Ottawa Macdonald-Cartier
International Airport Authority
Annual Report 2006

International Airport Authority
Administration de l'aéroport international
Ottawa

World Class

OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY
ANNUAL REPORT 2006

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.

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The sculptures on the front cover were created by Louis Archambault in 1960;
- Voyageurs de l'espace/Air Travellers
- Envol/Flight

Chairman's Remarks

The Airport Authority had another strong year in 2006. With a third year of record-breaking passenger volumes we are, needless to say, delighted.

Charters and international flights were the biggest contributors to the increase in passenger numbers in 2006; the winter charters offered more direct destinations, and based on the figures, many of you took advantage of the available choices. In addition to the regular daily flight to London, England, we were pleased to have a summer charter to Paris, France which was also a tremendous success. When the passenger count for the year was completed, we had an overall increase of 1.9% to 3,807,756 arriving and departing passengers, which is an all time high for this airport.

In 2005, the Authority reported that it was ready to start designing Phase II of the Airport Expansion Program (AEP) based on the record-breaking growth that year. At the end of 2005, the passenger numbers along with future projections confirmed that we should proceed with Phase II in order to accommodate the growth, and we were ready with a great design and a solid plan. On April 4, 2006, we announced to the community that the $95 million terminal expansion project would proceed with an anticipated completion date of 2008. Once again, we were delighted with the support for the project that was expressed loudly and clearly by the community. As with Phase I, it will be interesting to watch the site evolve into an attractive, efficient and functional space that will provide our clients with even more comfort while they await their flights.

I am very proud to report that a tradition we started in 2004 continued through 2006; *Project Clear Skies* funded some 18 projects in this community to the tune of just over $97,000 in 2006. These worthy projects included the purchase of defibrillators for Ottawa Inner City Health Inc., the replacement of windows in the Serenity Renewal for Families facility, the purchase of a used truck to get the Rideau Street Youth Enterprises employees to job sites for training and skills development and the purchase of new appliances at Centre Espoir de Gatineau. In all, I am very proud to say that *Project Clear Skies* has invested nearly $300,000 in worthy community projects to date.

On the topic of community building, the Airport Authority planned its first Plane Pull for Charity in support of *Project Clear Skies* and United Way/Centraide Ottawa. The inaugural event was held on a rainy and cold day in October, but despite the forces of nature, 15 teams of 10 took their turn pulling a Bombardier Q400 aircraft, supplied by Porter Airlines, on the tarmac; some more successfully than others I might add. I would like to thank the organizing team, the volunteers, the sponsors and of course the participants for their help in making the event a huge success and a lot of fun.

Overall, I would say that it was business as usual in 2006. The Airport Authority team worked diligently to keep the airport running well, as always. Their dedication to the facility and its clients never ceases to amaze me, and for that and so much more, I would like to say thank you. The senior management team, under the leadership of President and CEO, Paul Benoit, also did a terrific job of keeping costs in line, exceeding budgetary expectations and running the business responsibly.

Unfortunately we had to bid goodbye to several outstanding Board Members in 2006. These directors included Michel Belley, Michael Darch, Larry Malloy, Jean-Marie Séguin and Carol Stephenson. We were fortunate however, to welcome some new faces to the boardroom table in their place including Geneviève Brown, Martin Leblanc, Charlie Logue, Patrick Murray and Joan Sun McGarry. I can say with confidence that the Airport Authority is in very good hands with the Board that is in place.

As the Chairman, I hear feedback concerning the airport from almost everyone with whom I come into contact. Since the new terminal opened in 2003, the feedback has been consistently positive, and high on praise for the accomplishments of the Airport Authority. People constantly remark on all the milestones that have been achieved; from the beautiful new terminal to the expanded Parkade and now Phase II. Their feedback reconfirms that the dreams, the vision and the hard work were well worth it.

My term with the Board will finish early in 2007. I can say without hesitation that I leave with extreme pride and absolutely no regrets. The evolution will be a healthy one, but also a well-managed one; the Board is a great mix of veterans, newer members and those with various terms in-between. Every member brings different skills and attributes to the boardroom table, but they bring a common care and interest in the airport and its future. I wish them well, and have every confidence that they will continue the tradition of excellence that has defined this Board since its inception.

In the future, whenever I roll through the airport on my way to wherever my travels take me, it will be fun to look at the different artifacts and design elements and think back to the discussions that led us to them. And, I will feel a renewed sense of pride for having been a part of it. With that, I again say thank you and extend my best wishes to the Airport Authority for continued success in the decades to come.

Jim Durrell

President's Remarks

2006 was the third consecutive year of record-breaking passenger volumes in the history of the Ottawa International Airport with just over 3.8 million arriving and departing passengers. The numbers were up by 1.9% in particular thanks to international traffic to Europe and to sunshine destinations. The airport was a very busy spot in 2006.

AEP Phase II was announced in April 2006, the ground was broken in August, and a lot of demolition work on the old terminal was completed during the year. I am very proud of the fact that, in keeping with our strategic objective to be environmentally responsible, the demolition contractor was able to salvage more than 90% of the old terminal, and we will therefore send far less waste to the region's landfill sites.

We also demolished several World War II hangars that were in serious disrepair. From these hangars we were able to salvage a considerable amount of BC fir timbers that will be used in the interior finish of the expanded terminal. We are very happy to pay tribute to the military heritage of the airport by incorporating a bit of history into the new, modern space.

2006 gave the Authority the opportunity to cross many items off of our "to do" list. We went back through the passenger comments that have been received since opening the terminal in 2003 to see if there were any items that continued to generate feedback. We found some interesting ones that we were able to tackle, such as the installation of dozens of oversized analogue clocks, more flight information display systems (FIDS), new lighting on Canadair Private, a new international baggage transfer point and many other little things, that while not necessarily visible, make a big difference in the overall operation of the airport.

One project that required considerable time and dedication was the installation of the Restricted Access Identity Card (RAIC) program for the Canadian Air Transport Security Authority (CATSA). The Authority team put almost a full person-year worth of hours into installing the technology, testing it, and enrolling all existing Airport Restricted Area Pass (ARAP) holders – almost 3,600 in all, in a six-month period. This program represents advancement in airport security allowing access to pre-designated areas in the airport, based on either fingerprint or iris templates which are stored on the RAIC in a memory chip.

For those of you who follow the progress of the Authority on a regular basis, it will come as no surprise when I say that the team is lean; we manage a facility that is more than twice the size of the old terminal, and the space will grow further when the expanded space is opened for business. We have grown in employee numbers, but can safely say that the team is called-upon to be more efficient and to be creative in their approach to problem solving. In fact, they got involved in many activities that fall outside the scope of their job descriptions. From delivering *Project Clear Skies* donations, to volunteering at the inaugural Plane Pull event and giving of their personal time during extraordinary and emergency events, they are fully committed. To say that I am proud of this team would be an understatement; I can say with confidence that we have the best airport group in the country, and that they have made this airport world class.

The Authority also has an outstanding Board of Directors comprised of talented and engaged directors. There were a lot of changes at the Board in 2006, and while we said goodbye to some excellent members, we were fortunate enough to welcome an equally excellent group who quickly got up to speed on the workings of the Authority, and have been a great source of guidance for my team since. I would like to thank the directors, past and present, for their trust in our decisions and actions during the year.

I would like to also say particular thanks to Chairman Jim Durrell for his commitment to the Authority during his term as both a director and as Chair. Jim will be leaving the Board in 2007, after nine years of helping to make the Authority a success, and the airport something that this community can be extremely proud of.

My final word of thanks goes to the community that continues to support the Authority and the airport with enthusiasm. Your willingness to participate in passenger surveys, your web comments and letters of praise tell us that you are happy with the new terminal and with the service that you receive when you are here; keep getting in touch to let us know what you think. For our part, we will continue to work hard and we will not let you down.

Paul Benoit

World Class

Introduction

The Ottawa International Airport has been described, on more than one occasion, as being world-class. It is world-class in its design, world-class in its construction and world-class in its customer service.

One of the key contributing factors to the success of the Ottawa International Airport Authority, is that its actions and decisions are guided by thoughtfully considered strategic objectives that are determined on an annual basis by the Authority's senior management team in collaboration with the Authority's Board of Directors. Together each fall, they set a course for the following five-year period in areas such as safety and security, environmental stewardship, customer service and community relations.

The following pages of this report will address the activities of the Authority during 2006, in the context of its strategic objectives.

Financial and social responsibility

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

Corporate Social Responsibility

In 2005, the Board directed senior management to develop an action plan to ensure that the Authority is managing its business in a financially, socially and environmentally responsible manner. In 2006, the Board approved a policy entitled "OMCIAA's Commitment to Corporate Social Responsibility". The policy defines the meaning of Corporate Social Responsibility and confirms the Authority's commitments. It also identifies performance indicators for the purpose of measuring OMCIAA's economic, social and environmental performance. The policy is a first step towards a more systemic approach to corporate social responsibility and a starting point to identifying economic, social and environmental issues as OMCIAA's operations and activities grow or change.

Optimize Buying Power

The Ottawa Airport Authority led a 7-airport authority insurance buying group representing airports in Vancouver, Edmonton, Calgary, Winnipeg, Ottawa, Montreal, and Halifax. During 2006, the group focused on lowering the high cost of insuring facilities. These costs had increased by a multiple of 4 since 2001. The Authority provided leadership in the formation in 2006 of an insurance reciprocal to better manage its property risk and premiums. The reciprocal is licensed to issue property policies to each of the seven airport authorities in the buying group and these policies are backstopped by reinsurance coverage. Establishing a reciprocal cuts out the middlemen (brokers and conventional insurers) from the premium equation and creates competition for premium dollars in the market. In so doing, all of these airports have cut their property insurance costs significantly.

Financial Results

As you will read in the financial section of this report, the Authority had a successful year in 2006, and achieved positive earnings before depreciation. Such results allow the Authority to invest in the infrastructure and operation of the airport.

Industry leader and affordable world-class facilities

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

On April 4, 2006, the Airport Authority announced that it was ready to proceed with construction of Phase II, the terminal expansion part, of the Airport Expansion Program. Design of the new building extension was completed by mcfarlaneGreen Architecture + Design Inc. and J.L. Richards & Associates Ltd., in association with Genivar.

In August, Panzini Inc. was hired to demolish the eastern portion of the old terminal, and R.W. Tomlinson Ltd. was hired to handle roadways and civil works associated with the project. Pomerleau Inc. was retained as the general contractor.

After relocating employee parking lots and the airport taxi staging area, construction got underway late in August. By the end of the year, the building was out of the ground. In parallel, part of the old terminal building was demolished to make room for the extension. In keeping with the Authority's environmental priorities, it is a pleasure to report that Panzini was able to salvage over 90% of the old building as it was being demolished. Among the recovered materials were:

- 1000 litres of hydraulic oil from elevators;
- 400 litres of glycol from heating and cooling systems;
- 200 kg of fluorescent light tubes; and
- significant amounts of wood, copper, tin, aluminum, structural steel, ferrous metals and concrete.

Design of the new apron and associated taxiways was completed in 2006; scope of work and other details are being finalized so that the associated tender documents will be ready for 2007.

Customer service

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

The Authority continued all efforts to make its clients happy. The following represent just a few of the initiatives that were directly related to this goal in 2006.

Airport Service Quality

The Authority continued to participate in the Airport Service Quality (ASQ) program which is an Airports Council International initiative. ASQ is the world's leading airport customer satisfaction benchmarking program which now includes more than 90 airports, of varying size and passenger volume worldwide, including Heathrow, Amsterdam, Dallas, Hong Kong, Charles de Gaulle and Halifax.

The program is based on a self-completion questionnaire that is distributed to a representative sample of passengers at the departure gate, and which covers all aspects of the customer experience, including:

- Service and facilities (availability of retail, concession and washroom facilities);

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

	2002	2003	2004	2005	**2006**	Total
Wage Bill	$ 9,160	$ 10,050	$ 11,250	$ 12,050	**$ 13,367**	$ 55,877
Payments in lieu of municipal taxes	3,654	3,466	3,515	3,690	**3,875**	18,200
Operations costs	9,500	12,000	15,000	16,000	**16,500**	69,000
Capital Costs	125,000	110,000	9,000	17,000	**23,000**	284,000
	$ 147,314	$ 135,516	$ 38,765	$ 48,740	**$ 56,742**	$ 427,077

Note:
Wage bill includes benefits
Payments in lieu of municipal taxes (PILT) – paid to the City of Ottawa
Operations costs do not include Rent, PILT, Payroll, Depreciation and Interest Expenses

- Security and immigration (helpfulness of staff, wait time at security inspection);
- Airport environment (cleanliness and ambience of airport); and
- Arrivals services (speed of baggage delivery, customs inspections).

Our clients spoke their mind, and when the quarterly survey results were tabulated, the Ottawa International Airport scored some outstanding results for 2006 as follows:

- 2nd place overall in customer satisfaction for enrolled airports that serve between 0 and 5 million passengers;
- 3rd place overall in customer satisfaction for all enrolled domestic airports; and
- 3rd place overall in customer satisfaction for all enrolled airports in the Americas.

These results are due to the caring attitude and commitment to our customers that is demonstrated each day by employees from all areas of the airport community.

Nexus

In 2006, Canada Border Services Agency (CBSA) received approval for the necessary funding to roll out Nexus, which is a joint Canada-US frequent traveller program that will allow individuals to be pre-screened for rapid processing through customs by both countries. Travellers will have a background check done in concert with their application being processed; if approved, their necessary information, fingerprints and an iris scan will be recorded on an identification card. This card will allow the traveller to bypass the primary customs inspection station, and proceed through a self-service kiosk to the secondary, baggage claim area. In some instances, travellers may still be required to submit to a secondary screening prior to exiting the customs hall, but overall, this should expedite travel through the airport.

Planning, including design of a new Nexus enrolment centre, was completed in 2006. Construction of the enrolment centre and program rollout at air, land and marine crossing points will happen in 2007.

Customer Service Training

Last year's Annual Report mentioned that the Airport Authority had engaged the Ontario Tourism Education Corporation to deliver its Service Excellence training module to all Authority employees in 2006. In actual fact, the Authority fulfilled its commitment and advanced the program by one year by training the Infoguide volunteers as well. In all, 250 employees/volunteers were trained in 2006.

Disability Awareness Training

As a means of ensuring that our disabled clients are properly served in compliance with the Canadian Transportation Agency's *Air Travel Accessibility Regulations*, disability awareness training was completed by all required Airport Authority employees, as well as employees from the ground transportation companies who provide services to the airport's clients.

Airport Volunteers

The airport and its clients continue to benefit from the assistance of two groups of volunteers; the Infoguides and Airport Watch.

The Infoguides logged 8,421 volunteer hours in 2006. These hours were filled by answering questions both face to face and by telephone, assisting clients with transportation, making hotel reservations and tracking other pieces of information that may or may not have been associated with the airport at all. Dozens of cards and letters were received with words

Airport Watch volunteers Nelson Plamondon and John Davies of praise and thanks for the help that was provided by the Infoguides.

The Airport Watch volunteers monitored the perimeter and other airport facilities throughout the year. They logged a total of 1,838 hours searching for suspicious activity, monitoring foreign object debris, and generally providing an added layer of security at the airport. While members do not get directly involved in any situations, they do alert the airport's Security Operations Centre of any inappropriate activity or items of note so that appropriate follow-up may be initiated.

Special thanks go to Airport Watch member Jim Morrison, who in addition to his volunteer hours, also spends considerable time recording airport events on film. Jim has taken thousands of photos over the years that provide an incredible historical timeline.

The Authority is very appreciative of the dedication of both groups of volunteers; the enthusiasm they bring to the airport is a key contributor to Ottawa Airport's excellent customer service results.

Comments

In 2006, we received 791 web comments, 96 comment cards and many letters and e-mails concerning a variety of customer experiences. All correspondence was responded to, and many of the comments resulted in change including the addition of dozens of large, analogue clocks that are co-located with the flight information display systems (FIDS) in the public areas and holdrooms in the terminal. Additionally, more FIDS were added around the terminal, and a flight tracking feature was added to the Authority's website, which shows graphically where a particular flight is on the map. Clients are encouraged to keep getting in touch – feedback matters.

Continue to strengthen the Authority's commercial focus

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

Air Service Development

2006 was a busy year on the air service front. Perhaps the most exciting news was the creation of Porter Airlines serving the Toronto City Centre Airport. Porter chose Ottawa as its inaugural market, and took flight in October 2006, offering our Toronto-bound clients greater flexibility for their travel requirements.

Passenger growth by sector

		Domestic	%	Transborder	%	International	%	Total	%
Actual	1996	2,223,941		529,602		104,295		2,857,838	
	1997	2,435,534	9.51%	502,072	-5.20%	108,762	4.28%	3,046,368	6.60%
	1998	2,414,355	-0.87%	563,085	12.15%	133,108	22.38%	3,110,548	2.11%
	1999	2,426,288	0.49%	628,203	11.56%	157,116	18.04%	3,211,607	3.25%
	2000	2,562,282	5.61%	719,200	14.49%	152,863	-2.71%	3,434,345	6.94%
	2001	2,625,630	2.47%	618,694	-13.97%	146,971	-3.85%	3,391,295	-1.25%
	2002	2,445,770	-6.85%	600,365	-2.96%	170,751	16.18%	3,216,886	-5.14%
	2003	2,491,691	1.88%	588,088	-2.04%	182,566	6.92%	3,262,345	1.41%
	2004	2,736,779	9.84%	641,157	9.02%	231,949	27.05%	3,609,885	10.65%
	2005	2,779,895	1.58%	719,150	12.16%	236,388	1.91%	3,735,433	3.48%
	2006	**2,807,377**	**0.99%**	**735,753**	**2.31%**	**264,626**	**11.95%**	**3,807,756**	**1.94%**
Forecast	2010	3,142,000	2.98%	872,000	4.63%	329,000	6.08%	4,343,000	3.51%
	2015	3,528,000	2.46%	1,047,000	4.01%	409,000	4.86%	4,984,000	2.95%
	2020	3,983,000	2.58%	1,182,000	2.58%	462,000	2.59%	5,627,000	2.58%

Five-year Review ($ in thousands)

	2002	2003	2004	2005	**2006**
Revenue	$ 55,308	$ 63,320	$ 69,632	$ 72,503	**$ 75,820**
Expenses before depreciation	40,777	45,191	60,712	63,491	**64,943**
Earnings before depreciation	14,531	18,129	8,920	9,012	**10,877**
Capital Expenditure	147,473	111,064	9,420	17,503	**23,445**
AIF Revenues	13,690	20,838	23,670	24,520	**24,926**

Other new developments included Delta service to Cincinnati, seasonal summer flights to Paris, France by Air Transat, and seasonal winter service to Tampa and Orlando, Florida on WestJet. Flights to both sun destinations and to Europe during the summer did very well, with consistently high load factors.

A few other notable activities in the industry included CanJet's decision to cease scheduled service in September, directly resulting in the loss of over 20 flights per week to Halifax. This change was offset by Air Canada's decision to increase flights to Halifax. Air Canada stopped serving Chicago but United stepped in to provide the service. In all, Ottawa's customers were not impacted by these changes.

While efforts are always directed at attracting new, non-stop flights to Ottawa, it is no secret that the Airport Authority is working diligently with the City of Ottawa and the Ottawa Centre for Research and Innovation (OCRI) to attract new non-stop flights to the US west coast and Europe. We will keep you posted concerning our collective efforts.

Commercial Development

Much happened in 2006 on the commercial side of the development business, including the following:

- AerRianta moved their International Duty Free store to a more visible location in the domestic/international holdroom to take advantage of heavier passenger traffic, and in so doing, doubled the size of their store.
- The Airport Authority introduced a retail cart program in the terminal. The first two retailers to use the cart enjoyed a brisk business.
- Penauille Servisair leased space from the Airport Authority to open The Capital Lounge; a pay-as-you-go passenger lounge. The Lounge offers our clients the opportunity to relax, or get some work done in a comfortable, well appointed space before boarding their flight.
- :10 Minute Manicure opened a storefront in the space previously occupied by the Duty Free store, in the domestic/international holdroom. :10 Minute Manicure offers clients the opportunity to experience a little pre take-off pampering.
- AerRianta opened a new store in the domestic/international holdroom just in time for the holidays; Runway Essential offers clients a wide variety of name brand merchandise, including Michael Kors purses and wallets, Mont Blanc writing instruments, Elle jewellery, Pucci scarves and several men's clothing lines such as DKNY and Tommy Hillfiger.
- HMS Host purchased Cara Operations Ltd.'s airport terminal restaurant business, and now manages all food services at the Ottawa International Airport.

Land Development

After several years in the works, The Keg Steakhouse opened for business in the summer of 2006 on Hunt Club Road. Other land development on airport property included construction of the Iogen Corporate Centre by Aeroterm, and the construction of ExpressAir's new hangar. Bona Building & Management Co. broke ground on a new hotel on the Airport Parkway. Construction is expected to be complete in 2007.

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.

Training

In 2006, the Authority continued to emphasize the importance of training as part of continuous improvement and career development. Corporate-wide training on sensitivity and customer service was delivered this year. A leadership skills training program was also introduced and proved to be a worthwhile investment as participants regularly shared their successful application of the lessons learned in monthly debriefing sessions following each module of the program.

Employee Recognition

The Authority launched an employee rewards and recognition program called "The Sky's the Limit". The program is based on peer recognition and was implemented to recognize employee achievements in several categories that are important to the Authority's success such as, customer service, outstanding contribution to the Authority's strategic goals, community and volunteer involvement, innovation and creativity, team efforts and environmental consciousness. The program is designed to continually motivate employees to improve, to be innovative, to manage resources creatively, to set high standards and goals and to work together in teams.

The Authority also launched a new employee assistance program giving employees the tools to help achieve balance between an employee's work and personal life.

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	**3,807,756**	**1.9%**	**65,249**	**-1.4%**	**$ 12,487,000**	**-3.6%**
2007	3,944,000	3.6%	66,600	2.0%	$ 11,500,000	-7.9%
2008	4,078,000	3.4%	68,000	2.0%	$ 10,100,000	-12.2%
2009	4,207,000	3.2%	69,500	2.0%	$ 7,300,000	-27.7%
2010	4,343,000	3.2%	71,000	2.0%	$ 5,400,000	-26.0%
2011	4,469,000	2.9%	72,500	2.0%	$ 5,600,000	3.7%

Notes:
Federal Government Net Book Value at time of transfer – $75M
Total rent projected 1997-2011 – $130M
Forecast passenger volumes are as provided by outside consultants
For financial planning purposes, the Authority forecasts on a more conservative basis

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.

The Airport Authority has significant involvement in the community, including working with many not-for-profit groups and business organizations. Further, the Authority provides financial sponsorship and in-kind donations to many events in the community, and wholeheartedly supports employees who wish to get involved in community-based activities.

Currently, the Airport Authority is involved professionally with the Regroupement des gens d'affaires (RGA), Financial Executives International, Ontario Professional Planning Institute, The Canadian Public Relations Society, The Canadian Chamber of Commerce, the Ottawa Chamber of Commerce, SKAL, Ottawa Tourism, the Canadian Airports Council, Airports Council International – North America (ACI-NA) and The Law Society of Upper Canada, to name but a few.

From a charitable involvement point of view, the Authority is represented on the Board of Directors of St. Stephen's Residences, The Snowsuit Fund and the Shirley E. Greenberg Women's Health Centre Advisory Council as well as countless other charities. The airport's coin collection bins, which are scattered around the terminal, provide thousands of dollars for charities in the community each year.

Project Clear Skies

To mark the first anniversary of the new terminal, the Airport Authority launched *Project Clear Skies*, a charitable giving program intended to help charities in the National Capital Region over the following five years. To date, we have donated nearly $300,000 to 48 registered charitable organizations in Ottawa and Gatineau since 2004, and intend to distribute an additional $100,000 per year up to and including 2008.

Projects funded in 2006 include:

Organization	Project	Funding Dollars
Fall Disbursements		
Amethyst Women's Addiction Centre	Furniture purchase	$ 4,000
Children at Risk	Furniture purchase and renovations	$ 4,890
Christie Lake Kids	Roof repairs	$ 5,000
Ottawa Inner City Health Inc.	Acquisition of 3 defibrillators	$ 4,500
Rideau Street Youth Enterprises	Purchase of a used truck	$ 10,000
Serenity Renewal for Families	Window replacement	$ 5,000
St. Stephen's Residences of Ottawa	Furniture purchase	$ 5,000
Centre Espoir de Gatineau	Purchase of appliances	$ 2,500
Conférence Comptoir Notre-Dame d'Aylmer	House renovations and furniture purchase	$ 6,000
Entraide-Deuil de l'Outaouais	Furniture purchase	$ 1,508
Spring Disbursements		
Alternative Learning Styles & Outlooks	Purchase of appliances	$ 5,100
Christie Lake Kids	Purchase of industrial washers and dryers	$ 4,500
Confederation Court Community House	Purchase of kitchen appliances	$ 5,150
Heartwood House : Au Coeur de la Vie	Purchase of hardware supplies and maintenance equipment	$ 4,500
Lowertown Youth Centre	Renovation and purchase of furniture and appliances	$ 7,500
St. Joe's Supper Table	Purchase of canopy for front entrance	$ 9,500
Centre communautaire "Entre Nous"	Purchase of fridge and storage shelving	$ 8,500
Solidarité Gatineau-Ouest	Purchase of major appliances	$ 4,000
Total		**$97,148**

PlanePull 2006

Inaugural Plane Pull for Charity

On October 14th, 2006, the Bombardier Inaugural Plane Pull Challenge had a perfect take-off! Despite the cold, rainy weather, 15 teams of 10 braved the cold and competed for the title of Plane Pull Champion.

Competition was fierce but in the end, Aero Mag 2000's "Frosty and his Snowmen" won the challenge by pulling a Porter Airlines' brand new Bombardier Q400 aircraft 20 feet in 11.78 seconds! This team was closely followed by the A-Channel "Aces" (12.0 seconds) and the RCMP (12.13 seconds).

Each team's $1,000 entry fee was equally divided between the Ottawa Airport Authority's *Project Clear Skies* and United Way/ Centraide Ottawa. With these proceeds, each will support worthy causes in our community.

Thanks go to sponsors Bombardier, Porter Airlines, the National Research Council (NRC), Rogers Radio (Y101) and the Ottawa Citizen, the participating teams, the organizing committee and the volunteers; all of whom braved the cold and rain to make a difference.

The Authority looks forward to hosting the Plane Pull on an annual basis.

Riverside Pub's Team "Pull me a Beer"

WORLD CLASS

PLANEPULL 2006


Porter Airlines


Bombardier Regional Aircraft “Pro Pullers”


CTV Ottawa “Wingin’ It!”


PricewaterhouseCoopers


RCMP-GRC


ZW Group Inc. “Walker’s Warriors”


Airport Authority “Mud Dogs”


CATSA “Lug Nuts”


United Way “Heroes”


Airport Authority “Tomcats”


Scotiabank


Aero Mag 2000
“Frosty and his Snowmen”


A-Channel “Aces”

Airport Policing Section “OPS High Flyers”

"Just a short note to let you know that I was very impressed by your beautiful airport this weekend. I love the open concept that was used for the design. I especially appreciated the airy feel of the gate area. The nice green couches are also splendid. It all creates an ambience that made me wish I could have spent more time at the airport. That's a first!"

ORBIS Flying Eye Hospital

In June, Ottawa Airport played host to the ORBIS Flying Eye Hospital, during its goodwill visit to Canada.

According to the World Health Organization, 37 million people worldwide are blind – 28 million unnecessarily. ORBIS strives to eliminate avoidable blindness and restore sight in the developing world, where at least 90 percent of the blind and visually impaired reside.

The visit gave donors and supporters the opportunity to get a firsthand look at the ORBIS DC-10 aircraft and to meet the committed team of medical, aviation and communications professionals who are dedicated to ORBIS's dream of bringing vision to the world.

To reduce the financial burden that can accompany a visit of this nature, and to ensure that all funds raised would go directly to the good work that ORBIS does, the Airport Authority waived all fees.

Municipal issues/affairs

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

2006 was a year of dialogue and teamwork with the City of Ottawa – from the formation of a Senior Liaison Committee between the Airport Authority and the Planning, Transit and the Environment Department, to the review of the City's Draft Comprehensive Zoning By-law.

In early 2006, the Airport Authority and the City's Planning, Transit and the Environment Department agreed to form a Senior Liaison Committee to enhance lines of communication and bolster familiarity with airport operational and planning issues for City planners.

During both the spring and summer of 2006, the Airport Authority actively participated on a City-led Advisory Committee whose mandate was to provide advice on technical planning issues arising from the harmonization of 36 municipal area zoning by-laws. The Authority was successful in promoting an understanding of airport economic and development objectives, resulting in a proposed expansion to the range of land uses and activities permitted on airport lands.

Throughout the course of the year the Authority worked closely with the City to facilitate the implementation of the Limebank Road Realignment and Widening Project.

Technical matters were addressed and resolved in the first half of the year paving the way for discussions in late 2006 relating to the possible transfer of needed airport lands.

Discussions were also held with the City regarding the North-South Light Rail Transit Project. Notwithstanding the decision by City Council to terminate the project, the Airport Authority worked actively to assist the City with resolving site preparation matters while ensuring that the airport's own long-term development interests were sufficiently protected.

Operate all facilities in a safe manner

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

Safety is a clear and consistent priority for the Airport Authority and a theme that is woven through all activities and projects.

To that end in 2006, the Airside Operations department initiated a multi-year project aimed at developing and implementing an automated approach to identifying, reporting and monitoring airside safety hazards. The project, referred to as AirOps, addresses two specific activities on airside; operational safety inspections and bird and wildlife management. Specifically, operational safety inspections and all identified airfield deficiencies are reported directly from our airfield vehicles using a laptop computer and the airport's communications infrastructure.

Data is immediately transferred to a centralized database documenting the fact that an airfield inspection has taken place as well as identifying any follow-up corrective work that might be required. This same hardware and communications infrastructure is also used to record bird strike data and all bird and wildlife monitoring activities. All data is geo-referenced to specific locations on the airfield using an aerial photograph of the airport as a base map.

In May 2006, *Canadian Aviation Regulations* for bird and wildlife management came into force, thereby requiring the Authority to conduct a bird and wildlife risk assessment as well as developing a bird and wildlife management plan by the end of the year. Both of these studies were initiated and completed and will lay the foundation for future bird and wildlife mitigation measures at the Ottawa International Airport.

Employee Safety

The Airport Authority is fully committed to providing a safe workplace for all employees. To that end, the Authority implemented a new Hazard Prevention Program for its employees in 2006, whereby a detailed review of all job tasks was completed, hazards identified and mitigation strategies developed.

Operate and manage the airport campus in a secure manner

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.

The Authority continued to participate in the Canadian Airports Council's Security Committee, and hosted quarterly meetings at the airport involving the airlines, CATSA, the Ottawa Police Service, the Canadian Corps of Commissionaires, Canada Border Services Agency and US Border Protection Services.

"I love the new terminal and all the upgrades. It is spacious, bright and welcoming."

"I have used your airport many times, and I have always experienced fast, friendly service. Thanks for the great service."

"Ottawa's airport looks lovely when one enters the building – very impressive!"

The Authority also completed several security-related projects including enhanced camera coverage in the terminal, enhancements to the Visitor's Pass program, and rolled out a new Emergency Manual that covers a variety of extraordinary situations, with plans to address each.

Restricted Area Identity Card

On December 31, 2006, the Ottawa International Airport Authority went live with Transport Canada's newly mandated Restricted Area Identity Card (RAIC). This new card replaces the Airport Restricted Area Pass (ARAP) and includes biometric identifiers, meaning that pass holders will identify themselves through fingerprint or iris identification to gain access to areas that would be otherwise inaccessible. To implement this project, the Ottawa Airport met the following objectives:

- The issuance of a new identification card utilizing biometrics for in excess of 3,600 personnel who require access to restricted areas as designated by Transport Canada;
- The deployment of a system that will validate the identification card and verify the identity of the cardholder;
- The integration of non-contact smart card technology with the capacity to store cardholder biometric information and other data;
- The replacement of the existing ARAP as a document of entitlement and, in doing so, augmenting the level of security provided;
- The identification of those card holders who have demonstrated a need to access restricted areas at more than one airport on a regular basis (the multi-airport credential); and
- The integration of the system with the existing airport access control system.

The Ottawa Airport Authority assumed the site level, primary project management role for the delivery and implementation of the program with associated costs reimbursed by CATSA.

Liquids, Gels and Aerosols

Following the discovery of terrorist plots in the United Kingdom in August, Transport Canada issued a series of evolving security directives to mitigate the risk at Canadian airports. Initially, all liquids, gels and aerosols were banned from the holdroom areas; this resulted in increased wait times at pre-board screening for both the domestic/international and the US preclearance sectors and had a significant impact on airport retailers. The transborder sector suffered the greatest impact due to the additional US requirement to x-ray passenger's shoes. As the risk was better understood, the directives were relaxed to allow small quantities of liquids to enter the holdroom and to allow airports to sell liquids, gels and aerosols in the holdroom, provided a secure supply chain management process was implemented.

100 ml per container max. and must all fit in 1 litre transparent plastic bag.

Direct Flights per day

	Domestic	Transborder	International (weekly)
1997	82	21	3
1998	88	23	6
1999	101	39	7
2000	93	43	7
2001	84	30	7
2002	80	35	8
2003	81	35	7
2004	71	35	7
2005	65	33	9
2006	**75**	**34**	**9**

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.

Being world class means being responsible to the community and the environment. As mentioned in previous reports, the Airport Authority has dedicated significant resources to dealing with environmental issues such as glycol recovery, spill management and recycling. 2006 was no different. Following are some of the highlights.

We are very pleased to say that for the first year since the Authority started using ethylene glycol as an aircraft de-icing and anti-icing fluid, we reported no exceedance of the criteria for glycol in storm water. Furthermore, for the second year in a row, we had no exceedance of un-ionized ammonia criteria (degradation by-product of the runway de-icing agent Urea). This means that our recovery procedures are being applied successfully.

In response to a 2005 Environmental Management System (EMS) audit, the Authority modified its Aircraft Noise Management, Storm Water Monitoring and Ground Water Monitoring programs in 2006 in order to address items that were identified as requiring attention. Additional Standard Operating Procedures (SOPs) were developed to ensure that the modified programs were followed as closely as possible. This was successfully achieved, and resulted in tangible improvements in several areas.

The EMS audit also identified issues with the disposal of hazardous waste. As a result, a local company that specializes in this field was contracted to divert waste such as paint, aerosol cans, oil, cleaning solutions, batteries and fluorescent bulbs away from the general waste stream and to ensure that they are handled according to Authority policies and regulations.

Project Clear Skies Recipient Profiles

Solidarité Gatineau-Ouest

Solidarité Gatineau-Ouest has been helping individuals and families who experience social and economic difficulties since 1991. Clients benefit from a range of activities including parental development workshops, collective kitchens for fathers and mothers, cooking classes for pre-teens, summer day camps, sporting activities, after school program, and a gently-used clothing shop.

The appliances used to support some of these activities were extremely old and in dire need of repair. Thanks to the financial support of *Project Clear Skies*, Solidarité Gatineau-Ouest was able to purchase a refrigerator, stove, and a washer/dryer set, all of which have since been put to good use, as noted in the following excerpt from a thank you letter that was sent by the charity.

“Thanks to your generosity, we have been able to obtain working appliances: washer and dryer, fridge and stove. The look of our kitchen is enhanced and our people in charge of cooking for dad and the kids will really enjoy cooking. As for the washer and dryer, the person who does the washing is already enjoying them and they are helping to save water and energy.”

St. Joe’s Supper Table

Located in the heart of Sandy Hill, St. Joe’s Supper Table has been helping to feed the community since 1978. The program provides a hot supper, Monday to Friday, in a safe, comfortable and non-judgemental environment. They open their doors to anyone and everyone. Further, they serve coffee and cookies during the day, and offer a grocery hamper service every Friday afternoon for those who need a little help getting through the weekend. St. Joe’s mission is “to feed the hungry and offer an open hand to those in need”.

St. Joe’s Supper Table faced a challenge that *Project Clear Skies* was able to overcome for them; the doors to the facility where dinner is served are in an area that is exposed to the elements, and there is no indoor space where their clients can wait. They needed a means of providing shelter to the men, women and children who wait in line for their supper.

Project Clear Skies provided the funding needed to construct a canopy over the front door. St. Joe’s is grateful that their clientele will stay dry during inclement weather, and have the opportunity to socialize with others who are in similar life situations.

A Spill Control Plan was developed for the airport that established locations where spills can be contained prior to exiting airport property limits. Spill control kits have been placed in select locations and at the site of all Authority storage tanks, and all field foremen, duty managers, firefighters and plumbers have been trained and are prepared to respond effectively to all spills.

An emphasis was placed on recycling in 2006. A waste audit of the Passenger Terminal Building (PTB), Combined Services Building (CSB) and Air Terminal Building, or old terminal, was completed in March 2006. The audit concluded that the airport as a whole could do more to recycle. In an effort to improve the rate of recycling, the Authority installed recycling bins at all boarding gates, next to the trash bins airside and new paper towel dispensers that use less paper were installed in the PTB. The Authority also now uses biodegradable garbage bags in order to compost the collected paper towels. A concerted effort will continue in 2007 with a view to significantly increasing the rate of recycling activities at the airport.

In keeping with the newly approved Commitment to Corporate Social Responsibility policy, the Authority has taken steps to implement a "green procurement program". The first step in this program was to make a change to environmentally friendly cleaning products and chemicals with the cooperation of the contracted building cleaner, Bee-Clean. Further, more environmentally friendly products are now being used at the CSB for both the fleet maintenance and Emergency Response Service operations.

"Searidge Technologies launched a revolutionary ground surveillance system at the end of 2006 and required a partner to test and evaluate the technology. We were looking for an airport with world class international operations that would help us bring this technology to market. The Ottawa Airport Authority was a perfect match and as we continue the testing they have provided ongoing support which has proved invaluable in the further development and refinement of the technology."

Moodie Cheikh,
Director Business Development,
Searidge Technologies

Aircraft Movements	
1997	68,000
1998	77,202
1999	81,808
2000	78,301
2001	72,630
2002	68,499
2003	69,798
2004	69,626
2005	66,146
2006	**65,249**

Direct Destinations	
1997	20
1998	21
1999	25
2000	26
2001	29
2002	30
2003	32
2004	25
2005	27
2006	**31**

Origin and Destination
94% of traffic (estimated)

Corporate Governance, Accountability and Transparency

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

The Board of Directors

The adoption of the National Airports Policy in 1994 resulted in the creation of local airport authorities across the country. These authorities were first created with a community-appointed Board of Directors which was tasked with overseeing the management of their local facility.

The Ottawa International Airport Authority's Board of Directors follows these guidelines, 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 6 to 8 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 2006, as required by the Authority's by-laws. Furthermore, all directors are in compliance with the noted guidelines.

Revised By-Laws

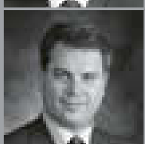
The Authority adopted revised by-laws in 2003 to replace the original by-laws that were established at incorporation in 1995. The revised by-laws specify the composition of the Board of Directors and the process for nominating members to the Board.
The selecting bodies that provide nominees to the 14-member 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	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 chart on the following page represents the composition of the Board of Directors as at December 31, 2006. The transition to the nomination of all directors by the noted list of selecting bodies was completed in 2006.

	Directors	Committees of the Board	Selecting Body
	Jim Durrell Chairman of the Board	• Chair, Executive Committee • Chair, Governance, Human Resources & Compensation Committee • Chair, AEP Overview Committee • Member, Audit Committee	At Large
	Peter Vice Vice-Chair	• Secretary and Member, Executive Committee • Member, Governance, Human Resources & Compensation Committee • Member, AEP Overview Committee	At Large
	Geneviève Brown	• Member, Governance, Human Resources & Compensation Committee	Minister of Transport (Government of Canada)
	Raymond Brunet	• Member, Executive Committee • Member, AEP Overview Committee	Chambre de commerce de Gatineau
	Jeffrey M. Dale	• Member, Executive Committee	Ottawa Centre for Research and Innovation
	Martin Leblanc	• Member, Governance, Human Resources & Compensation Committee	Ville de Gatineau
	Charlie Logue	• Member, Audit Committee	Minister of Transport (Government of Canada)
	Eric McSweeney	• Member, Audit Committee	Ottawa Chamber of Commerce
	Pat Murray	• Member, Governance, Human Resources & Compensation Committee • Member, AEP Overview Committee	Government of Ontario
	Michael Skrobica	• Member, Audit Committee	Air Transport Association of Canada
	Joan Sun McGarry	• Member, Audit Committee	City of Ottawa
	Pamela Sweet	• Member, Audit Committee	City of Ottawa
	Whitman Tucker	• Member, Executive Committee • Member, AEP Overview Committee	Ottawa Tourism
	James Wright	• Chair, Audit Committee • Member, Executive Committee • Member, AEP Overview Committee	At Large

Directors' Compensation in 2006

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

Attendance at Board and Committee Meetings

Board Member	Board Meetings Attended	Committee Meetings Attended while member of a Committee
Jim Durrell	10 out of 10 meetings	17 out of 17 meetings
Peter Vice	10 out of 10 meetings	9 out of 10 meetings
Geneviève Brown (note 1)	5 out of 6 meetings	0 out of 1 meeting
Raymond Brunet	8 out of 10 meetings	6 out of 9 meetings
Jeffrey Dale	7 out of 10 meetings	3 out of 3 meetings
Martin Leblanc (note 1)	7 out of 7 meetings	1 out of 1 meeting
Charlie Logue (note 1)	6 out of 6 meetings	3 out of 3 meetings
Eric McSweeney	10 out of 10 meetings	7 out of 7 meetings
Pat Murray (note 1)	5 out of 6 meetings	5 out of 6 meetings
Michael Skrobica	10 out of 10 meetings	7 out of 8 meetings
Joan Sun McGarry (note 1)	5 out of 7 meetings	3 out of 3 meetings
Pamela Sweet	10 out of 10 meetings	5 out of 6 meetings
Whitman Tucker	4 out of 10 meetings	8 out of 8 meetings
James Wright	10 out of 10 meetings	14 out of 14 meetings
Michel Belley (note 2)	2 out of 2 meetings	1 out of 1 meeting
Michael Darch (note 2)	2 out of 2 meetings	1 out of 3 meetings
Larry Malloy (note 2)	1 out of 1 meeting	1 out of 1 meeting
Jean-Marie Séguin (note 2)	3 out of 3 meetings	1 out of 2 meetings
Carol Stephenson (note 2)	0 out of 3 meetings	3 out of 3 meetings

Note 1 - new board member effective on or subsequent to April 25, 2006
Note 2 - term ended or resigned on or before April 25, 2006

Committees of the Board

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

Executive Committee

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

AEP Overview Committee

- oversee the development and progress of the Airport Expansion Program.

Audit Committee

- the external auditors report to the Audit Committee. 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.

Governance, Human Resources & Compensation Committee

- establish the nomination procedures, the skill sets required for nominees and the length of term of selected nominees;
- evaluate nominees and report to the Board;
- review succession plans and provide advice on development and career planning for potential successors;
- recommend the remuneration plan to the Board;
- annual review of Board governance and compensation;
- oversee the application of Conflict of Interest rules to Board members and nominees;
- evaluate the performance of the Board and individual directors;
- evaluate the communications flow

between the Board and management;
- review the governance section of the Annual Report; and
- study and adopt evolving best practices in corporate governance.

Other ad-hoc committees may be formed from time to time that include members of the Board of Directors.

Accountability

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

The mandate of the Authority is:
- to manage, operate and develop the Ottawa International Airport, which is leased to the Authority by Transport Canada, and any other airport in the National Capital Region for which the Authority becomes responsible, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;
- to undertake and promote the development of airport lands, for which it is responsible, for uses that are compatible with air transportation activities; and
- to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

The Authority accounts for its actions to the community in a number of ways including:
- by publishing an Annual Report;
- by hosting an Annual Public Meeting;
- by hosting an annual meeting with selecting bodies;
- by establishing and/or reporting to the following consultation committees:
  - Airport Noise Committee
  - Airline Consultative Committee
  - Airport Operators Committee
  - Community Consultative Committee
  - Airside Safety Committee;
- through meetings and/or consultations with local city officials;
- through extensive public consultations on the periodic renewal of the Airport Master Plan, which was last updated in 1998, and the Land Use Plan, which was last updated in 2003, and which requires approval by the Minister of Transport; and
- by maintaining a corporate website at www.ottawa-airport.ca.

In addition, a performance review must be conducted at least once every five years, in keeping with the Authority's Ground Lease with Transport Canada. This performance review was last done in early 2002 and is again being completed in early 2007.

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 $95,000 ($75,000 in 1994 dollars adjusted for CPI), must be awarded through a competitive public tendering process, or be disclosed in the Authority's annual report together with 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 2006 were as follows:

Contractor	Contract Description	Reason for Sole Source
Expertronic	$97,000 Supply equipment for surface parking	Ensures consistency with existing parking control equipment previously awarded on the basis of competitive process.
Bert Nibourg Construction	$99,500 Purchase and store reclaimed timber for passenger terminal extension	Reclaimed BC fir timber purchased from contractor selected for hangar demolition after a public competitive process.
Electrical Safety Authority	$165,000 Continuous safety services	Only source available to provide ongoing safety services.
Expertronic	$215,000 Supply and deliver pay-on-foot parking stations in 2007	Ensures consistency with existing parking control equipment previously awarded on the basis of competitive process.
Ottawa Truck Centre	$317,700 Supply single axle dump truck and plow, and tandem cab and chassis	Maintains a standard fleet of equipment to achieve operational efficiency.
FKI Logistex	$495,000 Perform scheduled preventative maintenance on baggage handling system	Single source for service and maintenance of equipment purchased following a public competitive process.

Executive Management Salary Ranges

The base salary range for the President of the Authority in 2006 was between $175,000 and $225,000. The base salary range for each of the Vice Presidents in 2006 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 Airport Improvement Fee (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;
- summaries of the Authority's five most recent business plans;
- the Authority's Articles of Incorporation (its Letters Patent) and by-laws, including any amendments;
- all signed airport transfer agreements; and
- a summary of the Authority's five-year performance review document.

Contacting the Authority

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

- submit questions, comments or concerns through the Authority's website www.ottawa-airport.ca;

- complete a customer comment card which is available at both of the airport's information kiosks;

- call the general inquiries lines at 613-248-2125 or 613-248-2141;

- call the noise information line at 613-248-2023;

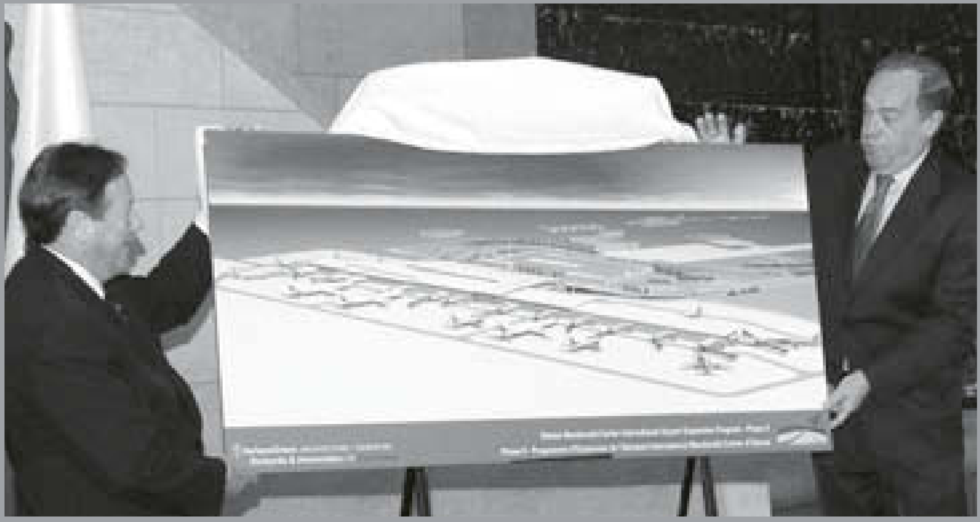
- call or write to individual Authority departments at the following address: Suite 2500, 1000 Airport Parkway Private, Ottawa, ON Canada K1V 9B4; and

- fax questions, comments or concerns to 613-248-2068.

In addition, the Authority conducts 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)
Michael Crockatt, Vice President, Business Development and Marketing
John Weerdenburg, Vice President and Chief Financial Officer
Paul Benoit, President and CEO
Krista Kealey, Director, Communications and Public Affairs
Ian Bell, Vice President, Terminal Services and Information Technology
Pierre Lanoix, Vice President, Operations and Construction
Louise Bergevin, Executive Assistant to the President and CEO
Kathryn Prud'homme, General Counsel
Absent: Linda Tougas, Vice President, Human Resources



On April 4, 2006, Chairman Jim Durrell and President and CEO Paul Benoit unveiled the Airport Expansion Program Phase II design to the media and the general public. Phase II will include more than 7,000 square metres of holdroom space, and will be an extension of the Passenger Terminal Building; many of the same architectural elements and finishes will be used. In the Authority's continued commitment to the environment, BC fir timbers that were reclaimed from the demolition of several WWII hangars will be incorporated into the space. This beautiful wood will add warmth and texture to the space, and will serve as a reminder of the Ottawa Airport's rich military history.

The Ottawa Airport was again recognized for its customer service in the 2006 Airport Service Quality (ASQ) program. ASQ is the world's leading airport customer satisfaction benchmarking program that includes more than 90 airports worldwide and covers every aspect of the customer experience in a particular airport.

The Authority was delighted that the airport was honoured as follows:

- 2nd place overall in customer satisfaction for enrolled airports that serve between 0 and 5 million passengers;
- 3rd place overall in customer satisfaction for all enrolled domestic airports; and
- 3rd place overall in customer satisfaction for all enrolled airports in the Americas.

The Authority would like to thank the customers who took the time to complete the questionnaires at the departure gates throughout the year.

2006 Financial Review

This Financial Review reports on Ottawa International Airport Authority's results and financial position for its year ended December 31, 2006. 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.

Overall performance

Earnings before depreciation for the year ended December 31, 2006 were $10.9 million compared to $9.0 million for the year ended December 31, 2005. The largest factor impacting results was a $1.7 million increase in the amount of aeronautical fees collected by the Authority resulting from a net increase in aeronautical rates charged to airlines of 5.78%. This increase was implemented on January 1, 2006 to mitigate the impacts of the decrease in available seat capacity caused by the bankruptcy of Jetsgo in 2005. Depreciation was $14.2 million in 2006 compared to $13.4 million in 2005 and reflects depreciation of the terminal building and facilities over their estimated economic lives. The increase in depreciation in 2006 reflects depreciation on the parking garage extension which came into service at the end of 2005. After subtracting depreciation, the excess of expenses over revenues in 2006 amounted to $3.3 million as compared to $4.4 million in 2005.

Selected annual information

The Authority's net operating results for the three years ended December 31, 2006 are summarized as follows:

($ in millions)	**2006**	2005	2004
Revenues	**$ 75.8**	$ 72.5	$ 69.6
Expenses before depreciation	**64.9**	63.5	60.7
Earnings before depreciation	**10.9**	9.0	8.9
Depreciation	**14.2**	13.4	13.2
Net of expenses over revenues	**$ (3.3)**	$ (4.4)	$ (4.3)
Total assets	**$ 363.4**	$ 356.4	$ 359.7
Total long-term debt	**$ 272.4**	$ 273.6	$ 273.5

Results of operations

Operating Activity

Since the growth surge of 2004 during which passenger volumes were almost 11% higher than in 2003, passenger volumes in 2005 and 2006 have continued to increase modestly and were 1.9% higher in 2006 than in 2005.

Passenger volumes increased in 2006 over 2005 to all sectors as follows:

- domestic 1.0%;
- transborder 2.3%; and
- international 12.0%.

The failure of Jetsgo during 2005 resulted in a reduction in the number of low-cost airline seats in the domestic market, making air travel less attractive to price-sensitive travellers. In September 2006, CanJet ceased operations of its scheduled service in an orderly and planned fashion, impacting seat availability for flights to and from Atlantic Canada. With these events impacting available seat capacity and with the local economy growing at a slower pace than in western Canada, domestic volumes were relatively unchanged over the comparable period in 2005. Air carriers, having limited seat capacity, responded to the higher demand for air travel in western Canada. With strong demand in western Canada and aircraft filled to near capacity, air carriers have not needed to respond to market conditions with lower air fares to fill more seats in central and eastern Canada. This lack of competitive pricing is believed to have impacted domestic volume growth. Slightly offsetting this decrease in available seat capacity at the airport, Porter Airlines commenced daily scheduled service between Ottawa and Toronto City Centre Airport in late October 2006.

Growth in travel to transborder and international sunshine destinations has been another story. In 2004 there had been a record-breaking 27% increase in international volumes over 2003, primarily on charters to sunshine destinations. Even after the significant volumes and growth of 2004, international volumes continued to surpass expectations. 2005 international volumes, although higher than 2004, were 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 2005 travellers appear to have selected US sunshine destinations over other international destinations and transborder volumes increased by 12% over 2004. Travel to international sunshine destinations rebounded in 2006 with international volumes 12% higher than 2005 volumes and transborder volumes 2% higher than in 2005.

Air Canada's passenger volumes to domestic destinations increased in 2006 by approximately 3% over 2005 with WestJet increasing by approximately 8% over the same period. As CanJet ceased operations in September 2006 both Air Canada and WestJet shared in the demand for seats on routes between Ottawa and Atlantic Canada and increased their loads and ticket prices accordingly. Transborder and international growth came primarily from non-scheduled charters.

By sector, for each quarter of 2006 passenger volumes compared to comparable quarters in 2005 were as follows:

	Domestic	Transborder	International
Q1	Lower by 2.0%	Higher by 4.5%	Higher by 21.4%
Q2	Higher by 3.5%	Lower by 0.1%	Higher by 6.4%
Q3	Higher by 1.0%	Lower by 2.3%	Lower by 3.9%
Q4	Higher by 1.3%	Higher by 7.3%	Higher by 14.8%

By quarter, total passenger volumes were as follows:

	2006	2005	% change
Q1	**973,462**	956,418	1.8 %
Q2	**958,263**	930,522	3.0 %
Q3	**943,878**	943,343	0.1 %
Q4	**932,153**	905,150	3.0 %
Total	**3,807,756**	3,735,433	1.9 %

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 bankruptcy of Jetsgo in 2005 significantly decreased available seat capacity that year. Total landed seat volumes decreased in 2005 from 2004 by 6.2%. This is only very slowly being replaced by other airlines and the number of landed seats in 2006 decreased, but only very slightly, from 2005, by 0.6%. Airlines filled more seats with passengers on fewer aircraft in 2006, and reported throughout the year that their load factors, or percentage of seats occupied on an aircraft, were higher than in 2005.

Revenues

Total revenues increased by 5% to $75.8 million in 2006 compared to $72.5 million in 2005. Of the $3.3 million increase, airport improvement fees accounted for $0.4 million, aeronautical revenues accounted for $1.7 million, car parking accounted for $0.4 million, and all other revenues accounted for $0.8 million.

Revenues by category
($ in thousands)

	2006	2005	Change	%
Airport improvement fees	**$ 24,926**	$ 24,520	$ 406	2%
Terminal fees and loading bridge charges	**16,792**	15,658	1,134	7%
Landing fees	**9,922**	9,352	570	6%
Concessions	**8,726**	8,412	314	4%
Car parking	**8,810**	8,399	411	5%
Land and space rentals	**4,184**	3,896	288	7%
Interest	**491**	561	(70)	
Other revenue	**1,969**	1,705	264	15%
	$ 75,820	$ 72,503	$ 3,317	5%

The increase in airport improvement fees (AIF) is commensurate with the increase in passenger volumes. An average of approximately 94% of departing passengers originated in Ottawa (versus connecting through Ottawa) in 2006, unchanged from 2005, although the percentage has been trending upwards. 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 $26.7 million in 2006, total aeronautical revenues, which include terminal fees, loading bridge charges, and landing fees charged to air carriers, were 6.8% higher than revenues of $25.0 million in 2005. Jetsgo ceased operations in early March 2005, and this affected aeronautical revenues through the balance of 2005 and early 2006 as airlines increased their load factors (number of seats filled by passengers) and the number of landings at Ottawa Airport decreased. To mitigate the impact of higher air carrier load factors and reduced total seat volumes arriving in Ottawa, the Authority increased its aeronautical rates by net 5.78% effective January 1, 2006. Total seat volumes in the first nine months of 2006 continued to run 1.9% lower than in 2005, but increased in the fourth quarter with the year's volumes ending just slightly lower than 2005. However, as international and transborder aeronautical rates are higher than rates for domestic flights, the increase in international activity positively impacted aeronautical revenues.

Even after the increase in rates for aeronautical fees in 2006, Ottawa's average aeronautical fee rates remained among the lowest in Canada. As a result of a decrease in its rent payments to the federal government from $12.5 million in 2006 to $11.5 million in 2007, late in 2006 the Authority announced that it would decrease the landing fee rates that it charges airlines effective January 1, 2007. This was done by reducing rates charged to flights arriving from international and transborder destinations to rates applicable for domestic flights.

Concession revenue increased to $8.7 million in 2006 from $8.4 million in 2005, primarily as a result of higher minimum annual guarantees in food and beverage and retail concession contracts. Car parking revenues increased to $8.8 million in 2006 from $8.4 million in 2005. The increase in passenger volumes and demand for parking, and the availability of convenient parking options provided by the Airport Expansion Program (AEP) have continued to contribute to increased parking revenues. Land and space rentals have increased as a result of rent from new land tenants who have developed businesses on excess airport lands.

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 as funds have been disbursed on capital assets, short-term interest rates increased to provide interest income in 2006 that was comparable to 2005.

Expenses

Expenses before depreciation increased to $64.9 million in 2006 from $63.5 million in 2005. In addition, depreciation increased from $13.4 million in 2005 to $14.2 million in 2006, as the Authority continued to depreciate the cost of the terminal building and support facilities. Depreciation increased primarily as a result of depreciating the parking garage extension which was completed and brought into service at the end of 2005.

Expenses by category
($ in thousands)

	2006	2005	Change	%
Ground rent	**$ 12,487**	$ 12,958	$ (471)	(4%)
Materials, supplies and services	**17,491**	17,058	433	3%
Salaries and benefits	**13,367**	12,058	1,309	11%
Payments in lieu of municipal taxes	**3,875**	3,690	185	5%
Interest	**17,723**	17,727	(4)	0%
	$ 64,943	$ 63,491	$ 1,452	2%

Ground rent payable to the Government of Canada decreased by 3.6% to $12.5 million in 2006 as a result of changes in the rent formula. The 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 announced that it would adopt a new rent policy that would result in reduced rent for airport authorities. The Authority finalized and signed an amendment to its ground lease to reflect this new rent arrangement in December 2005. The reduced rent is being phased in gradually over a transition period between 2006 and 2010. Effective for years starting in 2010, ground rent will be calculated as a percentage of gross revenues, as defined in the lease, with no rent payable on the Authority's first $5 million in revenue, and an increasing rent percentage payable as revenue increases, on a cumulative basis. Following the transition period, rent would be levied at a maximum 12% rate on annual revenues in excess of $250 million as follows:

Gross revenues	Rent payable	Cumulative maximum ground rent
On the first $5 million of revenues	0%	$0
On the next $5 million	1%	$50 thousand
On the next $15 million	5%	$800 thousand
On the next $75 million	8%	$6,800 thousand
On the next $150 million	10%	$21,800 thousand
On revenues over $250 million	12%	

Estimated minimum lease payments under the amended ground lease for the next five years are as follows:

2007	$ 11.5 million
2008	$ 10.1 million
2009	$ 7.3 million
2010	$ 5.4 million
2011	$ 5.6 million

The cost of materials, supplies and services increased to $17.5 million in 2006 from $17.1 million 2005, most significantly because of increased use of chemicals and supplies required to maintain runways through adverse weather conditions during the first quarter ended March 31, 2006. Costs were also impacted by higher fuel and energy rates (although these were offset by market adjustment rebates from Ontario Power Generation Corporation which are not expected to continue). In addition, costs increased as a result of repairs and maintenance requirements and new maintenance agreements for equipment and software. The warranty periods on these items expired in October 2005 on the second anniversary of opening the new terminal building facilities.

The cost of salaries and benefits increased to $13.4 million in 2006 from $12.1 million in 2005. Included in this cost, the estimated cost of pension and other post-retirement benefits increased in 2006 by approximately $0.8 million from 2005, reflecting the results of the latest actuarial valuation completed in June 2006. This valuation included required changes in mortality and retirement age assumptions impacting these estimates. In addition, the cost of salaries and benefits in 2006 reflect contracted rate increases and increased seasonal costs for winter snow-clearing operations.

Payments in lieu of municipal taxes increased by 5% to comply with provincial legislation that prescribes the calculation of this payment. Under this legislation, payments in lieu of municipal taxes are based on a fixed legislated rate for the Ottawa International Airport Authority, multiplied by the previous year's passenger numbers, but to a maximum increase of 5% over the previous year's amount. The $3.9 million paid for 2006 reflects the large increase in passenger volumes that occurred in 2004. Payments in lieu of taxes will increase again by 5% in 2007 over the 2006 amount based on this legislation and, assuming a 3% increase in passenger volumes in 2007, payments in lieu of taxes will increase by a further 3.8% in 2008.

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 eight most recently completed quarters is set out below:

($ in millions)	2005				**2006**			
Quarter ended	Mar	June	Sept	Dec	**Mar**	**June**	**Sept**	**Dec**
Revenue	$ 18.2	$ 18.2	$ 18.3	$ 17.8	**$ 19.5**	**$ 18.6**	**$ 18.7**	**$ 19.0**
Expense	16.0	15.2	15.2	17.1	**16.8**	**16.1**	**15.1**	**16.9**
Earnings before depreciation	2.2	3.0	3.1	0.7	**2.7**	**2.5**	**3.6**	**2.1**
Depreciation	3.3	3.3	3.4	3.4	**3.5**	**3.6**	**3.6**	**3.5**
Excess expense over revenue	$ (1.1)	$ (0.3)	$ (0.3)	$ (2.7)	**$ (0.8)**	**$ (1.1)**	**$ (0.0)**	**$ (1.4)**

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.

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 2006, the Authority made cash payments of $18.1 million for major capital expenditures related to planning, design, site preparatory work, and construction costs related to AEP Phase II and the release of holdbacks and final payments related to the expansion of the parking garage completed in late 2005. In addition, during 2006 the Authority made cash payments of $4.1 million for sustaining capital expenditures.

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 $111 million, includes the $13 million cost of an addition to the parking garage (completed in 2005), $95 million for the construction of a major addition to the new passenger terminal building (including 7,000 square meters added to the passenger holdroom level and 12 new gates), demolition of the original old terminal building, and airside infrastructure to support the expanded terminal complex, and $3 million for improvements at the transborder end of the terminal building. Construction is expected to be completed in late 2008. AEP Phase III is not expected to be required before 2017. The Authority's master plan is being updated in early 2007 and will provide more information as to future infrastructure requirements beyond the next 5 years.

By December 31, 2006, in addition to having completed the $13 million expansion of its parking garage on budget and ahead of schedule in late 2005, the Authority had committed contracts in excess of $65 million related to AEP Phase II against which it had accumulated total costs of $21 million. Based on the value of these contracts and the nature of the additional tenders expected to be awarded during 2007, the Authority is on budget and on schedule for this phase of the AEP.

Payments for years ending December 31

($ in thousands)	Total	2007	2008	2009	2010	2011	Thereafter
Long-term debt (note 1)	$ 282,433	$ 129,985	$ 1,510	$ 1,765	$ 2,041	$ 2,339	$ 144,793
Operating commitments	12,688	6,298	4,825	826	198	198	343
Capital commitments	46,800	40,200	6,600				
Total contractual obligations	$ 341,921	$ 176,483	$ 12,935	$ 2,591	$ 2,239	$ 2,537	$ 145,136

Note 1 – Payments represent principal on outstanding debt and includes $120 million Series A bond due in 2007 and $8.7 million of drawings under short term bank facilities, both of which the Authority expects to refinance as long term debt in 2007. Further information on interest rates and maturity dates on long-term debt are provided in note 6 to the Financial Statements.

Contractual obligations

In addition, assuming no change in current economic assumptions and funding regulations, the Authority expects to make funding contributions to the pension plans of approximately $1,256 thousand over each of the next 4 years. Further details are disclosed in note 8 to the Financial Statements.

Liquidity and Capital Resources

As a non-share capital corporation, the Authority funds its operating requirements, including debt service, through operating revenues and AIF revenue. The Authority manages its operations to ensure that AIF revenue is not used to fund the regular ongoing expense of operations. AIF revenue is used to fund debt service costs and other expenses related to the AEP. The Authority funds major infrastructure expenditures by borrowing in the capital markets and against bank credit.

The Authority maintains access to an aggregate of $117 million in 364-day revolving credit facilities with two Canadian banks. The current facilities expire on October 25, 2007. Included in such facilities is a $20 million operating credit to fund day to day financial requirements, and an additional $97 million to fund general corporate purposes, including to provide liquidity support, and to fund major capital expenditures on a short term basis prior to securing longer term financing in the capital markets.

In 2002, during AEP Phase I, the Authority established a Capital Markets Platform under a Master Trust Indenture setting out the terms of all debt, including bank facilities and revenue bonds. The Authority issued two series of revenue bonds in 2002:

- $120 million of five-year 5.64% Series A Bonds due May 25, 2007; and
- $150 million of 30-year 6.973% Series B Bonds due May 25, 2032.

The Authority intends to access the capital markets sometime before May 2007, and issue additional bonds sufficient to pay down borrowings under the bank credit facilities, fund the ongoing expansion of the airport, and refinance the $120 million 5.64% Series A Revenue bonds.

Under the Master Trust Indenture (MTI), the Authority is required to maintain with the Trustee a Debt Service Reserve Fund equal to six months' debt service. At December 31, 2006, the balance in the Debt Service Reserve Fund was $9.2 million, an amount in excess of the amount required under the MTI. The MTI also requires that the Authority maintain an Operating and Maintenance Reserve Fund in an amount equal to 25% of defined operating and maintenance expenses for the previous year. This fund may be maintained in the form of cash and investments held by the Authority, or the undrawn availability of a committed credit facility. As at December 31, 2006 $7.3 million of the Authority's credit facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund based on expenses for 2005. At December 31, 2006 the Authority was in full compliance with the provisions of its debt facilities, including the Master Trust Indenture's provisions related to reserve funds, the flow of funds and the rate covenant.

During 2006, Moody's, Standard & Poors, and DBRS reaffirmed the Authority's credit ratings of A1, A+, and A(high), respectively, in respect of its revenue bonds under the MTI.

Prior to accessing the capital markets, the Authority is using its existing bank credit facilities to fund the ongoing expansion of the airport, including AEP Phase II. The projected cost of Phase II, including the cost of the addition to the parking garage completed in 2005, is $111 million excluding capitalized interest. The Authority's maximum borrowing requirements, including the debt currently outstanding, are not expected to exceed $350 million (an increase of approximately $80 million over amounts outstanding at the end of 2006).

The Authority's cash balance decreased by approximately $11.3 million during fiscal 2006, primarily as a result of cash required to fund capital expenditures. The Authority completed the year ended December 31, 2006 with bank indebtedness of $8.7 million represented by draws against its available bank lines and outstanding cheques. As at December 31, 2006, the Authority's accounts receivable had decreased by $0.5 million to approximately $4.5 million from December 31, 2005. This decrease was primarily due to the early receipt at the end of 2006 of airport improvement fees, which accordingly reduced the estimated amount receivable at that time.

Risks and uncertainties

Levels of Aviation Activity

The Authority will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition. Airport revenue is largely a function of passenger volumes. Passenger volumes are driven by air travel demand. The events of the past several years have emphasized the volatile nature of air travel demand and the impact of external factors such as economic conditions, health epidemics, geopolitical 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.

Aviation Liability Insurance

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

Canada Airports Act

In June 2006, the Government of Canada introduced a new *Canada Airports Act* into Parliament with the first reading of Bill C-20. Bill C-20 includes a framework for airport fees (aeronautical fees and airport improvement fees) such that each airport must establish a methodology for determining fees. Under this methodology, projected revenues from fees may not exceed an airport authority's financial requirements, which would include contractual obligations related to the borrowing of money and reserves for future expenditures. Bill C-20 as drafted would allow for a fee to be appealed to the Canada Transportation Agency on the ground that an airport authority, in establishing or increasing a fee, did not have a methodology for determining fees or did not comply with a charging principle or a requirement under the notice provisions of the Act. The Authority, along with other airport authorities, is engaged in a consultation process with Transport Canada on Bill C-20. The airport authorities are striving to ensure that final legislation, if passed, will permit airport authorities to maintain flexibility to increase rates and fees as and when required to meet their financial requirements. If the legislation were to constrain the ability of the Authority to revise its rates and fees, this could adversely affect its credit rating and increase the cost of borrowed funds.

Construction Risk

Delays and cost overruns are always a risk with construction projects. In August 2006, construction commenced on AEP Phase II, which is the expansion of the passenger terminal building that was originally completed in 2003. Construction is currently on time and on budget. Over two thirds (2/3) of the projected $95 million cost of this project has been committed in fixed price contracts within budget, and construction is well underway. As a result, construction risk is not as high as it might have been in early 2006 when Phase II was approved by the Board.

The Ottawa Airport has become a popular spot for corporate and training videos as well as films. In 2006, Uberdo Productions was on-site to film an action-packed information and training video that will be used at the RCMP's new Heritage Centre. The Centre, which will figure prominently in the training program for all RCMP cadets, is set to open in May, 2007 in Regina, Saskatchewan.

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 public meeting. Their report is presented on the following page.

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

Auditors' Report

To the Directors of Ottawa Macdonald-Cartier International Airport Authority

We have audited the balance sheet of Ottawa Macdonald-Cartier International Airport Authority as at December 31, 2006 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, 2006 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
Licensed Public Accountants
Ottawa, Ontario
January 31, 2007

BALANCE SHEET

as at December 31, 2006 (in thousands of dollars)

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	**$ –**	$ 2,600
Accounts receivable	**4,539**	5,094
Consumable supplies	**1,112**	1,061
Prepaid expenses and advances	**666**	555
	6,317	9,310
DEBT SERVICE RESERVE FUND (Note 6(A))	**9,206**	8,835
DEFERRED FINANCING COSTS (Note 6(F))	**2,576**	2,949
CAPITAL ASSETS (Note 3)	**339,312**	330,108
OTHER ASSETS (Note 4)	**6,005**	5,228
	$ 363,416	$ 356,430
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	**$ 8,712**	$ –
Accounts payable and accrued liabilities	**11,214**	9,713
Current portion of long-term debt (Note 6)	**1,273**	656
	21,199	10,369
ACCRUED BENEFIT LIABILITY (Note 8)	**2,736**	1,989
SECURITY DEPOSITS	**366**	466
LONG-TERM DEBT (Note 6)	**272,449**	273,587
	296,750	286,411
Commitments and Contingencies (Note 10)		
NET ASSETS (Note 7)	**66,666**	70,019
	$ 363,416	$ 356,430

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, 2006 (in thousands of dollars)

	2006	2005
REVENUES		
Airport improvement fees (Note 7)	**$ 24,926**	$ 24,520
Terminal fees and loading bridge charges	**16,792**	15,658
Landing fees	**9,922**	9,352
Concessions	**8,726**	8,412
Car parking	**8,810**	8,399
Land and space rentals	**4,184**	3,896
Interest	**491**	561
Other revenue	**1,969**	1,705
	75,820	72,503
EXPENSES		
Ground rent (Note 10)	**12,487**	12,958
Materials, supplies and services (Note 11)	**17,491**	17,058
Salaries and benefits	**13,367**	12,058
Payments in lieu of municipal taxes	**3,875**	3,690
Interest (Note 6(D))	**17,723**	17,727
	64,943	63,491
EARNINGS BEFORE DEPRECIATION	**10,877**	9,012
DEPRECIATION	**14,230**	13,452
EXCESS OF EXPENSES OVER REVENUES	**(3,353)**	(4,440)
NET ASSETS, BEGINNING OF YEAR	**70,019**	74,459
NET ASSETS, END OF YEAR	**$ 66,666**	$ 70,019

(See accompanying notes to the financial statements)

STATEMENT OF CASH FLOWS

year ended December 31, 2006 (in thousands of dollars)

	2006	2005
Cash provided by (used in) -		
Operations:		
Excess of expenses over revenues	**$ (3,353)**	$ (4,440)
Add non-cash items:		
Depreciation	**14,230**	13,452
Amortization of deferred financing costs	**373**	372
Interest on long-term debt	**135**	127
Deferred rent (Note 6(C))	**–**	596
Increase in accrued benefit liability	**747**	521
Increase in accrued benefit asset	**(777)**	(912)
Changes in non-cash working capital related to operations:		
Accounts receivable	**555**	(602)
Prepaids and consumable supplies	**(162)**	(429)
Accounts payable and accrued liabilities	**233**	(1,529)
Decrease in security deposits	**(100)**	(59)
Total operations	**11,881**	7,097
Financing activities:		
Repayment of long-term debt	**(656)**	(244)
Increase in debt service reserve fund (Note 6(A))	**(371)**	(12)
Total financing activities	**(1,027)**	(256)
Investing activities:		
Capital asset expenditures	**(23,434)**	(17,503)
Change in accounts payable and accrued liabilities related to investing activities	**1,268**	1,777
Total investing activities	**(22,166)**	(15,726)
Decrease in cash	**(11,312)**	(8,885)
Cash, beginning of year	**2,600**	11,485
Cash (bank indebtedness), end of year	**$ (8,712)**	$ 2,600

(See accompanying notes to the financial statements)

Notes to the Financial Statements

for the year ended December 31, 2006

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 objects 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.

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, 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.

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, the cost of employee future benefits, and provisions for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

New accounting standards

The Canadian Institute of Chartered Accountants has issued accounting recommendations related to financial instruments, hedges, and comprehensive income that will come into effect for the Authority's first quarter ending March 31, 2007. Management is currently evaluating the impact of these recommendations on the Authority's financial statements. The impact on results reflected in the Authority's statement of operations is not expected to be material.

3. CAPITAL ASSETS

(in thousands of dollars)

	2006	2005
Cost:		
Buildings and support facilities		
Buildings and building improvements	**$ 255,089**	$ 254,723
De-icing facility	**7,032**	6,998
Pedestrian bridges	**7,099**	7,120
Utilities infrastructure	**5,394**	5,394
	274,614	274,235
Runways, roadways and other paved surfaces	**28,256**	28,078
Land improvements	**21,228**	20,712
Furniture and equipment	**20,212**	19,419
Computer equipment and systems	**13,783**	13,345
Vehicles	**8,965**	8,394
Leasehold improvements	**5,096**	3,374
Construction in progress	**20,729**	1,928
	392,883	369,485
Less accumulated depreciation:		
Buildings and support facilities		
Buildings and building improvements	**21,700**	15,045
De-icing facility	**1,448**	1,168
Pedestrian bridges	**1,083**	728
Utilities infrastructure	**888**	673
	25,119	17,614
Runways, roadways and other paved surfaces	**6,316**	5,151
Land improvements	**2,920**	2,003
Furniture and equipment	**6,504**	4,820
Computer equipment and systems	**6,370**	4,567
Vehicles	**4,128**	3,697
Leasehold improvements	**2,214**	1,525
	53,571	39,377
	$ 339,312	$ 330,108

Interest costs of $40 thousand (2005 – nil) were capitalized and included in construction in progress in 2006.

4. OTHER ASSETS

(in thousands of dollars)

	2006	2005
Accrued benefit asset (Note 8)	**$ 3,075**	$ 2,298
Interest in future proceeds from 4160 Riverside Drive, at cost	**2,930**	2,930
	$ 6,005	$ 5,228

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 $97 million in the aggregate for general corporate purposes and for the financing of capital expenditure requirements associated with the Authority's Airport Expansion Program. These facilities are secured under the Master Trust Indenture (see Note 6) and are due on October 25, 2007. They are available by way of overdraft, Prime Rate Loans, or Banker's Acceptances. Interest rates incurred during the year ranged from 4.38% to 6.00%. As at December 31, 2006, $7.3 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 6).

6. LONG-TERM DEBT

(tabular amounts in thousands of dollars)

	2006	2005
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	**$ 149,254**	$ 149,678
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	**2,377**	2,242
Deferred rent repayable to the Minister of Transport, without interest in equal monthly instalments over a ten year period commencing in 2006	**2,091**	2,323
	273,722	274,243
Less: current portion	**1,273**	656
	$ 272,449	$ 273,587

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 and are expected to be refinanced in 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 an $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, a security interest in leases, concessions and other revenue contracts of the Authority, and an unregistered mortgage of the Authority's leasehold interest in airport lands.

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, 2006, the Debt Service Reserve Fund included $9.2 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 equal to 25% of defined operating and maintenance expenses in the previous year (approximately $7.3 million in 2006 based on 2005 expenses). The Operating and Maintenance Reserve Fund has been satisfied by 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

	2006	2005
Bond interest	**$ 17,196**	$ 17,217
Interest expense – Other	**527**	510
	$ 17,723	$ 17,727
Interest paid during the year	**$ 17,218**	$ 17,229

E) As it is expected that the Series A Revenue Bonds due in 2007 will be refinanced in 2007, none of the amount is reflected as current. The future annual principal payments for all long-term debt are as follows:

2007	$ 1,273
2008	1,510
2009	1,765
2010	2,041
2011	2,339

F) Deferred financing costs

	2006	2005
Deferred financing costs	**$ 4,327**	$ 4,327
Less: Accumulated amortization	**(1,751)**	(1,378)
	$ 2,576	$ 2,949

7. AIRPORT IMPROVEMENT FEE (AIF)

(tabular amounts in thousands of dollars)

On September 1, 1999, the Authority implemented an AIF of $10 per local boarded passenger to fund the cost of major capital expenditures under the Authority's Airport Expansion Program. This fee was increased to $15 effective January 1, 2003. These fees are collected by air carriers under an agreement between the Authority, the Air Transport Association of Canada, and the air carriers serving the 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. 2006 AIF revenues are recorded net of collection fees withheld by air carriers of $1,614 thousand (2005 – $1, 577 thousand).

	2006	Cumulative to date
Airport Expansion Program Expenditures:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	**$ 19,003**	$ 346,053
Interest capitalized	**40**	15,501
Interest expensed (including internal interest on funds provided by operations)	**19,534**	71,230
	38,577	432,784
AIF cash receipts:		
AIF revenue – net of collection fees	**24,926**	140,535
Interest on surplus funds	**371**	6,599
	25,297	147,134
Decrease (increase) in accounts receivable	**1,415**	(613)
AIF revenue – net cash received	**26,712**	146,521
Excess of expenditures over AIF receipts	**$ 11,865**	$ 286,263

(continued on next page)

Net assets of the Authority as at December 31, 2006 are as follows.

	2006	2005
Net assets provided by airport improvement fees:		
Accumulated airport improvement fees and interest on surplus funds	**$ 147,134**	$ 121,837
Less: Accumulated amortization of AEP assets	**37,644**	26,189
Interest and other expenses	**73,535**	53,386
	35,955	42,262
Net assets provided by other operations:		
Accumulated, end of year	**30,711**	27,757
Net assets, end of year	**$ 66,666**	$ 70,019

8. PENSION PLAN and POST RETIREMENT BENEFITS

(tabular amounts in thousands of dollars)

The Authority sponsors and funds a pension plan for 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 pension plan as at December 31, 2005 (completed and filed in June 2006), the plan had a deficit on a funding (going concern) basis of $571,000. This amount differs from the amount reflected below primarily because the obligation is calculated using the discount rate that represents the expected long term rate of return of assets. For accounting purposes, it is calculated using an interest rate determined with reference to market rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. *The Pension Benefits Standards Act*, 1985 requires that a solvency analysis of the plan be performed to determine the financial position (on a solvency basis) 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, 2005, the plan had a deficit on a solvency basis of $4,695,000 before considering the present value of additional solvency payments required under the *Act*. The Authority made additional solvency payments of $1,256,000 in 2006 (2005 – $811,000) to amortize this deficiency.

The next required actuarial valuation of the pension plan as at December 31, 2006 is scheduled to be completed and filed by its June 2007 due date. Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2005 and extrapolated to December 31, 2006, the status of the pension plan is as follows:

	2006	2005
Fair value of pension plan assets:		
– defined benefit component	**$ 27,989**	$ 23,808
– defined contribution component	**2,882**	2,416
	30,871	26,224
Accrued pension benefit obligation	**33,776**	28,285
Funded Status – plan deficit	**(2,905)**	(2,061)
Balance of unamortized amounts	**5,980**	4,359
Accrued benefit asset	**$ 3,075**	$ 2,298

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:

	2006	2005
Accrued benefit obligation, other post-employment and retirement benefits	**$ 5,017**	$ 3,532
Balance of unamortized amounts	**2,281**	1,543
Accrued benefit liability	**$ 2,736**	$ 1,989

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:

	2006	2005
Discount rate	**5.25%**	5.25%
Expected long-term rate of return on plan assets	**7.0%**	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:

	2006	2005
Equity funds – Canadian funds	**37%**	37%
Equity funds – US and foreign funds	**25%**	24%
Fixed income funds	**37%**	38%
Money market funds	**1%**	1%

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

	2006	2005
Employer contributions, defined benefit pension plan	**$ 657**	$ 513
Employer contributions, special solvency payments	**$ 1,256**	$ 811
Employees' contributions, defined benefit pension plan	**$ 238**	$ 234
Benefits paid, defined benefit pension plan	**$ 389**	$ 365
Employer contributions, defined contribution plan	**$ 225**	$ 209
Employees' contributions, defined contribution plan	**$ 287**	$ 259

The net costs for the Authority's pension benefit plans included in salaries and benefits in the Authority's statement of operations are as follows:

	2006	2005
Defined benefit pension plan component	**$ 1,151**	$ 381
Defined contribution pension plan component	**225**	209
Other post retirement and employment benefits	**795**	517
Total	**$ 2,171**	$ 1,107

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, 2006, the fair value of the long-term bonds was $120.6 million and $182.7 million for the Series A and Series B Revenue bonds respectively (2005 – $122.4 million and $184.4 million 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 57% (58% in 2005) of its landing fee and terminal fee revenue from Air Canada and its affiliates. 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 and CONTINGENCIES

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 has resulted in reduced rent for Canadian airport authorities, including Ottawa International Airport Authority. This reduced rent is being phased in over four years which began 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 original ground lease with Transport Canada included base rent calculated on a formula reflecting annual passenger volumes, annual revenues, and predetermined base operating costs subject to adjustments for inflation. In addition to base rent, the original lease included participation rent based on a percentage of incremental revenues commencing in 2007.

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

2007	$ 11.5 million
2008	$ 10.1 million
2009	$ 7.3 million
2010	$ 5.4 million
2011	$ 5.6 million

In addition to the above, at December 31, 2006, the Authority had operating commitments in the ordinary course of business of approximately $6.3 million annually extending for various periods up to 7 years in duration plus contracts for the purchase of capital assets and construction (the Authority's Airport Expansion Program) of approximately $65 million. Of this latter amount, $19.0 million has been paid prior to December 31, 2006.

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

On June 9, 2006 the Supreme Court of Canada issued its decision on the extent of the rights of airport authorities and NAV CANADA to seize and detain aircraft until their outstanding aeronautical fees are paid. For airport authorities, this right is set out in the *Airport Transfer (Miscellaneous Matters) Act.* The Supreme Court ruled unanimously in favour of airport authorities and NAV CANADA on these rights. These rights had previously been severely limited by the courts in Ontario and Quebec in challenges following the failures of Inter-Canadien (bankrupt in 2000), Canada 3000 (bankrupt in 2001), and JetsGo (bankrupt in 2005). Letters of credit and bonds were posted by the estates of these airlines pending this decision of the Supreme Court of Canada and the determination of the courts in Ontario and Quebec. As a result of this decision, the Authority may recover a portion of the $1.1 million in accounts receivable previously considered uncollectible as a result of these bankruptcies. Realizing in whole or in part on these amounts, plus interest, plus legal costs, will provide a gain in the financial statements of the Authority. This gain has not yet been reflected in the financial statements of the Authority pending finalization of amounts to be realized.

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 (2005 – $1,000,000) as a reduction of related operating costs included in the statement of operations.