storm Water Monitoring Program, Ground Water Monitoring Program and Aircraft Noise Management Program, to name a few. To meet new Environment Canada regulations, the Authority completed a compliance audit

of all storage tanks located on the property; all were compliant.

To support the airport's environmental initiatives, an internal Environmental Committee was formed and meets regularly. A key priority for this committee is the development of a comprehensive waste audit and recycling program to be launched in 2006.

An important element in environmental management is noise abatement. Despite the Authority's best efforts, there are occasions when aircraft noise can be louder and more bothersome than usual. 2005 was no different; the hot humid weather caused aircraft to require longer distances to achieve desired altitudes, weather-related diversions caused aircraft to use different

Official Languages

The first Official Languages Act (OLA), which was enacted in 1969, declared that English and French would enjoy equality of status in all institutions of Parliament and of the Government of Canada. As a former Transport Canada facility and one that serves the nation's capital and the world, the Ottawa International Airport, and the Authority are subject to its regulations. Under the terms of the Act, the airport must support the equal use of English and French for providing service to the public, and in terms of the respect of both in the workplace.

We are pleased to announce that the Office of the Commissioner of Official Languages (OCOL) gave the Authority a very favourable rating in our annual evaluation for 2005. We have developed a proactive and cooperative relationship with the department over the past few years, and it is paying off; we received 10 complaints in 2005, all of which were remedied quickly. And, we have worked closely with OCOL representatives in the early stages of signage and other projects to ensure that we are compliant with the Act.

The Authority will continue to work with OCOL to ensure that all airport services are provided in both official languages, and will work with the airlines and tenants to that end.

approach paths, and several police investigations in the City required low-flying aircraft over certain neighbourhoods for prolonged periods. In many cases NavCan, for safety reasons, directed pilots to take different flight paths and/or approaches that took aircraft off their normal course. In all, we received 55 noise complaints, all of which were investigated on behalf of the complainants.

■ 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, including the Community Consultative Committee.

The Airport Authority believes in the mutual benefit that can be derived from strong partnerships in the community. To that end, Airport Authority representatives are involved in the Canadian Chamber of Commerce and the Ottawa Chamber of Commerce, the Ottawa Tourism and Convention Authority, le Regroupement des gens d'affaires and the Canadian Club of Ottawa to name but a few.

The Authority also maintains its commitment to the Community Consultative Committee with whom it has twice-yearly meetings to discuss issues, concerns and future plans. The Community Consultative Committee is comprised of representatives from the Airport Authority, the cities of Ottawa and Gatineau, the Air Transport

Association of Canada, union officials, the Ottawa Tourism and Convention Authority, as well as other stakeholder organizations.

■ 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.

The original agreement with the area municipalities, the Homebuilders' Association and the Province of Ontario was signed in 1999. In 2005, the Airport Authority updated the noise contours in agreement with the City and the Homebuilder's Association and established a new boundary for the Airport Operations Influence Zone. With approval by Council and no objection during public consultation, the amendment to the City of Ottawa's Official Plan came into effect in January 2006.

Passenger growth by sector

	Domestic	%	Transborder	%	International	%	Total	%
Actuals	1996	2,223,941		529,602		104,295	2,857,838	
	1997	2,435,534	9.51%	502,072	-5.20%	108,762	3,046,368	6.60%
	1998	2,414,355	-0.87%	563,085	12.15%	133,108	3,110,548	2.11%
	1999	2,426,288	0.49%	628,203	11.56%	157,116	3,211,607	3.25%
	2000	2,562,282	5.61%	719,200	14.49%	152,863	3,434,345	6.94%
	2001	2,625,630	2.47%	618,694	-13.97%	146,971	3,391,295	-1.25%
	2002	2,445,770	-6.85%	600,365	-2.96%	170,751	3,216,886	-5.14%
	2003	2,491,691	1.88%	588,088	-2.04%	182,566	3,262,345	1.41%
	2004	2,736,779	9.84%	641,157	9.02%	231,949	3,609,885	10.65%
	2005	2,779,895	1.58%	719,150	12.16%	236,388	3,735,433	3.48%
Forecast	2010	3,299,000	3.70%	939,000	6.10%	308,000	4,546,000	4.30%
	2015	3,824,000	3.00%	1,089,000	3.00%	357,000	5,270,000	3.00%
	2020	4,433,000	3.00%	1,262,000	3.00%	414,000	6,109,000	3.00%

Five-year Review (\$ 000)					
	2001	2002	2003	2004	2005
Revenues	\$52,985	\$55,308	\$63,320	\$69,632	\$72,503
Expenses before depreciation	31,646	40,777	45,191	60,712	63,491
Earnings before depreciation	21,339	14,531	18,129	8,920	9,012
Capital expenditure	56,784	147,473	111,064	9,420	17,503
AIF revenues	14,082	13,690	20,838	23,670	24,520

The Airport Authority has also been a participant in the Light Rail Transit project. City plans include a stop at the airport, which the Authority has accommodated in its future expansion plans.

■ Safety and Security

The Authority will continue to work with the Canadian Air Transport Security Authority and Transport Canada to ensure a maintained balance between security regulation and airport operation.

Planning, preparation and practice are vital to the Airport Authority’s ability to handle any extraordinary situation that may arise. The team relies on an extensive emergency preparedness manual that was updated in 2005 to reflect the considerations of the new terminal. The ability to execute the plan when necessary calls for training

and simulation exercises throughout the year, both internally and with external partners.

Exercise Elephant One

Transport Canada regulation requires that all airports conduct safety and security exercises every two and three years respectively. Ottawa International Airport hosted a major, week-long exercise in September.

The exercise, which included the participation of many of the Authority’s partners, such as Ottawa Police Service, the R.C.M.P, Ottawa Fire Services, Ottawa Paramedic Services, OC Transpo, Children’s Hospital of Eastern Ontario, Queensway Carleton Hospital, Canada Border Services Agency and the Red Cross, was deemed a success by everyone involved.

The exercise had two distinct phases. The first was focused on a mock terrorist incident and hostage-taking which brought together the resources of the Ottawa Police Service as first responders, and the R.C.M.P. who negotiated a peaceful resolution and hostage release. The primary exercise objectives included improving inter-agency connectivity, communication and cooperation.



The second phase involved a mock aircraft emergency on airport property that resulted in many injuries and casualties. This scenario tested

Aircraft Movements

1991	68,000
1998	77,202
1999	81,808
2000	78,301
2001	72,630
2002	68,499
2003	69,798
2004	69,626
2005	66,146

Origin and Destination

94% of passengers (arriving and departing to and from Ottawa—estimated)

the responsiveness, site management, organization and communication between all agencies.

As with every exercise there are lessons learned. The participating agencies have committed to working together to address the areas that require attention.

Paramount among these is more effective communication among all players.

Transport Canada Audit

A Transport Canada audit team inspected our airside facilities, reviewed our regulated plans and procedures and interviewed key personnel during the first week of July. The Authority was audited against applicable Transport Canada Aerodrome Standards and Recommended Practices and Canadian Aviation Regulations for the airport's Aerodrome Certificate and emergency response services. In all, approximately 1700 items were verified. The audit found a few minor items for improvement that have since been addressed including airside surface markings and approach lighting intensity levels.

Transport Canada Lease Monitoring

The Airport Authority enjoys a strong and positive relationship with its landlord and regulator, Transport Canada. The Authority has received consistently favourable lease monitoring reports by Transport Canada over the years and intends to continue nurturing this strong landlord-tenant relationship for the benefit of the travelling public.

Weather

2005 came in with a roar, and exited much the same way. January, November and December each had three significant freezing rain events and 42 mm accumulation for the year. We also had a total of 197 cm of snow during the same period. Of note is the fact that total rainfall for the year

was 834 mm, which is approximately 100 mm more than we would normally get. The operations team met with airline personnel to ensure that forecasted weather events were dealt with in a proactive and organized manner.

■ 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 and a net gain of 550 parking spots for public parking. The timing of the terminal expansion is still to be determined.

While completion of the Parkade expansion was anticipated in 2006, it was actually finished in December 2005; early and on-budget. In addition to the new parking spaces, the main entrance into the Parkade was relocated and expanded, and the roadway signage was enhanced and increased for greater ease of use.

The Airport Authority's decision to proceed with the design of Phase II of the Airport Expansion Plan was announced on May 17th. By the end of 2005, through a competitive process, mcfarlane Green architecture and design Inc, in joint venture with J.L. Richards and Associates Limited, had been contracted to handle design.

■ Project Clear Skies

Launched in 2004, this new initiative enhances the 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.

The Airport Authority is committed to giving back to the community that supports it so loyally. It does so in a variety of ways, including promotional item donations, sponsorships, coin collection in the terminal and through Project Clear Skies.

In 2005, the Project Clear Skies disbursed \$106,600 in two separate funding waves, thereby providing support to 23 organizations in Ottawa and Gatineau. The needs varied greatly; from building repair to furniture and appliance purchases, to the installation of a sump pump, projects were carefully evaluated and available funds were disbursed as follows:

Organization	Project	Dollars
Fall Disbursements		
Centre Espoir Sophie	Appliance purchase	\$ 6,000.00
Heron Emergency Food Centre	Refrigerator purchase	\$ 1,200.00
The Society of St. Vincent de Paul	Ceiling and wall repairs	\$ 2,000.00
LiveWorkPlay inc.	Exercise equipment purchase	\$ 5,000.00
Nelson House of Ottawa Carleton	Furniture purchase	\$ 6,000.00
New Beginnings for Youth	Kitchen equipment purchase	\$ 4,700.00
Orthodox Community Ohev Yisroel	House repairs	\$ 5,000.00
Waupoos Foundation	Roof repairs	\$ 10,000.00
Centre Alimentaire Aylmer	Furniture purchase	\$ 1,900.00
Centre d'animation familiale	Appliance purchase	\$ 5,000.00
Centre d'intervention et de prévention en toxicomanie de l'Outaouais	House renovations	\$ 4,000.00
Maison de l'Amitié de Hull	Furniture purchase	\$ 1,000.00
Maison d'Accueil Mutchmore	Furniture purchase	\$ 1,500.00
Spring Disbursements		
Abbeyfield House Ottawa	Installation of sump pump and drainage in basement	\$ 4,000.00
Candlelighters Childhood Cancer Support	Consultation room refurbishment	\$ 4,000.00
Centre 507	Kitchen appliance purchase	\$ 5,000.00
Centre Alimentaire Aylmer	Cafeteria refurbishment	\$ 4,300.00
Espoir Rosalie de Gatineau	Furniture purchase	\$ 7,500.00
Maison de l'Amitié de Hull	Appliance purchase	\$ 1,500.00
The Society of St. Vincent de Paul	Roof and window repairs	\$ 9,000.00
Ottawa Inncity Ministries	Kitchen appliance repairs	\$ 5,000.00
St. Joe's Women's Centre	Renovation of washroom and laundry facilities	\$ 5,000.00
St. Stephen's Residence	Basement renovation	\$ 8,000.00
Total		\$106,600.00



Profile #1: The Society of St. Vincent de Paul

The Society of St. Vincent de Paul was first established in 1833, and came to Canada in 1846. Today, the Society exists in 130 countries throughout the world, and is held together by the idea that men and women should give of themselves through charity. Through personal contact, Society members aim to relieve suffering and to promote human dignity, regardless of “race, creed, colour, origin or caste”, and to help remedy the causes of poverty. In short, the Society helps people replace a sense of despair with a sense of dignity. Well known for their thrift stores, St. Vincent de Paul reaches out into the community in many ways.

The Central Council has a building in downtown Ottawa which also houses another charitable organization, Centre Espoir Sophie. Services provided in the building include hot meals, laundry facilities, counseling and referrals for social and medical needs. An older building, it has not been renovated since 1962; heating and cooling systems are out of date, the foundation needs to be repaired and the floors and walls have sustained significant water damage due to the roof and windows which are in desperate need of repair.

Project Clear Skies answered St. Vincent de Paul’s call on two occasions in 2005; in the spring money was provided to replace the roof and repair windows, and in the fall, another donation helped repair the flooring and walls.



Left to Right: Jim Durrell, Michael Skrobica, and Jean-Noël Cormier, SSVF

Profile #2: New Beginnings for Youth

New Beginnings is a charitable organization that supports learning in non-traditional environments. One of their key programs involves The Roasted Cherry Café, a coffee house that is located in downtown Ottawa. The Café is entirely managed and staffed by at risk youth, and provides an opportunity for them to develop entrepreneurial skills and apply learned knowledge in a real work environment. In 2004, the program was expanded to include a full service catering division, which has proven to be very successful and ripe with potential.

Through the program, it has become clear that these at risk youth are in fact innovative, creative, tenacious, and have an entrepreneurial instinct. New Beginnings for Youth is providing these future leaders with the opportunity to explore and realize their potential and to become productive in society.

New Beginnings for Youth submitted an application for funding to assist with the acquisition of a new commercial slicer and deli display case. The slicer is critical to their operation because it allows the program to purchase food in bulk, rather than buying pre-sliced and prepared food, meat and cheese, at a much higher cost. The display case allows the team to showcase their food preparation and catering talents and ultimately sell their products.

Project Clear Skies is proud to support New Beginnings for Youth.



Left to Right: Jim Durrell, Jim Wright, Sara Pishva, and Rob Tripp, NBY

The Airport Authority also has six coin collection boxes scattered throughout the airport. Local charities apply to be the charity of choice for a defined period. In 2005, the following charities made use of the collection boxes.

- St. Stephen's Residence
- Family Services
- Dreams Take Flight
- Ronald McDonald House



Coins from the Fountain

While conducting maintenance and cleaning of the three-level waterfeature in the terminal, the Authority's operations team found an amazing amount of coins in the water, which were removed and cleaned; in all the coin filled five wheelbarrows. From there, the entire Airport Authority team pitched in to help sort, count and roll the coins, and because of the volume, it became a week-long event complete with music, munchies and lots of laughs. Employees gave whatever time they could spare to get the job done. In the end, the Authority presented the Ottawa Food Bank with a cheque for \$6,257.16 on December 21st, just in time for Christmas. According to Peter Tilley, Executive Director of the Food Bank, who was thrilled to accept the unexpected donation, the injection of funds couldn't have come at a better time, and is expected to assist local families through the first quarter of 2006.

Direct Destinations		Direct Flights per day		
		Domestic	Transborder	International (weekly)
1997	20	82	21	3
1998	21	88	23	6
1999	25	101	39	7
2000	26	93	43	7
2001	29	84	30	7
2002	30	80	35	8
2003	32	81	35	7
2004	25	71	35	7
2005	27	65	33	9

What comes next?

2006 – 2010 – Strategic Objectives

■ **Financial and social responsibility;**

Continue to manage the operations of the airport in a financially and socially responsible manner.

■ **Industry leader and affordable world-class facilities;**

Develop a reputation of being an industry leader in the planning, development and operation of, and provide our customers with outstanding, affordable, world-class airport facilities.

■ **Customer service;**

Provide the Authority's diverse and dynamic customer base with a high level of customer service.

■ **Continue to strengthen the Authority's commercial focus;**

Proactive air service and land development will continue to be key priorities throughout the planning horizon.

■ **Employee Commitment;**

Develop and maintain a productive, talented workforce who are excited by their work, engaged in our values and committed to the achievement of the Authority's mission and business objectives.

■ **Foster key community partnerships;**

Foster and maintain key partnerships that contribute to the growth and viability of the airport and the socio-economic growth of the community.

■ **Municipal issues/affairs;**

The Authority will continue its proactive role regarding involvement with the City and community on municipal issues and affairs.

■ **Operate all facilities in a safe manner;**

Aerodrome including airfield safety will continue to be a priority focus of the Authority.

■ **Operate and manage the airport campus in a secure manner; and**

The Authority will continue to work with the Canadian Air Transport Security Authority (CATSA) and Transport Canada to maintain a balance between security regulations and airport operations.

■ **Operate and manage the airport in an environmentally friendly manner.**

The Authority will continue to ensure that the overall operation of the airport is carried out in an environmentally responsible manner.

2005 Financial Review

This Financial Review reports on the Ottawa International Airport Authority's results and financial position for its year ended December 31, 2005. This discussion should be read in conjunction with the audited financial statements and related notes of the Authority. This discussion contains forward-looking statements, including statements regarding the business and anticipated financial performance of the Authority. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

Earnings before depreciation for the year ended December 31, 2005 were \$9.0 million compared to \$8.9 million for the year ended December 31, 2004. The largest factor impacting results was a \$1.3 million increase in the amount of ground rent paid to the Government of Canada, an 11% increase over the previous year. Depreciation was \$13.4 million in 2005 compared to \$13.2 million in 2004 and reflects depreciation of the new terminal building and facilities over their estimated economic lives. After subtracting depreciation, the excess of expenses over revenues in 2005 amounted to \$4.4 million as compared to \$4.3 million in 2004.

Operating Activity

After unsurpassed growth in 2004 during which passenger volumes were almost 11% higher than in 2003, passenger volumes in 2005 were still 3.5% higher than passenger volumes in 2004. The failure of Jetsgo during 2005 resulted in a reduction in the number of low-cost airline seats in the market, making air travel less attractive to price-sensitive travellers. In addition, in the fourth quarter of 2005 volume growth was depressed somewhat due to a delay in the charter season, impacted by Hurricanes Katrina and Wilma and the reduced availability of hotel accommodation in sunshine destinations. In 2004 there had been a record-breaking 27% increase in international volumes over 2003. Even after the significant volumes and growth of 2004, 2005 international volumes still surpassed 2004 volumes.

Passenger volumes increased in 2005 over 2004 to all sectors as follows:

- domestic 1.6%;
- transborder 12.2%; and
- international 1.9%.

Air Canada's passenger volumes increased by over 6% to domestic destinations and comparable domestic growth also came from low cost carriers such as WestJet and CanJet to offset the loss of Jetsgo. CanJet, Air Canada Jazz, and United Airlines enjoyed substantial growth flying to transborder destinations. Flights to the United Kingdom saw passenger growth as well, but with fewer international charter flights to sunshine destinations as noted above, overall international volumes increased, but not as strongly as in 2004. By sector, for each quarter of 2005 passenger volumes compared to comparable quarters in 2004 were as follows:

	Domestic	Transborder	International
Q1	Higher by 6.6%	Higher by 16.0%	Higher by 7.2%
Q2	Higher by 1.6%	Higher by 10.5%	Lower by 9.5%
Q3	Higher by 2.3%	Higher by 14.5%	Higher by 21.2%
Q4	Lower by 3.5%	Higher by 7.7%	Lower by 15.2%

By quarter, passenger volumes were as follows:

	2005	2004	% change
Q1	956,418	882,610	8.4%
Q2	930,522	907,019	2.6%
Q3	943,343	895,308	5.4%
Q4	905,150	924,948	(2.1%)
Total	3,735,433	3,609,885	3.5%

The size (weight) of an aircraft and number of "landed" seats on an aircraft (regardless of whether those seats are occupied by passengers) are the most significant factors in the determination of aeronautical fees charged to airlines. The number of landed seats in 2005 decreased from 2004 by 6.2%. Airlines continued to retrench and restructure their own operations during 2005 and successfully filled more seats with passengers on fewer aircraft. On a net basis, commercial airlines decreased the number of flights into and out of Ottawa by 5% from calendar 2004. This occurred primarily due to the decrease in available seat capacity caused by the bankruptcy of Jetsgo. This loss in available seat capacity serving Ottawa was not replaced by other airlines. On average, in 2005, airlines have reported that their load factors, or percentage of seats occupied on an aircraft, were higher than in 2004.

Operating Events

On March 11, 2005, Jetsgo ceased operations and was granted protection from its creditors under the *Companies' Creditors Arrangement Act (CCAA)*, but ultimately was assigned into bankruptcy on May 13, 2005. The financial write off by the Authority as a result of this event was not in itself material. However, as alternate domestic carriers continued to rationalize their operations and the overcapacity of available seats in the market, these carriers did not replace the loss of seats previously provided by Jetsgo with increases in their own capacity.

Net Operating Results

The Authority's net operating results for the three years ended December 31, 2005 are summarized as follows:

(in millions)	2005	2004	2003
Revenues	\$72.5	\$69.6	\$63.3
Expenses before depreciation	63.5	60.7	45.2
Earnings before depreciation	9.0	8.9	18.1
Depreciation	13.4	13.2	5.7
Net of revenues over expenses (expenses over revenues)	\$(4.4)	\$(4.3)	\$12.4

On October 12, 2003, Phase 1 of the Authority's Airport Expansion Program (AEP) was completed with the opening of the new terminal building. As a result of start-up of operations in the new facilities on October 12, 2003, the Authority commenced depreciating the capital costs of the expanded facilities, and also ceased capitalizing interest costs for accounting purposes at that time. Accordingly, interest expense and depreciation reflected in the statement of operations increased in 2004 from 2003.

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 common use systems implemented as part of the AEP. These systems include common use ticket counters and queuing, flight information display systems, and common use baggage handling rooms and systems. Adjustments in these fees, an increased number of boarding bridges in the new facility, new and improved concession agreements in the new terminal facility, and the availability of more convenient car parking options provided by the AEP, all resulted in higher revenues starting October 12, 2003.

Revenues

Total revenues in 2005 were \$72.5 million compared to \$69.6 million in 2004. Airport improvement fees accounted for \$0.8 million of the increase, aeronautical revenues accounted for \$0.5 million of the increase and car parking accounted for \$0.8 million of the increase:

(in thousands)	2005	2004	% change
Airport improvement fees	\$24,520	\$23,670	4%
Terminal fees and loading bridge charges	15,658	15,088	4%
Landing fees	9,352	9,388	0%
Concessions	8,412	8,223	2%
Car parking	8,399	7,552	11%
Land and space rentals	3,896	3,460	13%
Interest	561	562	0%
Other revenue	1,705	1,689	1%
Total	\$72,503	\$69,632	4%

Airport improvement fees (AIF) increased by 3.6% to \$24.5 million in 2005 from \$23.7 million in 2004, commensurate with the increase in passenger volumes and a slight increase in the proportion of departing passengers

originating in Ottawa versus departing passengers connecting through Ottawa. Approximately 94% of departing passengers originated in Ottawa (versus connecting through Ottawa) in 2005 as compared to 93% in 2004. Under an agreement with the airlines, airport improvement fees are collected by the airlines in the price of a ticket, and are paid to airport authorities 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 \$25.0 million in 2005, total aeronautical revenues, which include terminal fees, loading bridge charges, and landing fees charged to air carriers, were 2.2% higher than revenues of \$24.5 million in 2004. On January 1, 2005, the Authority increased its rates for certain aeronautical charges by 4.9% to better recover a portion of the increase in ground rent payable to the Government of Canada. Even after the increase in rates for these aeronautical fees, Ottawa's aeronautical fee rates remained the lowest in Canada. Despite the adjustment in rates, aeronautical fees were below budget expectations for 2005 as airlines continued to retrench and restructure their own operations, successfully filled more seats with passengers on less aircraft and, on a net basis, decreased the number or frequency of flights into and out of Ottawa by 5.0% from 2004. The Authority has announced a further 5.78% increase in aeronautical rates effective January 1, 2006 to

mitigate the impact of higher air carrier load factors and decreased total seat volumes arriving in Ottawa.

Concession revenue increased to \$8.4 million in 2005 from \$8.2 million in 2004, also commensurate with the increase in passenger volumes. Car parking revenues increased to \$8.4 million in 2005 from \$7.6 million in 2004, an increase of 11%.

The increase in passenger volumes and demand for parking, and the availability of convenient parking options provided by the AEP have contributed to the increase in parking revenues.

Terminal building space rates were increased by 5.7% effective November 1, 2004 to better recover a portion of the Authority's increased costs for ground rent payable to the Government of Canada. This increase in terminal space rates, together with rent from new land tenants who have developed businesses on excess airport lands, has contributed to higher land and space rentals.

Interest income reflects the result of investing, on a short-term basis, the net cash provided by operations, and not yet expended on the AEP. Although average cash balances have declined, short-term interest rates have increased to provide interest income in 2005 that is comparable to 2004.

Expenses

Total expenses before depreciation increased to \$63.5 million in 2005 from \$60.7 million in 2004. In addition, depreciation increased from \$13.2 million in 2004 to \$13.4 million in 2005,

(in thousands)	2005	2004	% change
Ground rent	\$12,958	\$11,643	11%
Materials, supplies and services	17,058	16,507	3%
Salaries and benefits	12,058	11,264	7%
Payments in lieu of municipal taxes	3,690	3,515	5%
Interest	17,727	17,783	0%
Total	\$63,491	\$60,712	5%

as the Authority continued to depreciate the cost of the new terminal building and support facilities.

Ground rent payable to the Government of Canada increased by 11% to \$13.0 million in 2005 as a result of a scheduled increase in the threshold number of passengers used for purposes of determining rent, and an increase in the Consumer Price Index. The Ottawa International Airport Authority operates the airport under the terms of a ground lease with the Government of Canada that sets out the calculation of the annual ground rent. On May 9, 2005, the Government of Canada announced that it would adopt a new rent policy that would result in reduced rent for airport authorities, including Ottawa International Airport Authority. The Authority finalized and signed an amendment to its ground lease to reflect this new rent arrangement in December 2005. This reduced rent will be phased in gradually over a transition period between 2006 and 2010.

The cost of materials, supplies and services has increased marginally to \$17.1 million in 2005 from \$16.5 million in 2004. Reductions came from automation initiatives and security improvements, lower bad debt expense and insurance costs, and contractor employees who were hired by the Authority later in 2004 to operate common use systems as Authority employees. These reductions were partially offset by higher policing costs, higher building maintenance costs and repair costs (as warranty periods expired), and higher electricity costs. The cost of materials, supplies and services are expected to increase somewhat in 2006 as a result of new maintenance agreements for equipment and software as the warranty periods on these items expired on the second anniversary of opening the new facilities.

The cost of salaries and benefits increased by 7% to \$12.1 million in 2005, mainly reflecting contracted rate increases, but also increased costs for pensions and other employee benefits. In addition, the Authority increased its payroll through late 2004, hiring employees who were formerly contractor employees, to accommodate requirements of a much larger terminal building complex and common use passenger processing systems.

Payments in lieu of municipal taxes have increased by 5%. Under provincial legislation, payments in lieu of municipal taxes are based on the previous year's passenger numbers rather than on market value assessments, but to a maximum increase of 5% over the previous year's amount. The \$3.7 million paid for 2005 reflects this legislation and passenger levels in 2004. Payments in lieu of taxes in 2006 will increase over the 2005 amount by 5% and on the assumption of no change in passenger volumes in 2006, will increase by a further 3.9% in 2007.

Interest expense reflected in the statement of operations includes primarily interest on the debt associated with the AEP.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the period from January 1, 2004 through December 31, 2005 is set out below:

(in millions)	2004				2005			
	Mar	June	Sept	Dec	Mar	June	Sept	Dec
Quarter ended								
Revenues	\$17.2	\$17.1	\$17.3	\$18.0	\$18.2	\$18.2	\$18.3	\$17.8
Expenses	15.4	14.7	14.4	16.2	16.0	15.2	15.2	17.1
Earnings before depreciation	1.8	2.4	2.9	1.8	2.2	3.0	3.1	0.7
Depreciation	3.1	3.4	3.3	3.4	3.3	3.3	3.4	3.4
Excess expenses over revenues	\$(1.3)	\$(1.0)	\$(0.4)	\$(1.6)	\$(1.1)	\$(0.3)	\$(0.3)	\$(2.7)

The Authority's quarterly results are influenced by passenger activity, aircraft movements, maintenance project decisions, and other factors such as weather conditions and economic conditions, and do not necessarily fluctuate based on the season. Due to these external factors, the historic results on a quarterly basis cannot be relied upon as a predictor of future trends.

Liquidity and Capital Resources

The Authority completed the year ended December 31, 2005 with cash and short-term investments of \$2.6 million, including 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. There were no drawings on these credit facilities during 2005. To fund

the ongoing expansion of the airport, including AEP Phase II, the Authority will use these existing bank credit facilities

and access other debt facilities in 2007 when it refinances the \$120 million 5.64% Series A Revenue bonds. During 2005, Moody's, Standard & Poors, and DBRS reaffirmed the Authority's credit ratings of A1, A+, and A(high), respectively, in respect of the Authority's 2002 bond offering.

As at December 31, 2005, the Authority's accounts receivable had increased by \$0.6 million from December 31, 2004. This increase was primarily due to the early receipt at the end of 2004 of airport improvement fees, which accordingly reduced the estimated amount receivable at that time.

Five-year Forecast

	Passengers	Annual Growth	Aircraft Movements	Annual Growth	Rent to Transport Canada	Annual Growth
1997	3,046,368	6.6%	67,867		\$3,977,000	
1998	3,110,548	2.1%	77,202	13.8%	\$5,301,000	33.3%
1999	3,211,607	3.3%	81,808	6.0%	\$5,948,000	12.2%
2000	3,434,345	6.9%	78,301	-4.2%	\$6,145,000	2.6%
2001	3,391,295	-1.3%	72,630	-7.2%	\$8,840,000	43.9%
2002	3,216,886	-5.1%	68,499	-5.7%	\$11,005,000	24.5%
2003	3,262,345	1.4%	69,798	1.9%	\$11,329,000	2.9%
2004	3,609,885	10.7%	69,626	-0.2%	\$11,643,000	2.8%
2005	3,735,433	3.5%	66,146	-5.0%	\$12,958,000	11.3%
2006	3,919,000	4.9%	67,500	2.0%	\$12,500,000	-3.5%
2007	4,072,000	3.9%	69,000	2.0%	\$11,500,000	-8.0%
2008	4,227,000	3.8%	70,500	2.0%	\$10,100,000	-12.2%
2009	4,413,000	4.4%	72,000	2.0%	\$7,300,000	-27.7%
2010	4,546,000	3.0%	73,500	2.0%	\$5,400,000	-26.0%

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

Total rent projected 1997-2010 - \$124M

Forecast passenger volumes are as provided by outside consultants

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

Capital Expenditures

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

During 2005, the Authority made cash payments of \$12.8 million for major capital expenditures, including the expansion of its parking garage and preliminary work related to AEP Phase II, plus an additional \$2.9 million for maintenance capital expenditures.

The Authority commenced the construction of Phase I, the most significant part of its AEP, in 2001. This phase, with a budgeted cost of \$310 million, included construction of a new passenger terminal building alongside the airport's original 40-year-old terminal building, a parking structure, and extensive airside and groundside infrastructure to support the new terminal and parking structures, and was completed on October 12, 2003.

The Authority proceeded with the planning and design of AEP Phase II during 2005 and, in early 2006 the Board of Directors approved construction starting in 2006. This phase, with a budgeted cost of \$109 million, includes the \$13 million cost of an addition to the parking

Airport revenue is largely a function of passenger volumes. Passenger volumes are driven by air travel demand. The events of the past several years have emphasized the volatile nature of air travel demand and the impact of external factors such as economic conditions, health epidemics, geopolitical unrest (September 11, 2001), and government regulations, the price of airfares and additional taxes on airline tickets, and the financial uncertainty of the airline industry. The financial uncertainty of the airline industry, although currently relatively stable in Canada, remains an ongoing risk to the Authority. This is mitigated by the fact that approximately 94% of the passenger activity at the airport originates or terminates at Ottawa International Airport, as opposed to connecting through Ottawa. Connecting passenger volumes are more vulnerable to fluctuation due to routing and scheduling changes by airlines. In addition, a greater percentage of the traffic through the airport is by business travellers, whose travel decisions are less discretionary than those of leisure travellers.

The availability of adequate insurance coverage is subject to the conditions of the overall insurance market and the Authority's claims and performance record. The Authority participates with an insurance buying group that also includes airport authorities from Vancouver, Edmonton, Calgary, Winnipeg, Montreal, and Halifax. This group has been successful in placing all of its insurance needs. In previous years, there have been significant changes in the insurance markets for aviation, largely driven by the events of September 11, 2001. These events limited certain insurance products and resulted in higher pricing. The Government of Canada has extended an indemnification for third-party aviation war risk liability for all essential aviation service operators in Canada. The amount of this indemnification is in excess of US \$50 million, the limit of insurance coverage which is currently available to airport operators on the market. The Government of Canada originally 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 11, 2001. The Government of Canada has given no indication that it will cease providing excess indemnity coverage.



garage (completed in 2005), construction of an addition to the new passenger terminal building, demolition of the original old terminal building, and airside infrastructure to support the expanded terminal complex. Construction is expected to be completed in late 2008. Phase III of the AEP is expected to be required by 2020.

Risks and Uncertainties

The Authority will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition.

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 each 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, which are included in the Authority's by-laws:

- includes professional representation nominated by all three levels of government as well as community and business organizations;
- directors shall not be elected officials or government employees;
- each director has a fiduciary duty to the Airport Authority;
- meets 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 2005, as required by the Authority's by-laws. Furthermore, the directors are in compliance with the above-noted guidelines.

Revised By-Laws

The Authority adopted revised by-laws in 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 provide nominees to the 14-member Board are as follows:

Selecting Bodies	Number of Directors nominated
Minister of Transport (Government of Canada)	2
Government of Ontario	1
City of Ottawa	2
City of Gatineau	1
Air Transport Association of Canada	1
Ottawa Chamber of Commerce	1
Ottawa Tourism and Convention Authority	1
Chambre de commerce de Gatineau	1
Ottawa Centre for Research and Innovation	1
OMCIAA (at large)	3
Total	14

A director's term of office is a maximum of 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 following represents the composition of the Board of Directors as at December 31, 2005. The transition to the nomination of all directors by the above list of selecting bodies will be complete by 2006.

	Directors' Names	Committees of the Board	Selecting Body
	Jim Durrell Chairman of the Board	<ul style="list-style-type: none"> • Chair, Executive Committee • Chair, Governance, Human Resources & Compensation Committee • Chair, AEP Overview Committee 	City of Ottawa
	Whitman Tucker Vice-Chair	<ul style="list-style-type: none"> • Vice-Chair, Executive Committee • Member, Audit Committee 	City of Ottawa
	Michel Belley	<ul style="list-style-type: none"> • Member, Governance, Human Resources & Compensation Committee • Member, Business Development & Communications Committee 	Chambre de commerce de Gatineau
	Raymond Brunet	<ul style="list-style-type: none"> • Member, Audit Committee • Member, AEP Overview Committee 	Ville de Gatineau
	Jeffrey M. Dale	<ul style="list-style-type: none"> • Member, Audit Committee • Member, Business Development & Communications Committee 	City of Ottawa
	Michael Darch	<ul style="list-style-type: none"> • Member, AEP Overview Committee • Member, Business Development & Communications Committee 	Minister of Transport (Government of Canada)
	Larry Malloy	<ul style="list-style-type: none"> • Chair, Business Development & Communications Committee • Member, Executive Committee 	Government of Ontario
	Eric McSweeney	<ul style="list-style-type: none"> • Member, Business Development & Communications Committee • Member, Governance, Human Resources & Compensation Committee 	Ottawa Chamber of Commerce
	Jean-Marie Séguin	<ul style="list-style-type: none"> • Member, Audit Committee • Member, Business Development & Communications Committee 	Minister of Transport (Government of Canada)
	Michael Skrobica	<ul style="list-style-type: none"> • Member, Audit Committee • Member, Governance, Human Resources & Compensation Committee 	Air Transport Association of Canada
	Carol Stephenson	<ul style="list-style-type: none"> • Member, Executive Committee • Member, Governance, Human Resources & Compensation Committee 	Ottawa Centre for Research and Innovation
	Pamela Sweet	<ul style="list-style-type: none"> • Member, Audit Committee • Member, Business Development & Communications Committee 	City of Ottawa
	Peter Vice	<ul style="list-style-type: none"> • Secretary and Member, Executive Committee • Member, AEP Overview Committee 	At Large
	James Wright	<ul style="list-style-type: none"> • Chair, Audit Committee • Member, AEP Overview Committee • Member, Executive Committee 	At Large

Directors' Compensation in 2005

Annual Retainer	Chair	\$ 35,000
	Vice-Chair	\$ 15,000
	Committee chairs	\$ 15,000
	Other directors	\$ 12,000
Per meeting fee		\$ 500

Attendance at Board Meetings

Board Member	# of Meetings Attended
Jim Durrell	8 out of 8 meetings
Whitman Tucker	7 out of 8 meetings
Michel Belley	2 out of 8 meetings
Raymond Brunet	5 out of 8 meetings
Jeffrey Dale	8 out of 8 meetings
Michael Darch	7 out of 8 meetings
Larry Malloy	5 out of 8 meetings
Eric McSweeney	8 out of 8 meetings
Jean-Marie Séguin	8 out of 8 meetings
Michael Skrobica	8 out of 8 meetings
Carol Stephenson	6 out of 8 meetings
Pamela Sweet	7 out of 8 meetings
Peter Vice	8 out of 8 meetings
James Wright	8 out of 8 meetings

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 and CEO;
- review the Annual Report;
- 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. The Committee reviews 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.

There were four meetings of the Audit Committee during 2005. Of the seven current members, five were able to attend all meetings while members of the committee. On average, Audit Committee meetings were attended by 78% of audit committee members.

Business Development & Communications Committee

- review major marketing initiatives;
- review in-terminal survey results;
- review land development plans; and
- review communication strategies and major initiatives.

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

- 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.



- 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:

Transparency

Procurement and Contracting

The Authority is transparent in its procurement practices. The Public Accountability Principles for Canadian Airport Authorities and the Authority's Ground Lease require that all contracts for the procurement of goods, services, and construction services with a value in excess of \$93,000 (\$75,000 in 1994 dollars adjusted for CPI), must be awarded through a competitive public process, or be disclosed in the Authority's annual report

together with the reasons why they were not awarded through a public competitive process.

Contracts in excess of this amount that were not awarded on the basis of a public competitive process during 2005 were as follows:

Contractor	Contract Description	Reason for Sole Source
Hanscomb Ltd.	\$160,000 Provide advisory services in respect of AEP (costing) as and when required for Phase II.	Previous experience and knowledge gained in Phase I of AEP.
Global Rental Canada ULC	\$163,000 Purchase boom truck	Buyout of rental contract on a boom truck initially rented to maintain standardization of fleet.
Arconas	\$435,000 Supply and deliver holdroom seating	To ensure consistency with existing hold room seating, previously awarded on the basis of a public competitive process.
Dew Engineering and Development Ltd.	\$500,000 Supply, deliver, install and commission one radial drive passenger boarding bridge	To ensure operational consistency with existing passenger boarding bridges, previously awarded on the basis of a public competitive process.
City of Ottawa – Ottawa Police Services Board	\$11,249,000 over 5 years Policing services	Only source available to provide armed policing services.
JJ Barnicke Ltd.	Commercially sensitive (in excess of the threshold) Real estate commission on leasing certain airport lands	Contract arose out of previous assignment.

Executive Management Salary Ranges

The base salary range for the President of the Authority in 2005 was between \$175,000 and \$225,000. The base salary range for each of the Vice Presidents in 2005 was between \$90,000 and \$150,000.

In addition, the President and the Vice Presidents receive appropriate bonuses based on achieving targets/objectives that are approved by the Board at the beginning of each year.

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.

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 the 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 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;
- the Authority's 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; or
- fax questions, comments or concerns to (613) 248-2068.

In addition, the Authority conducts quarterly customer satisfaction surveys in the Passenger Terminal Building.

The Authority's policy is to respond to all questions, comments and concerns as expeditiously as possible.



Senior Management Team (left to right)

Pierre Lanoix, Vice President,
Operations and Construction

Linda Tougas, Vice President,
Human Resources

Paul Benoit, President and CEO

Annette Nicholson, General Counsel

Ian Bell, Vice President,
Terminal Services and Information Technology

Louise Bergevin, Executive Assistant
to the President

John Spinks, Vice President,
Business Development and Marketing

Krista Kealey, Director,
Communications and Public Affairs

John Weerdenburg, Vice President and
Chief Financial Officer





Financial Statements

Financial Statements of
**OTTAWA MACDONALD-CARTIER
INTERNATIONAL AIRPORT AUTHORITY**

December 31, 2005

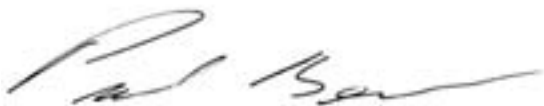
Management's Responsibility for Financial Statements

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 is presented below.



Paul Benoit
President and Chief Executive Officer



John G. Weerdenburg, C.A.
Vice-President and Chief Financial Officer

Auditors' Report

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 (the "Authority") as at December 31, 2005 and the statements of operations and changes in net assets and of 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, 2005 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 31, 2006

BALANCE SHEET

as at December 31, 2005 (in thousands of dollars)

ASSETS	2005	2004
CURRENT ASSETS		
Cash and short-term investments	\$2,600	\$11,485
Accounts receivable	5,094	4,492
Consumable supplies	1,061	739
Prepaid expenses and advances	555	448
	9,310	17,164
DEBT SERVICE RESERVE FUND (Note 6(a))	8,835	8,823
DEFERRED FINANCING COSTS (Note 6(f))	2,949	3,321
CAPITAL ASSETS (Note 3)	330,108	326,057
OTHER ASSETS (Note 4)	5,228	4,316
	\$356,430	\$359,681
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable & accrued liabilities	\$9,713	\$9,465
Current portion of long-term debt	656	244
	10,369	9,709
ACCRUED BENEFIT LIABILITY (Note 8)	1,989	1,468
SECURITY DEPOSITS	466	525
LONG-TERM DEBT (Note 6)	273,587	273,520
	286,411	285,222
COMMITMENTS (Note 10)		
NET ASSETS (Note 7)	70,019	74,459
	\$356,430	\$359,681

ON BEHALF OF THE BOARD


 , Director


 , Director

(See accompanying notes to the financial statements)

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

year ended December 31, 2005 (in thousands of dollars)

REVENUES	2005	2004
Airport improvement fees (Note 7)	\$24,520	\$23,670
Terminal fees and loading bridge charges	15,658	15,088
Landing fees	9,352	9,388
Concessions	8,412	8,223
Car parking	8,399	7,552
Land and space rentals	3,896	3,460
Interest	561	562
Other revenue	1,705	1,689
	<u>72,503</u>	<u>69,632</u>
EXPENSES		
Ground rent (Note 10)	12,958	11,643
Materials, supplies and services (Note 11)	17,058	16,507
Salaries and benefits	12,058	11,264
Payments in lieu of municipal taxes	3,690	3,515
Interest (Note 6(d))	17,727	17,783
	<u>63,491</u>	<u>60,712</u>
EARNINGS BEFORE DEPRECIATION	9,012	8,920
DEPRECIATION	<u>13,452</u>	<u>13,197</u>
EXCESS OF EXPENSES OVER REVENUES	(4,440)	(4,277)
NET ASSETS, BEGINNING OF YEAR	<u>74,459</u>	<u>78,736</u>
NET ASSETS, END OF YEAR	<u>\$70,019</u>	<u>\$74,459</u>

(See accompanying notes to the financial statements)

STATEMENT OF CASH FLOWS

year ended December 31, 2005 (in thousands of dollars)

	2005	2004
Cash provided by (used in) -		
OPERATIONS:		
Excess of expenses over revenues	\$(4,440)	\$(4,277)
Add non-cash items:		
Depreciation	13,452	13,197
Amortization of deferred financing costs	372	373
Loss on disposal of capital assets	-	10
Interest on long-term debt	127	120
Deferred rent (Note 6(c))	596	1,161
Increase in accrued benefit liability	521	288
Increase in accrued benefit asset	(912)	(1,029)
Changes in non-cash working capital related to operations:		
Accounts receivable	(602)	4,944
Prepays and consumable supplies	(429)	(238)
Accounts payable and accrued liabilities	(1,529)	2,299
Decrease in Security deposits	(59)	(95)
Total operations	7,097	16,753
FINANCING ACTIVITIES:		
Repayment of long-term debt	(244)	(1,715)
Increase in debt service reserve fund (Note 6(a))	(12)	(176)
Total financing activities	(256)	(1,891)
INVESTING ACTIVITIES:		
Capital asset expenditures	(17,503)	(9,420)
Change in accounts payable and accrued liabilities related to investing activities	1,777	(19,647)
Total investing activities	(15,726)	(29,067)
Decrease in cash and short term investments	(8,885)	(14,205)
Cash and short term investments, beginning of period	11,485	25,690
Cash and short term investments, end of period	\$2,600	\$11,485
Cash and short term investments consists of:		
Cash in bank	\$2,600	\$5,498
Short term investments	-	5,987
	\$2,600	\$11,485

(See accompanying notes to the financial statements)

Notes to the Financial Statements for the year ended December 31, 2005

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.

Use of estimates

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 depreciated over their useful lives on a straight-line basis as follows:

Buildings and support facilities	10 – 40 years
Runways, roadways and other paved surfaces	10 – 40 years
Land improvements	5 – 40 years
Furniture and equipment	5 – 20 years
Computer equipment and systems	2 – 10 years
Vehicles	7 – 15 years
Leasehold improvements	3 – 10 years

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*(in thousands of dollars)*

	<u>2005</u>	<u>2004</u>
Cost:		
Buildings and support facilities		
Buildings and building improvements	\$ 254,723	\$ 242,061
De-icing facility	6,998	6,998
Pedestrian bridges	7,120	6,457
Utilities infrastructure	5,394	5,394
	<u>274,235</u>	<u>260,910</u>
Runways, roadways and other paved surfaces	28,078	28,077
Land improvements	20,712	20,422
Furniture and equipment	19,419	18,694
Computer equipment and systems	13,345	12,734
Vehicles	8,394	8,233
Leasehold improvements	3,374	2,383
Construction in progress	1,928	529
	<u>369,485</u>	<u>351,982</u>
Less accumulated depreciation:		
Buildings and support facilities		
Buildings and building improvements	15,045	8,683
De-icing facility	1,168	888
Pedestrian bridges	728	394
Utilities infrastructure	673	457
	<u>17,614</u>	<u>10,422</u>
Runways, roadways and other paved surfaces	5,151	3,933
Land improvements	2,003	1,113
Furniture and equipment	4,820	3,199
Computer equipment and systems	4,567	2,947
Vehicles	3,697	3,231
Leasehold improvements	1,525	1,080
	<u>39,377</u>	<u>25,925</u>
	<u>\$ 330,108</u>	<u>\$ 326,057</u>

4. OTHER ASSETS*(in thousands of dollars)*

	<u>2005</u>	<u>2004</u>
Accrued benefit asset (note 8)	\$ 2,298	\$ 1,386
Interest in future proceeds from 4160 Riverside Drive, at cost	2,930	2,930
	<u>\$ 5,228</u>	<u>\$ 4,316</u>

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, 2006, 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, 2005, \$7.0 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 6). These credit facilities remained undrawn throughout 2005.

6. LONG-TERM DEBT

(tabular amounts in thousands of dollars)

	2005	2004
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	\$ 149,678	\$149,922
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	120,000	120,000
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	2,242	2,115
Deferred rent repayable to the Minister of Transport, without interest in equal monthly instalments over a ten year period commencing in 2006	2,323	1,727
	274,243	273,764
Less: current portion	656	244
	\$ 273,587	\$ 273,520

(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 were used to finance the Airport Expansion Program (AEP) and for

general corporate purposes. These included 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, 2005, 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 \$7.0 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 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.

(C) 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 amounts of rent were recorded as a liability in the accounts.

(D) Interest expense

	2005	2004
Bond interest	\$17,217	\$17,237
Interest expense – Other	510	546
	\$17,727	\$17,783
Interest paid during the year	\$17,229	\$17,330

(E) As it is expected that the Series A Revenue Bonds due in 2007 will be refinanced in 2007, the future annual principal payments for all long-term debt are as follows:

2006	\$ 656
2007	1,273
2008	1,510
2009	1,765
2010	2,041

(F) Deferred financing costs

	2005	2004
Deferred financing costs	\$ 4,327	\$ 4,327
Less: Accumulated amortization	(1,378)	(1,006)
	\$ 2,949	\$ 3,321

7. AIRPORT IMPROVEMENT FEES (AIF)

On September 1, 1999, the Authority implemented an AIF of \$10.00 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 \$15.00 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 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. 2005 AIF revenues are recorded net of collection fees withheld by air carriers of \$1,577 thousand (2004 – \$1,511 thousand).



(tabular amounts in thousands of dollars)

	2005	Cumulative to date
Airport Expansion Program Expenditures:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	\$ 14,751	\$ 327,050
Interest capitalized	–	15,461
Interest expensed	18,851	51,696
	33,602	394,207
AIF cash receipts:		
AIF revenue – net of collection fees	24,520	115,609
Interest on surplus funds	255	6,228
	24,775	121,837
Change in accounts receivable	(1,341)	(2,028)
AIF revenue – net cash received	23,434	119,809
Excess of expenditures over AIF receipts	\$ 10,168	\$ 274,398

Net assets of the Authority as at December 31, 2005 are as follows:

	2005	2004
Net assets provided by airport improvement fees:		
Accumulated airport improvement fees and interest on surplus funds	\$121,837	\$ 97,062
Less: Accumulated depreciation of AEP assets	26,189	15,056
Interest and other expenses	53,386	34,012
	42,262	47,994
Net assets provided by other operations:		
Accumulated, end of year	27,757	26,465
Net assets, end of year	\$ 70,019	\$ 74,459

8. PENSION PLAN and POST RETIREMENT BENEFITS

(tabular amounts 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.

At the last actuarial valuation of the plan as at December 31, 2004 (completed and filed in June 2005), the plan had a surplus on a funding (going concern) basis of \$486,000. The Pension Benefits Standards Act, 1985 requires that a solvency analysis (solvency basis) of the plan be performed to determine the financial position of the plan if it were fully terminated on the valuation date due to insolvency of the sponsor or decision to terminate. As at December 31, 2004, the plan had a deficit on a solvency basis of \$3,234,000 before considering the present value of additional solvency payments required under the Act. The Authority is making additional solvency payments of \$811,000 per year to amortize this deficiency.

The next required actuarial valuation of the pension plan as at December 31, 2005 is scheduled to be completed and filed by its June 2006 due date. Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2004 and extrapolated to December 31, 2005, the status of the pension plan is as follows:

	2005	2004
Fair value of pension plan assets	\$ 26,224	\$ 21,826
Accrued pension benefit obligation	28,285	23,044
Funded Status – plan surplus (deficit)	(2,061)	(1,218)
Balance of unamortized amounts	4,359	2,604
Accrued benefit asset	\$ 2,298	\$ 1,386

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

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:

	2005	2004
Accrued benefit obligation, other post-employment and retirement benefits	\$ 3,532	\$ 2,759
Balance of unamortized amounts	1,543	1,291
Accrued benefit liability	\$ 1,989	\$ 1,468

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 as at December 31 are as follows:

	2005	2004
Discount rate	5.25%	6.0%
Expected long-term rate of return on plan assets	7.3%	7.3%
Rate of compensation increases	3.75%	3.75%
Rate of increases in health care costs	9.0%	9.0%
The trend rate for increases in health care costs decreases gradually to ultimately increase after 10 years by	4.0%	4.0%



In accordance with the investment policy for the pension plan's funds, the plan's non-current, non-cash assets are invested as at December 31 as follows:

	2005	2004
Equity funds – Canadian funds	37%	35%
Equity funds – US & foreign funds	24%	25%
Fixed income funds	38%	39%
Money market funds	1%	1%

Total cash payments for employee future benefit plans were as follows:

	2005	2004
Employer contributions, defined benefit pension plan	\$ 513	\$ 500
Employer contributions, special solvency payments	811	1,020
Employees' contributions, defined benefit pension plan	234	228
Benefits paid, defined benefit pension plan	365	405
Employer contributions, defined contribution plan	209	180
Employees' contributions, defined contribution plan	259	180

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

	2005	2004
Defined benefit pension plan component	\$ 381	\$ 470
Defined contribution pension plan component	209	180
Other post retirement and employment benefits	517	450

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, 2005, the fair value of the long-term bonds was \$122.4 million and \$184.4

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 58% (56% in 2004) 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 94% of the passenger traffic through the airport is origin and destination traffic, and therefore other carriers are likely to absorb the traffic of any carrier that ceases operations.

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.

On May 9, 2005, the Government of Canada announced the adoption of a new rent policy that will result in reduced rent for Canadian airport authorities, including Ottawa International Airport Authority. This reduced rent will be phased in over four years beginning in 2006, with the new formula achieving its full impact in 2010. The new formula is based on percentage of gross revenues on a progressive scale. The Authority finalized the amendment to its ground lease with the Government of Canada in December 2005.

Rent payable under the old ground lease with Transport Canada included base rent calculated based on a formula reflecting annual passenger volumes, annual revenues, and predetermined base operating costs. Base rent was calculated on a capped passenger volume formula subject to adjustments for inflation. In addition to base rent, the old lease included participation rent based on a measure of incremental revenues commencing in year 11 (2007) of the lease.

Minimum estimated lease payments under the amended ground lease for the next five years are as follows:

2006	\$ 12.5 million
2007	\$ 11.5 million
2008	\$ 10.1 million
2009	\$ 7.3 million
2010	\$ 5.4 million

In addition to the above, at December 31, 2005, the Authority had operating commitments in the ordinary course of business of approximately \$8.2 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 (2004 – \$1,000,000) as a reduction of related operating costs included in the statement of operations.

