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Ottawa Macdonald-Cartier International Airport Authority
ANNUAL REPORT >> A DYNAMIC DECADE



10
1997-2007

Ottawa Macdonald-Cartier International Airport Authority ANNUAL REPORT » A DYNAMIC DECADE

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 the Authority's business responsibly, with integrity and transparency.



HARQUAIL PHOTOGRAPHY

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» Introduction

When the federal government handed over the ceremonial key to the airport in February of 1997, they took a leap of faith – faith that the community-based Board of Directors and the new senior management team would take the public trust that it had been given for care and custody, and turn it into a safe, efficient, revenue-generating business.

They did that and more and, in the process, built something to make the community extremely proud. They expanded the airport significantly, put the processes in place to provide better service to the travelling public and have consistently generated positive cash earnings before depreciation – money which the Authority invests back into the airport’s operations. By the end of 2007, nearly \$500 million was invested in the Ottawa International Airport.

Some of the key milestones during the Authority’s dynamic decade include:

- » The construction and opening of the \$3.4 million U.S. Preclearance facility (1997);
- » Development of the Airport Authority’s first Master Plan (1997);
- » Implementation of the Airport Improvement Fee (1999);
- » Establishment of the Airport Watch Program (1999);
- » Development of a Program Definition Document to guide the Airport Expansion Program (1999);
- » Construction of the \$7 million Combined Services Building (2000);
- » Implementation of the first airport-based Public Access Defibrillator Program (2000);
- » Completion of a new Central De-icing Facility (2001);
- » Ground breaking for Airport Expansion Program Phase I (2001);
- » Successful Bond Issue raising \$270 million for Phase I (2002);
- » Installation of a Glycol Biotreatment System (2002);
- » Opening of the new state-of-the-art \$310 million Passenger Terminal Building (2003);

- » Parkade Expansion (2005);
- » Ground-breaking for \$95 million Airport Expansion Program Phase II (2006); and
- » Successful \$200 million Bond Issue raising cash for Airport Expansion Phase II (2007).

The industry and market conditions in which the Airport Authority operates have been volatile, at best, throughout the last 10 years. During the heady days of the high tech boom, passenger volumes rose dramatically, but when the sector faltered, volumes dropped. Volumes were further adversely affected by events such as the Ice Storm in 1998, the devastation of September 11th, 2001, the impact of SARS, the massive power outage in 2003 and weather events in the world such as Hurricane Wilma in 2005. Airlines have also come and gone during the period. Canadian Airlines was taken over by Air Canada, Canada 3000 and Jetsgo ceased operation, and CanJet stopped its regularly scheduled service to focus on its charter business. Zoom and Porter Airlines were created. It is safe to say that in this industry the only constant is change.

Through it all, the airlines that serve Ottawa have added destinations and frequencies to existing service. Ultimately, it is our customers who have and continue to benefit from the ever increasing options that are available to them, and our community is the beneficiary of an economic impact of more than \$1 billion annually. We have all enjoyed 10 great years.

To mark the 10th Anniversary, the Board of Directors and employees of the Airport Authority wanted to give a meaningful gift to the communities that have been a source of encouragement and support during its first decade. Working with sculptor Jérémie Giles and Denis Gagnon from l’Atelier du Bronze Inc., a Québec-based foundry, the Authority took a quantity of recycled metal from the old terminal as well as metal from the new terminal and, with the artistic talent and skills of our partners, created a lasting tribute to airport’s namesakes, Sir John A. Macdonald and Sir George-Étienne Cartier.

The bench, which is featured on the cover of this report, is situated on level 1 as a welcome to those who are arriving for a visit to our fair city. It also provides a place where those who are waiting to greet friends and loved ones home from their travels can sit and relax. It is the hope of the Authority that the bench will be well-used and enjoyed by the entire community.

» Executive Message

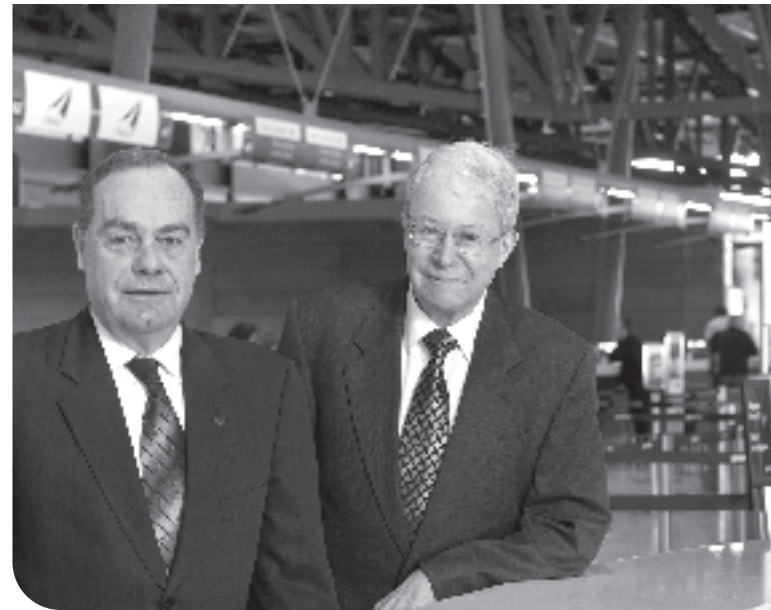
A Dynamic Decade truly sums up the first 10 years of the Ottawa International Airport Authority. The accomplishments have been many and the Authority's contribution to the community has been significant, to say the least.

The Airport Authority considers 2007 to be another successful year on many fronts. One of the most exciting results that we are delighted to report is that passenger volumes surpassed the 4 million mark late in the year, with a final tally of 4,088,528. This figure represents an increase of 7.4% over 2006, and sets yet another record for passenger volumes.

International traffic experienced the highest growth at 9.3%, while domestic was a close second at 8.7% followed by transborder at 1.5%. With additional charter flights during the summer and winter seasons, the airport was extremely busy throughout the year with airlines reporting higher system-wide load factors as well.

The Ottawa market has been increasingly supportive of the available flight destinations direct from Ottawa. The airlines recognize the strength of the customer base here – in both business and leisure travel. Based on this strength, many of our carriers added new destinations and frequencies to their existing schedules. Air Canada showed much confidence in this market with several announcements during the year, including service to Moncton, Fredericton and St. John's. They also made several announcements for new 2008 services such as Charlottetown, but the most exciting for the community was Frankfurt, Germany. WestJet, Porter, Bearskin, United and Continental also added new routes and increased frequency in 2007, including Continental's twice-daily service to Cleveland and Bearskin's three times daily service to Kitchener-Waterloo.

These service changes mean that the terminal will be busier than ever, which adds more support to the decision to expand the terminal. Phase II of the Airport Expansion Program progressed in 2007 to the extent that opening is anticipated in early 2008.



PAUL BENOIT AND J. PETER VICE, Q.C.

HARQUAIL PHOTOGRAPHY

Managing complex projects such as the Airport Expansion Program is not insignificant, by any means. Managing the project while concurrently operating the existing terminal and carrying on the day-to-day business required the hard work and dedication of the entire Authority team. From reviewing plans, working with contractors, managing budgets and designing systems, virtually every employee had a hand in the project. We extend our gratitude to each and every one of them for making the project a priority.

As always, the Authority team kept a close eye on the financial situation, which resulted in an excess of revenues over expenses of \$3.6 million. This Authority is well known for its prudent approach to finances – it is a philosophy that has been embraced by every employee. It is not at all uncommon for employees to bring their cost-saving ideas to the table or to find ways of doing more with less. They all deserve much credit for their commitment to a positive bottom line.

It wasn't all work and no play in 2007. In September, we hosted the 2nd annual Plane Pull for Charity, raising \$21,000 for United Way/Centraide Ottawa and *Project Clear Skies*. Working in partnership with FedEx, who supplied a beautiful 727-200 aircraft for the event and sent representatives of their airshow division from corporate headquarters in Memphis, the fun-filled, family friendly day included entertainment, games and great food – all in the name of two very worthy causes. We would like to say thank you to all of the event's sponsors and supporters who made the day such a success.

Speaking of *Project Clear Skies*, the program continued in 2007, providing financial support to 17 organizations in Ottawa/Gatineau. Capital projects such as facility renovations, furniture and appliance purchases, and even the installation of a teen skateboard facility, will contribute to the wellbeing of many in our community who are experiencing difficulty or are at risk. *Project Clear Skies* continues to be special to the Authority because it brings members of the Board of Directors together with employees who evaluate proposals, determine how the available funds are to be dispersed together and go out into the community to deliver the funds. To date, this program has invested almost \$400,000 in worthy charitable projects in Ottawa/Gatineau.

The excellent results discussed above and throughout this document are due to the strength of the Authority team. We cannot say enough about the amount of time and energy that every individual gives to this organization and the pride they take in doing the best possible job every day. It is evident when there is a bad weather day that affects flights – employees can be seen interacting with the passengers to make sure that assistance is offered. It is demonstrated when teams give up lunch hours and stay late to make sure that an event like the Plane Pull is flawlessly executed because every detail has been attended to. In all, the team is the envy of airports across the country and they make us extremely proud.

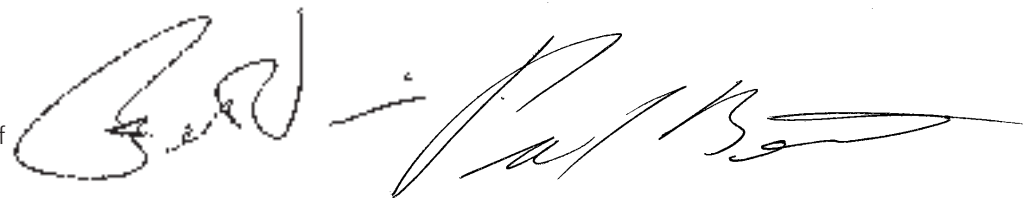
The Authority is also fortunate to have the leadership and guidance of an engaged and informed Board of Directors who represent various aspects of the Ottawa and Gatineau business, tourism and government sectors. They provide sound advice and oversight to the activities of senior management in all aspects of the business while trusting that the team has the expertise and good judgement where operations and projects are concerned.

The Board lost some long-standing members in 2007. We said farewell to Jeffrey Dale, Whitman Tucker and Past Chair Jim Durrell at the Annual General Meeting in May. The contributions that these three individuals made during their respective tenures were nothing short of remarkable, and they will be missed. We extend our heartfelt thanks for the time and dedication they so generously gave the Authority over the years.

In their place we welcomed the very capable Ron Clifton, Barbara Farber and Pat Kelly, who bring a wealth of experience and a diverse set of skills to the Board. They quickly got up to speed on the business at hand and have proven themselves to be valuable assets to the Board.

Our last word of thanks is to our clients and visitors who took the time to tell us what was on their mind regarding the Ottawa International Airport; 655 of you got in touch via the web, regular mail and comment cards. We had dialogues with many of you throughout the year and gained some valuable insight where our passengers' needs are concerned. Customer service continues to be one of our highest priorities, so we welcome your continued feedback.

The future will continue to be exciting at the airport. From the 2009 World Junior Hockey Championships that will begin hosting events in the summer of 2008 to the start of non-stop flights to Frankfurt in June. Things will be busy but fun and with changes in the region, we can look a little further down the road to the new passengers that will visit, and say with confidence that we will be ready.

The image shows two handwritten signatures in black ink. The signature on the left is for J. Peter Vice, and the signature on the right is for Paul Benoit. Both signatures are fluid and cursive.

J. Peter Vice, Q.C.
Chairman of the Board

Paul Benoit
President and CEO

» 2007 at a Glance

The activities of the Authority in 2007 were guided in large part by the Strategic Objectives that were developed by the Authority's management team in collaboration with the Board of Directors. The following overview is but a snapshot of an extensive list of accomplishments that were achieved during the course of a very full year.

» FINANCIAL, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

To manage the business in a financially, environmentally and socially responsible manner.

The Authority manages its business prudently and with care. Under the terms of the Authority's Ground Lease with Transport Canada, we are required to undergo a yearly Lease Monitoring Review, and a comprehensive Five-year Performance Review. Because 2007 was the 10th Anniversary, we were required to participate in both.

Five-year Performance Review

The Authority retained Jacobs Consultancy Canada Inc. (Jacobs) to conduct the second five-year review of the Authority as required by Transport Canada under the terms of the Ground Lease. Pursuant to the Ground Lease, the Authority shall every five years hire an independent entity to do an examination of and report on the operations of the airport and the performance of the Authority. The scope encompassed a high level of review of airport management, operations and financial performance for the period from 2002 to 2006. The following are some of Jacobs' findings:

- » The Authority has and continues to operate a safe and efficient service to the public;
- » The Authority has a comprehensive strategic business planning process which accords with industry best practices;
- » The Authority is focused on efficiently meeting its stated goals;

- » The Authority's management structure is comprehensive and appropriate;
- » The Authority has demonstrated its commitment to environmentally responsible airport operations;
- » The Authority has prudently managed its financial assets; and
- » The Authority has been proactive and open in communicating with the community at large and with key external stakeholders.

2007 Lease Monitoring Report

Transport Canada conducted its annual review of the Authority's compliance with the Ground Lease. The review consisted of site visits by Transport Canada personnel and a review of key documents. Transport Canada's findings confirmed that the Authority continues to act as a prudent manager by carrying out its responsibility for maintaining the airport and in planning and implementing a major capital program for the improvement and upgrade of services and facilities. It was the opinion of the Transport Canada monitoring team that the airport is being managed as a major international airport and a first-class facility in a professional and reputable manner.

Financial Results

The financial section of this report will confirm that the Authority had a successful year. Earnings before depreciation were positive, and expenses were kept well in line, resulting in an excess of revenues which will be reinvested in airport operations.

Financing of Phase II

The Authority went to the market in the spring to raise the necessary funds to pay for Airport Expansion Program Phase II and refinance existing debt coming due. When the bond issue closed on May 2nd, the subscriptions totalled \$334 million, which was far in excess of the \$200 million required and closed. As such, we were able to reduce the credit spread by two basis points and, as a result, achieved a lower interest rate.

Nexus Launch

On June 20th, the Airport Authority participated with Canada Border Services Agency and U.S. Customs and Border Protection to launch Nexus, the trusted traveller program. Nexus is a zero-tolerance program which is designed to expedite the border clearance process for low-risk, pre-approved travellers into Canada and the United States, while enhancing security.

To become a member in the program, applicants must:

- » Submit an application and go through a registration process;
- » Satisfy the eligibility criteria;
- » Be admissible in Canada and the U.S.; and
- » Pass risk assessments by both countries.

Once approved, members receive an identification card to use when entering either country at all Nexus air, land and marine ports of entry. Members save time by using automated self-serve kiosks in airports, use dedicated lanes at land borders and report to border officials by telephone in marine mode.

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THE HONORABLE DAVID H. WILKINS, UNITED STATES AMBASSADOR TO CANADA,
THE HONORABLE STOCKWELL DAY, MINISTER OF PUBLIC SAFETY,
PAUL BENOIT, PRESIDENT AND CEO, OTTAWA INTERNATIONAL AIRPORT AUTHORITY.

» INDUSTRY LEADERSHIP AND WORLD CLASS FACILITIES

To be an industry leader in the planning, development and operation of world-class airport facilities.

Part of being world-class means having the infrastructure to support the community's growing needs. It also means constantly improving and upgrading our equipment, and working with partners to ensure that airport facilities are serviced in the most efficient and cost effective manner possible. Finally, it means that as passenger volumes continue to grow, the airport must keep pace.

Airport Expansion Program Phase II

Launched in 2006, Phase II of the Airport Expansion Program will add more than 7,000 square metres of new domestic/international holdroom space as well as 12 new gates, which will be available to the travelling public in 2008.

The project proceeded in earnest in 2007. R.W. Tomlinson completed construction of the east apron, including the installation of an oil and fuel separation unit under the future apron. In all, more than 34,000 square metres of surface were prepared, including poured concrete slabs, asphalt apron work and other general paving work. Final apron markings were also applied.

Pomerleau Inc. continued its work as the general contractor for AEP Phase II. A strike by some of the construction trades in late spring caused delays in the project. Given these delays and the tight schedule, the whole project team had to work cooperatively to minimize the negative impact on the delivery date.

Throughout the year, meticulous planning was required in anticipation of the move to the new facility and the new apron. The rehabilitation of some apron space in advance of future work necessitated the closure of some gates and a great deal of ingenuity by our gate planners to accommodate aircraft with the least amount of inconvenience and difficulty.

Finally, numerous Airport Authority employees were involved in the review of drawings, site supervision, and overall coordination of Phase II activities.

Master Plan and Land Use Plan Update

The Airport Master Plan Update was launched in early 2007. The purpose of the project was to undertake a comprehensive review of the existing Airport Master Plan and Land Use Plan to ensure continued operational and service excellence in the management of the airport through the next five years, ten years and through the 2020-2030 timeframe. The project consisted of three major workplan phases and a comprehensive consultation and communication strategy. Primary objectives were:

- » To update aviation forecasts;
- » To quantify airfield, passenger terminal, ground transportation and airside requirements;
- » To identify aviation support facility and service requirements to meet future needs;
- » To quantify utilities capacity and requirements; and
- » To propose development options to meet forecasted needs.

In keeping with these objectives, the project generated reliable forecasts that were, in turn, translated into demand capacity needs and requirements. From there, a set of development features and options were formulated to address the variance between existing and future required capacities. A preferred development strategy was ultimately identified through evaluation of the options and consultation with airport stakeholders, government agencies and the public. The update to both plans is expected to be finalized and submitted to Transport Canada in early 2008.

Nexus

The Airport Authority facilitated the implementation of Nexus, the trusted traveller program intended to ease the process of passing through U.S. or Canadian customs for pre-approved members.

In order to launch the program in Ottawa last June, the Authority managed construction of the Nexus Enrolment Centre on level 2 as well as the installation of self-serve Nexus kiosks in both the Canada Customs Hall and in the U.S. Customs and Border Protection area.

Hydro Ottawa Upgrade Project

Hydro Ottawa completed an upgrade to the two main sectionalizing switches that feed the terminal. The terminal is fed from two independent sources through

these sectionalizing switches that split the building load (literally down the middle) between the two sources and provide redundancy that can now be operated remotely in the event of the failure of one source.

» CUSTOMER SERVICE

To provide the diverse and dynamic customer base with a high level of customer service.

Customer service remained high on the Airport Authority's priority list in 2007.

Training

As a follow-up to the Ontario Training Education Corporation's Service Excellence customer service training which was delivered to all Airport Authority employees in 2006, all Infoguide volunteers participated in the training program in 2007.

In keeping with the lessons learned and in an effort to take customer service to the next level, a trial was undertaken with the Infoguides to provide "roving" assistance to passengers. The trial, being incorporated into the regular Infoguide program in 2008, involved volunteers actively seeking out passengers in need of assistance throughout the terminal in addition to providing the service at the information kiosks. The program has been very favourably received by the travelling public and visitors alike.

Another important program that Airport Authority employees and ground transportation providers participated in was disABILITIES Sensitivity Training, which will help provide assistance to our passengers and visitors in the most appropriate and compassionate manner.

Volunteers

Volunteers are an important element of the service we provide our clients both from an information perspective as well as by providing an increased sense of security. In 2007, the airport was well served by both the Infoguide volunteers inside the terminal and the Airport Watch volunteers around the airport's perimeter. The Infoguides logged a total of 7,335 hours while the Airport Watchers logged 3,410 hours.

Interpretation Services

As the gateway to the Nation's Capital, the Ottawa International Airport serves customers of diverse nationalities. In an effort to provide assistance to passengers who speak a wide variety of languages, the Airport Authority entered into a service agreement with Cultural Interpretation Services for our Communities (CISOC). CISOC is a registered charity that was founded in 1993 with the aim of providing the highest standards of interpretation and translation services in more than 60 languages. Their interpreters are but a phone call away for airport employees and volunteers who require assistance when serving a client.

The services that CISOC offers will also support the Authority's commitment to providing service in both Official Languages and provide our tenants with a vehicle for getting the support they require to provide service in French and English.

Customer Feedback

The Airport Authority received 655 pieces of correspondence in the form of comment cards, letters and web comments. All were responded to and tracked carefully in order to monitor trends and problem areas that required attention and action.

One issue that emerged in the feedback we received was the availability of flight information. To address the issue, the Authority added flight information to the airport radio station AM1630. Now, passengers have access to information including the airline, flight number, destination and updated flight times while en route to the airport. We have also continued to work with the airlines to ensure that they provide us with the most up-to-date information on their schedules so that our system, in turn, will provide our clients and visitors with accurate information.

Airport Service Quality Awards

The above noted initiatives are but a few contributing factors that kept the Ottawa International Airport in the winner's circle in the Airport Service Quality Awards (ASQ) for 2007. The program, managed by Airports Council International, now boasts more than 100 member airports, and continues to survey clients in categories such as airport ambience, services and facilities, cleanliness, and staff efficiency in areas such as check-in, pre-board screening and customs processing.

For 2007, the Airport Authority is pleased to announce that the airport again placed 2nd in the world for all airports that serve between 0 and 5 million passengers.

SUMMARY OF AMOUNTS SPENT IN THE OTTAWA REGION (\$ IN THOUSANDS)						
	2003	2004	2005	2006	2007	Total
Wage Bill	\$10,050	\$11,250	\$12,050	\$13,367	\$14,191	\$60,908
Payments in lieu of municipal taxes	3,466	3,515	3,690	3,875	4,069	18,615
Operations costs	12,000	15,000	16,000	16,500	17,000	76,500
Capital Costs	110,000	9,000	17,000	23,000	57,000	216,000
	\$135,516	\$38,765	\$48,740	\$56,742	\$92,260	\$372,023

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

YOW Art Gallery

The domestic/international holdroom plays host to local artists. Every second month, a new artist graces the walls with his or her unique and beautiful works of art, many of which have caught the eye of a traveller, and have been sold.

Local artists who were featured in 2007 include:

- » Kathryn Finter
- » Gilda Pontbriand
- » Jim des Rivières
- » Ann Gruchy
- » Betty Dion

The photo shows works by Ann Gruchy.



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Canadian Artist Greet Arriving Passengers

The vibrant works of Canadian artist, François Faucher, now greet clients as they make their way to the Canada Customs Hall. The collection called "Vibrationnisme" illustrates Faucher's tendency to create distortions at the periphery of his subject, and to add loose elements and deformed shapes to distinctively create the sensation that the painting vibrates. The pieces were installed in partnership with Artmode Gallery of Ottawa.



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» COMMERCIAL FOCUS

To further develop the commercial focus of the Authority.

Air Service Development

Working with airline partners to enhance schedules and develop new routes requires an investment of time as the results can sometimes take years. The Authority's investment saw many returns in 2007 as several new routes were initiated and services complemented by additional frequencies to many of Ottawa's key destination markets.

Air Canada led the way with several exciting additions. In the fall, Air Canada and Jazz launched a major expansion of regional routes from Ottawa with new non-stop flights to each of Fredericton, Moncton and St. John's, with a further announcement that Charlottetown service would commence in 2008. Air Canada's commitment to Ottawa was further strengthened with the November announcement that Ottawa would soon be linked to one of the world's most important hub airports. On June 1, 2008, Air Canada will inaugurate daily, non-stop service to Frankfurt, Germany.

Other new destinations launched in 2007 included Continental Airlines' new twice-daily service to Cleveland, and Bearskin Airlines flying three times daily to Kitchener-Waterloo, creating a non-stop link between two of Canada's key technology centres.

Several existing routes also saw new competition added or more frequencies from existing carriers. Air Canada added frequencies to Vancouver, Edmonton, Calgary, London ON, Boston, Quebec City and Halifax, while adding seasonal service to Montego Bay and Cancun. WestJet added year round daily service to Vancouver, while Porter added flights to Halifax. In the U.S., United increased its frequency to Chicago and also added new flights to Washington-Dulles.



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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%
		2007	3,052,813	8.74%	746,435	1.45%	289,280	9.32%	4,088,528
Forecast	2008	3,141,500	2.91%	783,000	4.90%	303,500	4.92%	4,228,000	3.41%
	2009	3,237,000	3.04%	815,000	4.09%	320,000	5.44%	4,372,000	3.41%
	2010	3,329,000	3.02%	853,000	4.76%	338,000	5.61%	4,520,000	3.52%
	2015	3,739,000	2.46%	1,024,000	4.01%	420,000	4.85%	5,183,000	2.93%
	2020	4,222,000	2.58%	1,156,000	2.58%	474,000	2.57%	5,852,000	2.58%

Commercial Development

The Authority was busy on the commercial development side of the business as well.

By way of example, HMS Host opened a Tim Hortons kiosk in the transborder holdroom in response to increasing transborder passenger volumes and customer feedback requesting more options.

The airport's main pre-security restaurant began a major facelift in 2007, first by adopting a new name. The Rideau Bar & Grill offers a refreshed and

simplified menu. Further, the facility was updated with new flooring, carpeting, lighting and furniture upgrades. Clients can expect more changes in 2008.

The airport's Ice Wine Store fell victim to strong security restrictions on liquids, gels and aerosols. With passengers no longer able to carry bottles of Ontario ice wines through security, the store no longer had a viable business and closed in 2007. A replacement was quickly found, however. Booster Juice opened in the fall offering a new food and beverage option for passengers, employees and visitors. Booster Juice offers a mix of healthy fruit juices, smoothies as well as delicious panini sandwiches and wraps.

Progress was made outside the terminal as well. The new hotel that has been under construction along Airport Parkway confirmed that when it opens, it will be branded as a Hilton Garden Inn, bringing new options for lodging and banquet space in the airport area.

Finally, a land lease was signed in 2007 that will lead to a major commercial development on airport lands at the corner of Hunt Club Road and Riverside Drive. Development is expected to commence in 2008, bringing new business and new services to the community.

Airport South Development Concept

The Airport Authority partnered with the Queen's University School of Urban and Regional Planning in early 2007 to define a fall course project for second year masters students. The course centered on the formulation of concepts to guide development of the Airport South Development Sector. The course gave students experience in research and analysis, the formulation of land use options and the preparation of a corresponding report under conditions which simulate professional practice. The Airport Authority, in turn, benefited from a fresh perspective on opportunities for the development of airport lands to the south of Leitrim Road. Course deliverables included: an overview of existing conditions, the policy and regulatory context, development constraints and opportunities; a set of concept plan alternatives; a professional presentation to Authority management; and finally, a report and summary brochure titled "A Vision for the Ottawa Macdonald-Cartier International Airport, South Lands".

» EMPLOYEE COMMITMENT

To develop and maintain productive, talented employees who are excited by their work, committed to the Authority's values and to the achievement of its mission and business objectives.

Collective Agreement

2007 was a milestone year in terms of labour relations activities. The collective agreement with the Public Service Alliance of Canada came to an end on June 30th. Negotiations started shortly thereafter and the parties entered into a four-year agreement which will expire June 30th, 2011.

» COMMUNITY PARTNERSHIPS

To foster partnerships that contribute to the viability of the airport and the socio-economic growth of the community.

Through a strong relationship with Ottawa Tourism, the Authority is linked to what is happening in the region and can get involved in events that bring visitors to Ottawa/Gatineau through the airport.

FIFA U-20 World Championships

The FIFA U-20s was a perfect example of how the Authority and the airport can make a difference for an important event. In this case, the Authority

FIVE-YEAR REVIEW (\$ IN THOUSANDS)

	2003	2004	2005	2006	2007
Revenue	\$63,320	\$69,632	\$72,503	\$75,820	\$84,713
Expenses before depreciation	45,191	60,712	63,491	64,943	66,491
Earnings before depreciation	18,129	8,920	9,012	10,877	18,222
Capital Expenditures	111,064	9,420	17,503	23,445	57,058
AIF Revenues	20,838	23,670	24,520	24,926	28,283

provided event organizers the opportunity to welcome teams and spectators to Ottawa through the use of the airport's welcome kiosks. The Authority also implemented, for the first time, use of the panels on the exterior of the Parkade for FIFA U-20 banners. Finally, the Authority hosted a welcome reception with the Argentine Embassy when their team arrived in Ottawa.

Red Cross – Sharing Supplies

The Authority entered into an agreement with the Canadian Red Cross for the storage of emergency shelter supplies at the terminal. These supplies include 1000 foldable cots, 2000 blankets and 1000 amenity kits containing personal hygiene products.

In exchange for storage, the Red Cross granted the Authority use of these shelter supplies in the event of an emergency at the airport. The Authority will assume the cost associated with the use of the supplies such as the replenishment of consumables, sanitizing of blankets and cots and the replacement of any missing or damaged items.

This win-win arrangement saves the Red Cross storage costs and benefits the Authority by having instant access to the supplies without assuming any associated capital costs. The City of Ottawa also benefits by having faster access to these emergency shelter supplies which were formerly stored and dispatched out of Peterborough.

		FIVE-YEAR FORECAST					
		Passengers	Annual Growth	Aircraft Movements	Annual Growth	Rent to Transport Canada	Annual Growth
Actual	1997	3,046,368	6.6%	67,867		\$3,977,000	
	1998	3,110,548	2.1%	77,202	13.8%	\$5,301,000	33.3%
	1999	3,211,607	3.3%	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%	65,396	-1.1%	\$12,487,000	-3.6%
	2007	4,088,528	7.4%	72,342	10.6%	\$11,546,000	-7.5%
Forecast	2008	4,228,000	3.4%	74,000	2.0%	\$10,100,000	-12.5%
	2009	4,372,000	3.4%	76,000	2.0%	\$7,300,000	-27.7%
	2010	4,520,000	3.4%	78,000	2.0%	\$5,400,000	-26.0%
	2011	4,651,000	2.9%	80,000	2.0%	\$5,600,000	3.7%
	2012	4,786,000	2.9%	82,000	2.0%	\$5,900,000	5.4%

NOTES: FEDERAL GOVERNMENT NET BOOK VALUE AT TIME OF TRANSFER – \$75M • TOTAL RENT PROJECTED 1997-2012 – \$135M • FORECAST PASSENGER VOLUMES ARE AS PROVIDED BY OUTSIDE CONSULTANTS • FOR FINANCIAL PLANNING PURPOSES, THE AUTHORITY FORECASTS ON A MORE CONSERVATIVE BASIS

Project Clear Skies

Project Clear Skies continued its great work in 2007 as it funded 17 capital projects in Ottawa and Gatineau, for a value of more than \$90,000. The projects that benefited were:

ORGANIZATION	PROJECT	FUNDING DOLLARS
Causeway Work Centre	Installation of shower stalls	\$5,000
Centre 507 – Drop In	Installation of metal doors and frames	\$7,000
Centretown Laundry Co-op	Purchase of an industrial weigh scale and furniture	\$2,200
Housing Help	Purchase of small appliances	\$4,000
Osgoode Youth Association	Purchase and installation of skateboard ramps	\$15,000
Ottawa Innercity Ministries	Purchase of appliances	\$6,000
Serenity Renewal for Families	Installation of a patio door and windows	\$2,500
Spectrum Intervention Group	Purchase of furniture, appliances and equipment	\$10,000
The Waupoos Foundation	Enhancement of yard and patio areas	\$8,900
Association pour l'intégration communautaire de l'Outaouais	Purchase of appliances	\$4,000
Avenue des Jeunes	Renovations and purchase of furniture	\$5,000
Centre Alimentaire Aylmer	Purchase of stainless steel folding tables	\$1,250
Centre d'action bénévole Accès	Roof repairs and an access ramp	\$5,000
Centre artisanal pour la déficience intellectuelle de l'Outaouais	Bathroom renovations	\$4,000
Groupe communautaire Deschênes	Purchase of appliances and furniture	\$4,500
M-Ado jeunes	Installation of new flooring	\$4,900
Manne de l'île	Purchase of specialized kitchen equipment	\$2,000
Total		\$91,300



WITH THE HELP OF A PROJECT CLEAR SKIES GRANT OF \$15,000, THE AUTHORITY HAS DEFINITELY MADE A DIFFERENCE FROM THE GROUND UP FOR THE YOUTH OF OSGOODE.

DIRECT DESTINATIONS		AIRCRAFT MOVEMENTS	
1997	20	1997	68,000
1998	21	1998	77,202
1999	25	1999	81,808
2000	26	2000	78,301
2001	29	2001	72,630
2002	30	2002	68,499
2003	32	2003	69,798
2004	25	2004	69,626
2005	27	2005	66,146
2006	31	2006	65,396
2007	33	2007	72,342

Plane Pull for Charity

On September 15th, 22 teams of 20 participants joined the Airport Authority to pull a 70,307 kg (155,000 lbs), FedEx Boeing 727-200 aircraft a total of 6.096 metres (20 feet).

This was the 2nd annual event in support of *Project Clear Skies* and United Way/Centraide Ottawa, and it was deemed a tremendous success both in terms of fundraising and family entertainment. The \$21,000 it raised was divided equally between both charities.

FedEx became an event sponsor and provided the beautiful new aircraft that seemed to be as light as a feather for the winning team from The Lowe-Martin Group who managed to move it the distance in 8.68 seconds. The RCMP "A" Division team were a close second at 8.75 seconds and the RCMP PMPD finished third with a time of 9.47 seconds.

Such a successful event cannot occur without the support of many partners. The Authority extends its thanks to FedEx for providing the aircraft and their plane pull expertise and our sponsors, the organizing committee, volunteers and, of course, the participating teams. The Plane Pull is proof positive of what can be accomplished when everyone "pulls" together.

Thanks to our sponsors:

- » All Signs
- » Beacon Lite Ltd.
- » Bee-Clean
- » BLR Safety & First Aid
- » Bubbles Bounce Amusement
- » Canada Reception Centre
- » Duocom
- » D'Urbano
- » EMC
- » HMS Host
- » Hydro Ottawa
- » National Arts Centre
- » Ottawa Athletic Club
- » Ottawa Citizen
- » Ottawa Senators
- » Rogers Radio Group (Y101 FM)
- » Scotiabank
- » The Lowe-Martin Group

HARQUAIL PHOTOGRAPHY



TEAM FEDEX

HARQUAIL PHOTOGRAPHY



TEAM AEROMAG 2000 "YOW FROSTY AND HIS SNOWMEN"

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TEAM NAV CANADA "SERVING A WORLD IN MOTION"

HARQUAIL PHOTOGRAPHY



TEAM LOWE-MARTIN "LOW ALTITUDE"

» GOVERNMENTAL AND COMMUNITY ISSUES/AFFAIRS

To work proactively with all levels of government, the cities of Ottawa and Gatineau, the community and major stakeholders.

The Authority collaborated with various levels of government on several important projects in 2007.

Limebank-River Road Widening

As part of its commitment to the surrounding community, the Authority worked with Transport Canada to complete the transfer of three parcels of airport lands to the City of Ottawa for the purpose of the Limebank-River Road Widening Project. This major initiative will greatly benefit the residents of the Riverside South area by making this section of road safer for motorists.

Emissions Reduction

In keeping with the City of Ottawa's initiatives to reduce emissions, the Authority initiated a land use vehicle emission reduction program. The program promoted anti-idling to the public through a signage campaign and to staff through information sessions. Further, electric outlets for powering vehicles were installed to reduce idling for snow removal equipment and the Authority continues to promote alternative fuels where and when possible.

Monitoring Air Quality

The Authority was an active participant in the City of Ottawa's National Air Quality Mapping Program. Launched in June, the 15-month project employs a satellite monitoring system including two units on the ground, three mobile testing units and 100 sensors placed on buildings and streetlight poles around the city. The ground truth data will be used to correlate the satellite data, providing airborne contaminant information for all areas of the city. The study is being funded by the City of Ottawa, Natural Resources Canada, Environment Canada, Transport Canada, Ontario Ministry of the Environment and the Authority, who also provided technical assistance and a secure monitoring site.

Zoning By-Law

The Authority was also involved in the review and modification of the city's draft Comprehensive Zoning By-law. Issues addressed and resolved included the range of uses permitted on airport lands, identification of appropriate development densities, the inclusion of provisions relating to the Ottawa Airport Zoning Regulations and the creation of a consolidated transportation sub-zone for the Ottawa International Airport. Further refinements to the draft zoning by-law will be discussed with city zoning staff in early 2008.

» OPERATE THE AIRPORT FACILITIES IN A SAFE MANNER

Safety will continue to be a priority focus of the Authority.

The safety of all airport clients, employees and facilities is of paramount importance to the Airport Authority. As such, much emphasis is placed on complying with all Transport Canada regulations, and other safety-related programs.

Bird and Wildlife Mitigation

Birds and wildlife represent a potential hazard to aircraft. As mentioned in the 2006 report, the Authority initiated a multi-year project aimed at developing and implementing an automated approach to identifying, reporting and monitoring potential airspace hazards. To that end, in 2007, the Authority implemented an automated monitoring and reporting program. Using this system, the Authority is now able to capture information concerning all airspace monitoring and scaring activity, as well as capturing all bird strike data within minutes of an occurrence.

In addition, three persons were hired in the spring to provide full-time daylight patrols of the airfield for birds and other wildlife. While bird strikes can never be completely eliminated, the "Birdmen", along with other mitigation measures have helped curb the number of bird strikes to aircraft.

The Ring-Billed Gull is the species that is of particular concern at the Ottawa Airport. With the noted improvements to the program, the Authority had a 32% overall decrease in bird strikes, but more importantly, a decrease in the rate of Ring Billed Gull strikes of 51%.

Emergency Planning

In October, the Ottawa International Airport Authority held a joint emergency exercise dubbed “Exercise Clipped Wings” with the participation of a dozen agencies involving close to 150 participants. The exercise was designed to challenge each participating agency’s Emergency Response Protocols under adverse environmental conditions.

The scenario was based on an aircraft aborting a take-off roll. In the scenario, this led to a partial emergency evacuation of the aircraft once immobilized on the airfield, causing injuries to our mock-passengers. Passengers were played by 50 volunteer students from the Algonquin College’s Police and Public Safety Institute who braved the elements.

This was the first night exercise located on the airfield. It exposed all participants to a real life setting in the middle of ongoing airport night operations, all under the watchful eye of exercise umpires, safety officers and security guards, following strict directives issued by the Airport Authority, Nav Canada and Transport Canada.

The “incident” scene was promptly attended by all emergency responders such as the airport’s Emergency Response Services, the Ottawa Police Service Airport Policing Section, the Ottawa Fire Services, the Ottawa Police Service, the Ottawa Paramedic Service and OC Transpo. The airport’s Emergency Operation Centre was also very busy with representatives of every agency present at the scene as well as participants from the Airport Authority, U.S. Customs and Border Protection, Canada Border Services Agency and our mock airline played by WestJet staff. The Montfort Hospital also participated remotely through a paper tracking exercise.

Each responding agency learned new lessons, but applied the appropriate corrective measures to improve their respective Emergency Response Protocols to ensure that all aircraft related emergencies at the Ottawa International Airport are handled with the highest possible standards.

Changes to Accommodate Expanded Terminal

Many changes to existing airside operations are required to accommodate the expanded terminal. The following are a few of the activities that were undertaken to accommodate new apron and gates:

- » Assessment and design of new aircraft gate configurations to accommodate security fence changes during construction;
- » Design and development of a staging program, including documentation of all aircraft gate changes due to the demolition of the old terminal building;
- » Design and implementation of new overnight gate parking stands;
- » Determination of procedures for inbound/outbound traffic on the new apron;
- » Review of alteration of proposed aircraft surface markings on the new apron; and
- » Assessment and purchase of aircraft wheeled fire extinguishers for the new apron.

» 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 worked closely with CATSA and Transport Canada to implement new security regulations, but also to develop secure solutions that helped our retailers deal with the negative impacts of new regulations.

Liquids, Gels and Aerosols

The discovery of a terrorist plot in the United Kingdom in August 2006 that involved the use of liquids, gels and aerosols to create incendiary devices aboard aircraft caused Transport Canada to issue a series of security directives aimed at mitigating risk at Canadian airports.

In March 2007, Transport Canada revised its initial position on the stock control measures imposed on the handling of liquids, gels and aerosols (LGAs) destined for resale in the terminal’s sterile areas to incorporate all goods intended for resale in that sector. This was done in part to secure compliance with ICAO (International Civil Aviation Organization) standards. Meetings were held internally with our retailers with the primary issues addressed being the increase in the volume of goods involved and number of suppliers affected. The actual security control process is the same whether vetting an LGA product or other types of resale goods such as purses or t-shirts. The revised program was successfully implemented here on March 15th, 2007 with Transport Canada’s concurrence.

Sens Arrival Home

When the Ottawa Senators returned home from Buffalo as the National Hockey League's Eastern Conference Champions, approximately 2,500 excited fans greeted their arrival at the Esso Avitat facility. Much to everyone's surprise, the airport became an extension of the Sens Mile.

As the team embarked on the Stanley Cup Finals, a plan was developed to handle the anticipated crowds that would descend on the airport to greet the team's ultimate return from Anaheim. Although our boys did not bring Lord Stanley's Cup home, the Sens fever that had gripped the city for weeks was not to be diminished. The team returned to Ottawa on June 7th to thousands more justifiably proud fans who showed their appreciation for the Sens' efforts by screaming and cheering, not to mention filling all available parking lots, temporary event lots and lining the Airport Parkway as far back as Hunt Club Road.

Fans got to see the team close up as the motorcade exited the Esso Avitat facility and made its way down the Parkway. Many were able to take photos or grab a high-five from a passing player, but the really lucky ones got a much-coveted autograph.



DAVID SADE

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
2007	84	36	9

ORIGIN AND DESTINATION

94% of traffic (estimated)

New Airside Access Gate Installation

To enhance its emergency response effectiveness, the Authority reactivated its Emergency Route #1 located behind the Esso Avitat on Golf Taxiway. This gate will be controlled by the Security Operations Centre (SOC) and monitored by the airport's closed circuit television (CCTV) system and will now be the primary access route for the initial response of emergency vehicles on airside (Paramedics, Fire and Police).

EDACS Radio System Upgrade

The Airport Authority owns and operates an EDACS (Enhanced Digital Access Communications System) emergency radio repeater system that provides radio coverage for police and emergency response services in the passenger terminal building and surrounding area. The Authority's system mirrors the system that is used by the City of Ottawa to ensure seamless communications for responders as they move into and throughout the terminal. The original system, installed following the opening of the terminal in 2003, is no longer capable of providing full coverage and can not be expanded into the Phase II areas. As a result, the new system was developed and installed in 2007.

» MANAGE THE AIRPORT IN AN ENVIRONMENTALLY RESPONSIBLE MANNER

To foster environmental stewardship in all facets of the Authority's business and throughout the campus.

The Authority engaged widespread participation in environmental programs across the campus.

One of the Authority's primary goals for 2007 was to increase the amount of waste that was diverted from the area's landfills from 18% in 2006 to 30% in 2007. Initiatives such as the redistribution of recycling stations, the installation of new recycling receptacles, a change of paper towel dispensers and the introduction of a composting program helped the Authority meet its target. The overall program allowed the Authority to increase its capture rate (% of material recycled that could have been recycled) from 27% to 48%.

For the second consecutive year, the Authority achieved 100% compliance with Federal Glycol Guidelines by mitigating the environmental effects of fluids used to deice aircraft. For the third year in a row, the Authority achieved 100% compliance with the provincial and municipal criteria for un-ionized ammonia (degradation by-product of urea, which is used to keep runways ice-free). These results have been achieved by ceasing the use of urea on airport taxiways and runways and using an environmentally friendly substitute in its place.

Frankfurt Announcement

On November 5th, representatives from the Airport Authority and Air Canada announced the long-awaited direct flight to Frankfurt, Germany.

Commencing June 1, 2008, Air Canada will operate a daily non-stop flight between Ottawa and Frankfurt, the main European hub for Air Canada's Star Alliance partner Lufthansa. Frankfurt offers connecting flights to points throughout Star Alliance's comprehensive international network, and to more than 250 locations overall. Connections in Frankfurt are simple and fast through special in-transit facilities that enable passengers to proceed directly to their flight without the need to collect baggage.

The Airport Authority had been working for several years with Air Canada to make the Frankfurt flight a reality, so the announcement was excellent news.



BEN SMITH, EXECUTIVE VICE PRESIDENT & CHIEF COMMERCIAL OFFICER, AIR CANADA

HAROUJAIL PHOTOGRAPHY

» 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 community-appointed Boards of Directors which were tasked with overseeing the management of their local facility.

The Ottawa International Airport Authority's Board of Directors follows these guidelines, which are included in the Authority's by-laws:

- » includes professional representation nominated by all three levels of government as well as community and business organizations;
- » directors shall not be elected officials or government employees;
- » each director has a fiduciary duty to the Airport Authority;
- » meets 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 2007, as required by the Authority's by-laws. Furthermore, all Directors are in compliance with the conflict of interest and code of conduct guidelines noted above.

» 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 the Province 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
Ottawa Macdonald-Cartier International Airport Authority (at large)	3
TOTAL	14

A Director's term of office is a maximum of three years, and each director may serve up to three terms, thereby allowing a Director to serve a maximum of nine years. The qualifications required of a Director are included in the by-laws. Collectively, the Directors shall have experience in the fields of law, engineering, accounting and management, and air carrier management. In addition, the by-laws include restrictions to eliminate possible conflicts of interest arising from relationships with selecting bodies, thereby ensuring the independence of Directors and reinforcing their fiduciary responsibilities to the Authority. The Governance Committee has the power to ensure that the selecting bodies provide candidates for nomination to the Board having the skills and expertise necessary for the Board as a whole to carry out its duties.

The following represents the composition of the Board of Directors as at December 31, 2007:

NAME AND POSITION WITH AUTHORITY	OCCUPATION	SELECTING BODY AND YEAR APPOINTED
J. Peter Vice, Q.C. ^{(2) (3) (4)} Chairman of the Board, Chair, Governance, Human Resources & Compensation Committee	Partner, Vice Hunter Labrosse	At Large 2003
Michael Skrobica ^{(2) (3)} Vice-Chair	Vice-President, Industry Monetary Affairs, Air Transport Association of Canada	Air Transport Association of Canada 2004
Charlie Logue ^{(1) (2)} Secretary	Partner, Welch & Company	Minister of Transport 2006 (Government of Canada)
Geneviève Brown ^{(2) (3)}	Owner, Club de golf Mont-Cascades	Minister of Transport 2006 (Government of Canada)
Raymond Brunet ^{(2) (4)} Chair, AEP Overview Committee	President, Ed Brunet & Associés Inc.	Chambre de commerce de Gatineau 2006 Ville de Gatineau 2003-2006
Ron Clifton ^{(3) (4)}	President and CEO, International Datacasting Corporation	Ottawa Centre for Research and Innovation 2007
Barbara Farber ⁽¹⁾	President, Leikin Group Inc.	At Large 2007
Patrick Kelly ⁽⁴⁾	President, Ottawa Congress Centre	Ottawa Tourism 2007
Martin Leblanc ⁽¹⁾	Partner, LeBlanc Doucet McBride	Ville de Gatineau 2006
Eric McSweeney ⁽¹⁾	President, McSweeney & Associates Consulting Inc.	Ottawa Chamber of Commerce 2004
Pat Murray ⁽⁴⁾	Retired (Architect)	Government of the Province of Ontario 2006
Joan Sun McGarry ⁽¹⁾	Chief Financial Officer, Hulse Playfair & McGarry	City of Ottawa 2006
Pamela Sweet ⁽³⁾	Vice-President, FoTenn Consultants Inc.	City of Ottawa 2001
James Wright ^{(1) (2) (4)} Chair, Audit Committee	Owner, Mastermark Pewter Inc.	At Large 2003

(1) MEMBER OF AUDIT COMMITTEE

(2) MEMBER OF EXECUTIVE COMMITTEE

(3) MEMBER OF GOVERNANCE, HUMAN RESOURCES & COMPENSATION COMMITTEE

(4) MEMBER OF AEP OVERVIEW COMMITTEE

» Directors' Compensation in 2007

Annual Retainer	Chair	\$35,000	Per meeting fee	\$500 per meeting,
	Vice-Chair	\$15,000		\$200 for attendance by telephone conference call
	Audit Committee Chair	\$17,000		
	Other Committee Chairs	\$15,000		
	All other directors	\$12,000		

» Attendance at Board and Committee Meetings

Board Member	Board meetings attended	Committee meetings attended while member of a Committee
J. Peter Vice, Q.C.	9 out of 9	11 out of 11
Geneviève Brown	6 out of 9	2 out of 3
Raymond Brunet	8 out of 9	7 out of 7
Ron Clifton (note 1)	6 out of 6	2 out of 3
Barbara Farber (note 1)	5 out of 6	1 out of 2
Pat Kelly (note 1)	4 out of 6	1 out of 2
Martin Leblanc	9 out of 9	4 out of 4
Charlie Logue	7 out of 9	5 out of 5
Eric McSweeney	8 out of 9	4 out of 5
Pat Murray	3 out of 9	4 out of 6
Michael Skrobica	7 out of 9	4 out of 4
Joan Sun McGarry	8 out of 9	4 out of 5
Pamela Sweet	8 out of 9	4 out of 4
James Wright	9 out of 9	12 out of 12
Jeffrey Dale (note 2)	4 out of 4	2 out of 3
Jim Durrell (note 2)	4 out of 4	10 out of 10
Whitman Tucker (note 2)	4 out of 4	4 out of 5

NOTE 1 – NEW BOARD MEMBER EFFECTIVE ON OR SUBSEQUENT TO MAY 29, 2007

NOTE 2 – TERM ENDED OR RESIGNED ON OR BEFORE MAY 29, 2007

» Committees of the Board

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

Executive Committee

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

AEP Overview Committee

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

Audit Committee

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

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

The mandate of the Authority is:

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

The Authority accounts for its actions to the community in a number of ways:

- » by publishing an Annual Report;
- » by hosting an Annual Public Meeting;
- » by hosting an annual meeting with selecting bodies;
- » by establishing and/or reporting to the following consultation committees:
 - » Airport Noise Committee
 - » Airline Consultative Committee
 - » Airport Operators Committee
 - » Community Consultative Committee
 - » Airside Safety Committee;
- » through meetings and/or consultations with local city officials;
- » through extensive public consultations on the periodic renewal of the Airport Master Plan, which was last updated in 1998 and is in the process of being updated again in early 2008, 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 Web site 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 completed in early 2007. Further detail with respect to the performance review can be found elsewhere in this report.

» 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 \$96,000 (\$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 2007 were as follows:

CONTRACTOR	CONTRACT DESCRIPTION	REASON FOR SOLE SOURCE
Matthews Conveyor, Division of FKI Industries Canada	\$97,300 Reprogramming of baggage handling systems	Single source for service and maintenance of equipment purchased following a public competitive process
	\$135,800 Baggage handling system modifications	
Usifab Rawdon	\$132,200 Supply, deliver and install 30 ft. snowblade	Maintains a standard fleet of equipment to achieve operational efficiency
RW Tomlinson Ltd.	\$137,300 Supply and install de-icing pad valves	Procure and install contracts combined to maintain consistent valve products and achieve operational efficiency
Eagle Airfield	\$153,100 Supply and deliver runway sweeper	Maintains a standard fleet of equipment to achieve operational efficiency
	\$161,000 Supply, deliver and install Epoke spreader	
Jacques Whitford & Assoc. Ltd.	\$157,600 Materials, testing and inspection for AEP Phase II	Prior experience and expertise of the contractor in a highly specialized area
Arconas	\$329,300 Supply and deliver holdroom seating	Ensures consistency with existing holdroom seating, previously awarded on the basis of a public competitive process

Executive Management Salary Ranges

The base salary range for the President of the Authority in 2007 was between \$175,000 and \$250,000. The base salary range for each of the Vice Presidents in 2007 was between \$100,000 and \$175,000.

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 (AIF).

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

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

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

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

Public Access to Documents

In accordance with Public Accountability Principles for Canadian Airport Authorities, the Ottawa Airport Authority makes available by appointment the following documents for examination, at no cost, 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 Web site 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.



FROM LEFT TO RIGHT:

JOAN SUN MCGARRY
PAT MURRAY
MARTIN LEBLANC
RON CLIFTON
PAT KELLY

GENEVIÈVE BROWN
JAMES WRIGHT
BARBARA FARBER
RAYMOND BRUNET
ÉRIC MCSWEENEY

SEATED FROM LEFT TO RIGHT:

MICHAEL SKROBICA, VICE-CHAIR
J. PETER VICE, Q.C., CHAIR
CHARLIE LOGUE, SECRETARY

ABSENT: PAMELA SWEET

» 2007 Financial Review

This Financial Review reports on Ottawa International Airport Authority's results and financial position for its year ended December 31, 2007. 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, 2007 were \$18.2 million compared to \$10.9 million for the year ended December 31, 2006.

The largest factors that impacted results were a 7.4% increase in passenger volumes over 2006 volumes and a 7.7% increase in available airline seats serving the Ottawa market. These volume increases had an impact on revenues from airport improvement fees, aeronautical fees charged to air carriers, and parking fees.

The Authority recorded depreciation of \$14.6 million in 2007 compared to \$14.2 million in 2006, which reflects depreciation of the terminal building and facilities over their estimated economic lives. The increase in depreciation in 2007 reflects depreciation on new investments in property, plant and equipment which came into service in 2007. After subtracting depreciation, the excess of revenues over expenses in 2007 amounted to \$3.6 million as compared to an excess of expenses over revenues of \$3.3 million in 2006.

» SELECTED ANNUAL INFORMATION

The Authority's net operating results for the three years ended December 31, 2007 are summarized as follows:

(\$ IN MILLIONS)	2007	2006	2005
Revenues	\$84.7	\$75.8	\$72.5
Expenses before depreciation	66.5	64.9	63.5
Earnings before depreciation	18.2	10.9	9.0
Depreciation	14.6	14.2	13.4
Net of revenues over expenses (expenses over revenues)	\$3.6	\$(3.3)	\$(4.4)
Total assets	\$446.0	\$363.4	\$356.4
Total long-term debt	\$352.4	\$273.7	\$274.2

» RESULTS OF OPERATIONS

Operating Activity

During 2007, 4,088,528 passengers moved through the airport as compared to 3,807,756 in 2006, which represents an increase of 7.4%.

Passenger volumes increased in 2007 over 2006 in all sectors as follows:

- » domestic 8.7%;
- » transborder 1.5%; and
- » international 9.3%.

The increased travel to domestic destinations in 2007 exceeded expectations as airlines added domestic seat capacity with new routes and frequencies to the Ottawa market. The failure of Jetsgo in March 2005 was a significant milestone in that it 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 2006, air carriers responded to the higher demand for air travel in western Canada by focusing on western markets. With strong demand in western Canada and aircraft filled to near capacity, air carriers did not need to respond to Jetsgo's failure with lower air fares to fill more seats in central and eastern Canada. This lack of competitive pricing is believed to have had

an impact on domestic volume growth, volumes which were relatively unchanged in 2006. These carriers have since met the demand of the lucrative, high yield Ottawa market with more competitive pricing and with increased flight frequencies to add seat capacity to the Ottawa market.

In September 2006, CanJet ceased operation of its scheduled domestic service in an orderly and planned fashion, impacting seat availability for flights to and from Atlantic Canada. Offsetting this decrease in available seat capacity, Porter Airlines commenced daily scheduled service between Ottawa and Toronto City Centre Airport in late October 2006. Due to its convenient service to downtown Toronto, this route has become increasingly popular with business travellers.

Growth in travel to transborder destinations appears to have been affected by the strength of the Canadian dollar (impacting U.S. travel to Ottawa), and by the sluggish U.S. economy.

The strong Canadian dollar has made travel to sunshine destinations cheaper for Canadians and is believed to have contributed to the growth in travel to international (non U.S.) sunshine destinations. 31% growth in international travel in the fourth quarter of 2007 set new records. In 2004, there was a record-breaking 27% increase in international volumes over 2003, primarily on charters to sunshine destinations. More modest growth continued in 2004 and in 2005, despite the impact of Hurricanes Katrina and Wilma and the reduced availability of hotel accommodation in international sunshine destinations. In 2005, travellers appeared to have selected U.S. 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 2006. 2007 continued to reflect robust seasonal traffic with international travel volumes higher than 2006 by 9.3%.

WestJet's passenger volumes to domestic destinations increased in 2007 by approximately 22% over 2006 with Air Canada increasing by approximately 4% over the same period. Porter's service to Toronto City Centre Airport has been a very successful option for business travellers in particular, and is believed to have cut into Air Canada's growth in passengers flying to Toronto Pearson. 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 and seasonal schedules offered by scheduled carriers.

By sector, for each quarter of 2007 passenger volumes compared to comparable quarters in 2006 were as follows:

	DOMESTIC	TRANSBORDER	INTERNATIONAL
Q1	Higher by 6.8%	Higher by 5.2%	Higher by 5.8%
Q2	Higher by 8.1%	Higher by 4.4%	Higher by 6.6%
Q3	Higher by 8.6%	Lower by 2.0%	Higher by 2.4%
Q4	Higher by 11.4%	Lower by 2.1%	Higher by 30.9%

By quarter, total passenger volumes were as follows:

	2007	2006	% CHANGE
Q1	1,035,044	973,462	6.3%
Q2	1,028,475	958,263	7.3%
Q3	1,003,255	943,878	6.3%
Q4	1,021,754	932,153	9.6%
TOTAL	4,088,528	3,807,756	7.4%

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. In 2007, the number of landed seats increased by 7.7% from 2006 as new entrants such as Porter Airlines, which has operated daily scheduled service between Ottawa and Toronto City Centre Airport since late October 2006, had an impact on available seat capacity in the market. WestJet and Air Canada also increased flight frequencies, and Air Canada added new routes which added seat capacity to the Ottawa market. Airlines continue to fill more seats with passengers on fewer aircraft than they did prior to the failure of Jetsgo in 2005 and reported throughout the year that their load factors, or percentage of seats occupied on an aircraft, were at record high levels.

» Revenues

Total revenues increased by 12% to \$84.7 million in 2007 compared to \$75.8 million in 2006. Of the \$8.9 million increase, airport improvement fees (AIF) accounted for \$3.4 million, aeronautical revenues accounted for \$2.0 million, car parking accounted for \$0.8 million, and interest accounted for \$1.8 million.

REVENUES BY CATEGORY (\$ IN THOUSANDS)				
	2007	2006	Change	%
Airport improvement fees	\$28,283	\$24,926	\$3,357	13%
Terminal fees and loading bridge charges	18,747	16,792	1,955	12%
Landing fees	9,949	9,922	27	0%
Concessions	9,094	8,726	368	4%
Car parking	9,640	8,810	830	9%
Land and space rentals	4,125	4,184	(59)	(1%)
Interest	2,327	491	1,836	374%
Other revenue	2,548	1,969	579	29%
	\$84,713	\$75,820	\$8,893	12%

The increase in 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 2007, unchanged from 2006. Under an agreement with the airlines, AIFs 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.

In addition to the impact of increased passenger volumes, an increase in airport improvement fees occurred due to two significant unusual receipts amounting to \$1.0 million during the third quarter of 2007. In the third quarter, the Authority

received and recorded as AIF revenue \$0.3 million related to the bankruptcy of Canada 3000 (bankrupt in 2001). These amounts had not originally been recorded as AIF revenues in 2001 as there was no reasonable expectation at the time that these amounts would be collectible by the Authority. In addition, during the same quarter, Air Canada determined that its AIF remittances to a number of airport authorities since November 2005 had erroneously excluded certain AIF amounts collected on tickets sold by other airlines to Air Canada passengers. The amount received by the Ottawa Authority of \$0.7 amounted to approximately 2% of total remittances from Air Canada through that period.

Aeronautical revenues represent the largest source of revenues for the Authority. At \$28.7 million in 2007, total aeronautical revenues, which include terminal fees, loading bridge charges and landing fees charged to air carriers, were 7.4% higher than revenues of \$26.7 million in 2006. The increase reflects higher seat volumes provided by airlines to serve increased passenger demand in the Ottawa market. As a result of a decrease in its annual rent payments to the federal government from \$12.5 million per year 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 landing fee rates charged to flights arriving from international and transborder destinations to rates applicable for domestic flights. As a result of this, and although flight volumes increased, landing fee revenues remained consistent with 2006. As international and transborder terminal fee rates are higher than rates for domestic flights, the increase in international activity had a positive impact on aeronautical revenues. The Authority has announced that it does not intend to adjust aeronautical fee rates in 2008. The Authority's average aeronautical fee rates remain among the lowest in Canada.

Concession revenues increased to \$9.1 million in 2007 from \$8.7 million in 2006 primarily as a result of higher minimum annual guarantees in food and beverage and retail concession contracts. Car parking revenues increased to \$9.6 million in 2007 from \$8.8 million in 2006. The increase in passenger volumes and demand for parking and the availability of convenient parking options provided by the Airport Expansion Program have continued to contribute to increased parking revenues.

No new land tenants came on stream during 2007. Accordingly, revenues from land and space rentals have remained consistent with 2006 revenues. These revenues arise 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 reinvested in airport development and operations. Interest income has increased as a result of investing, on a short-term basis, the net proceeds from the Authority's bond offering in May 2007 not yet expended on the Authority's capital program. Interest income is expected to decrease significantly during 2008.

» Expenses

Expenses before depreciation increased to \$66.5 million in 2007 from \$64.9 million in 2006. In addition, depreciation increased from \$14.2 million in 2006 to \$14.6 million in 2007 as the Authority continued to depreciate the cost of the terminal building and support facilities. The increase in depreciation in 2007 reflects depreciation on new investment in property, plant and equipment which came into service in 2007.

The Authority capitalizes interest on debt directly attributable to the cost of its Airport Expansion Program (AEP) before it becomes operational. Interest expense reflected in the statement of operations has increased as a result of borrowing to invest in the Authority's Expansion Program. Interest increased as a result of the bond offering in May 2007 to the extent that cash has not yet been invested in the AEP. Given the \$95 million estimated project cost of Phase II of the AEP, interest expense and depreciation reflected in the statement of operations will increase significantly commencing in 2008 when the project is complete and when AEP assets become operational.

EXPENSES BY CATEGORY (\$ IN THOUSANDS)

	2007	2006	Change	%
Interest	\$18,810	\$17,723	\$1,087	6%
Ground rent	11,546	12,487	(941)	(8%)
Materials, supplies and services	17,875	17,491	384	2%
Salaries and benefits	14,191	13,367	824	6%
Payments in lieu of municipal taxes	4,069	3,875	194	5%
	\$66,491	\$64,943	\$1,548	2%

Ground rent payable to the Government of Canada decreased by 8% to \$11.5 million in 2007 as a result of changes in the rent formula announced and implemented during 2005 by the Government of Canada. 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. The reduced rent under the lease 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:

2008	\$10.1 million
2009	\$7.3 million
2010	\$5.4 million
2011	\$5.6 million
2012	\$5.9 million

The cost of materials, supplies and services increased to \$17.9 million in 2007 from \$17.5 million 2006. During 2007, the Authority incurred additional professional fees to initiate the 10-year update of its master plan, last completed and updated in 1998. In addition, the Authority increased spending on repairs and runway crack-filling in 2007 and costs increased as a result of new maintenance agreements for equipment and software and higher contracted costs of building cleaning. Offsetting these increases, in 2007 the Authority received and recorded \$0.5 million in recoveries of bad debts, previously recognized as uncollectible, from Intercanadien (bankrupt in 2000) and Canada 3000 (bankrupt in 2001).

The cost of salaries and benefits increased 6% to \$14.2 million in 2007 from \$13.4 million in 2006, reflecting increased seasonal costs and overtime for winter snow-clearing operations. The increase also reflects final contracted rate increases for the Authority's two collective agreements with its firefighters and other unionized employees, and estimated contract rate increases for the Authority's collective agreement with its firefighters subsequent to its expiry on June 30, 2007.

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 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 2007 reflects the large increase in passenger volumes that occurred in 2004. Payments in lieu of taxes will increase again by 5% in 2008 over the 2007 amount based on this legislation and, even if there is only a 2% increase in passenger volumes in 2008, payments in lieu of taxes will increase by a further 5% in 2009.

» SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the eight most recently completed quarters is set out below:

(\$ IN MILLIONS)	2006				2007			
	Mar	June	Sept	Dec	Mar	June	Sept	Dec
Revenue	\$19.5	\$18.6	\$18.7	\$19.0	\$20.6	\$20.9	\$21.6	\$21.6
Expense	16.8	16.1	15.1	16.9	16.5	16.3	15.9	17.8
Earnings before depreciation	2.7	2.5	3.6	2.1	4.1	4.6	5.7	3.8
Depreciation	3.5	3.6	3.6	3.5	3.6	3.6	3.7	3.7
Excess revenue over expense (expense over revenue)	\$(0.8)	\$(1.1)	\$(0.0)	\$(1.4)	\$0.5	\$1.0	\$2.0	\$0.1

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 property, plant, and equipment to meet ongoing operating requirements.

During 2007, the Authority made cash payments of \$43.0 million for major capital expenditures related to planning, design, site preparatory work, and construction costs related to Phase II of its Airport Expansion Program. In addition, during 2007 the Authority made cash payments of \$4.7 million for sustaining capital expenditures.

The Authority proceeded with the planning and design of Phase II of the AEP during 2005 and in early 2006 the Board of Directors approved the start of construction. Phase II, with a budgeted cost of \$111 million (excluding

capitalized interest), 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 by late 2008. Phase III of the expansion is not expected to be required before 2017. The Authority's master plan is being updated and will provide more information as to future infrastructure requirements beyond the next 5 years.

By December 31, 2007, the Authority had entered into all necessary contracts for the construction of the addition to its terminal building and related work under Phase II of the AEP and had accumulated and accrued total costs of \$70 million. Based on the value of these contracts, the Authority is on budget and on schedule for this phase of the Airport Expansion Program.

» CONTRACTUAL OBLIGATIONS

PAYMENTS FOR YEARS ENDING DECEMBER 31 (\$ IN THOUSANDS)

	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt (note 1)	\$352,449	\$1,510	\$1,765	\$2,041	\$2,339	\$2,097	\$342,697
Operating commitments	6,993	5,427	826	198	198	172	172
Capital commitments	27,000	27,000					
Total contractual obligations	\$386,442	\$33,937	\$2,591	\$2,239	\$2,537	\$2,269	\$342,869

NOTE 1 – FURTHER INFORMATION ON INTEREST RATES AND MATURITY DATES ON LONG-TERM DEBT ARE PROVIDED IN NOTE 6 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 airport improvement fee (AIF) revenue. The Authority manages its operations to ensure that AIF revenue is not used to fund regular ongoing expenses of operations or sustaining capital. AIF revenue is used to fund debt service costs and other expenses related to the Airport Expansion Program (AEP). The Authority funds major infrastructure expenditures by borrowing in the capital markets and bank credit.

Prior to accessing the capital markets again in May 2007, the Authority used cash from operations and its existing bank credit facilities to fund the ongoing expansion of the airport, including Phase II of the AEP. The Authority maintains access to an aggregate of \$117 million in committed 364-day revolving credit facilities with two Canadian banks. The current facilities have been extended for another 364-day term expiring on October 23, 2008. Included in such facilities are a \$20 million operating credit to fund day-to-day financial requirements and an additional \$97 million to fund general corporate purposes, 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 Phase I of the AEP, 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. 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, 2007, the balance in the Debt Service Reserve Fund was \$10.6 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, 2007, \$7.9 million of the Authority's credit facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund. At December 31 2007, 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.

The net proceeds of the Authority's \$200 million bond offering in May 2007 were used to repay the \$120 million 5.64% Series A Revenue bonds due on May 25, 2007, repay bank indebtedness incurred for the purpose of funding Phase II of the AEP to date and to fund the additional deposit of approximately \$1.0 million required to be made to the debt service reserve fund under the Authority's Master Trust Indenture at the time of the new bond issue. The remaining cash and short-term investments of \$39.4 million as at December 31, 2007 include proceeds from the Authority's bond offering not yet invested in the AEP. Cash has been invested in short-term investments permitted by the Master Trust Indenture, while maintaining liquidity for purposes of the AEP.

During 2007, 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 Master Trust Indenture.

As at December 31, 2007, the Authority's accounts receivable had increased by \$1.9 million to approximately \$6.4 million from December 31, 2006. The early receipt at the end of 2006 of airport improvement fees, normally received just after the end of the month, reduced the estimated amount receivable at the end of 2006. There were no other unusual items or items of concern to cause this increase. As at December 31, 2007, the Authority's accounts payable had increased by \$11.6 million from December 31, 2006 to \$22.8 million. The increase is primarily attributable to accounts payable and accruals related to the AEP.

» 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), government regulations, the price of airfares, 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 U.S. \$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.

Construction Risk

Delays and cost overruns are always a risk with construction projects. In August 2006, construction commenced to expand the passenger terminal building under Phase II of the AEP. Construction is currently on time and on budget. All 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 Management's Responsibility for Financial Statements.



AIRPORT PAGEANTRY FOR THE FIFA U-20 WORLD CHAMPIONSHIPS

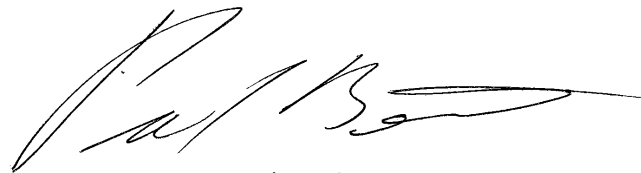
» MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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.

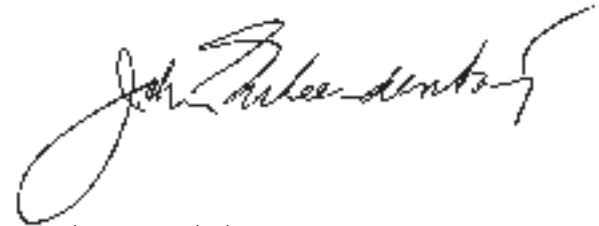
To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable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



Paul Benoit
President and Chief Executive Officer



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

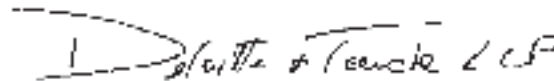
» AUDITORS' REPORT

*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, 2007 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, 2007 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 except for the changes in accounting for financial instruments as explained in Note 2 to the financial statements on a basis consistent with that of the preceding year.



Chartered Accountants
Licensed Public Accountants
Ottawa, Ontario
January 30, 2008

» BALANCE SHEET

as at December 31, 2007 (in thousands of dollars)

ASSETS	2007	2006
CURRENT ASSETS		
Cash and short-term investments	\$39,433	\$-
Accounts receivable	6,430	4,539
Consumable supplies	1,278	1,112
Prepaid expenses and advances	757	666
	47,898	6,317
DEBT SERVICE RESERVE FUND (Note 6(a))	10,605	9,206
PROPERTY, PLANT and EQUIPMENT (Note 3)	381,748	339,312
OTHER ASSETS (Note 4)	5,768	6,005
	\$446,019	\$360,840
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	\$-	\$8,712
Accounts payable and accrued liabilities	22,832	11,214
Current portion of long-term debt (Note 6)	1,510	1,273
	24,342	21,199
ACCRUED BENEFIT LIABILITY (Note 8)	3,613	2,736
SECURITY DEPOSITS	390	366
LONG-TERM DEBT (Note 6)	347,023	269,873
	375,368	294,174
Commitments and Contingencies (Note 10)		
NET ASSETS (Note 7)	70,651	66,666
	\$446,019	\$360,840

ON BEHALF OF THE BOARD



, Director

(See accompanying notes to the financial statements)



, Director

» STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

year ended December 31, 2007 (in thousands of dollars)

REVENUES	2007	2006
Airport improvement fees (Note 7)	\$28,283	\$24,926
Terminal fees and loading bridge charges	18,747	16,792
Landing fees	9,949	9,922
Concessions	9,094	8,726
Car parking	9,640	8,810
Land and space rentals	4,125	4,184
Interest	2,327	491
Other revenue	2,548	1,969
	<u>84,713</u>	<u>75,820</u>
EXPENSES		
Interest (Note 6(d))	18,810	17,723
Ground rent (Note 10)	11,546	12,487
Materials, supplies and services (Note 11)	17,875	17,491
Salaries and benefits	14,191	13,367
Payments in lieu of municipal taxes	4,069	3,875
	<u>66,491</u>	<u>64,943</u>
EARNINGS BEFORE DEPRECIATION	18,222	10,877
DEPRECIATION	14,622	14,230
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	3,600	(3,353)
NET ASSETS, BEGINNING OF YEAR (NOTE 2)	67,051	70,019
NET ASSETS, END OF YEAR	<u>\$70,651</u>	<u>\$66,666</u>

(See accompanying notes to the financial statements)

» STATEMENT OF CASH FLOWS

year ended December 31, 2007 (in thousands of dollars)

	2007	2006
Cash provided by (used in)		
Operations:		
Excess of revenues over expenses (Expenses over revenues)	\$3,600	\$(3,353)
Add non-cash items:		
Depreciation	14,622	14,230
Amortization of deferred financing costs	269	373
Increase in accrued benefit liability	877	747
Decrease (Increase) in accrued benefit asset	237	(777)
Changes in non-cash working capital related to operations:		
Accounts receivable	(1,891)	555
Prepays and consumable supplies	(257)	(162)
Accounts payable and accrued liabilities	2,237	233
Increase (decrease) in security deposits	24	(100)
Total operations	19,718	11,746
Financing activities:		
Issue of long-term debt (Note 6)	200,000	-
Debt issue transaction costs	(1,224)	-
Increase in debt service reserve fund (Note 6(a))	(1,399)	(371)
Repayment of long-term debt	(121,273)	(521)
Total financing activities	76,104	(892)
Investing activities:		
Purchase of property, plant and equipment	(57,058)	(23,434)
Change in accounts payable and accrued liabilities related to investing activities	9,381	1,268
Total investing activities	(47,677)	(22,166)
Increase (decrease) in cash	48,145	(11,312)
Cash and short-term investments (bank indebtedness), beginning of year	(8,712)	2,600
Cash and short-term investments (bank indebtedness), end of year	\$39,433	\$(8,712)

(See accompanying notes to the financial statements)

» NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2007

» 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 the Government of Canada (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 the Government of 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, 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 net realizable value, based on estimated replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of government assistance, if any, and include only the amounts expended by the Authority. Property, plant and equipment do not include the cost of facilities which are leased from the Government of Canada. Incremental interest incurred during the construction of property, plant and equipment is included in the cost. Depreciation is provided on a straight-line basis over the useful lives of individual assets 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.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Deferred financing costs

Transaction costs relating to the issuance of long-term debt, including underwriting fees, professional fees, termination of interest-rate swap agreements, and bond discounts, are deferred and amortized using the effective-interest rate method over the term of the related debt. Amortization is included in interest expense.

Ground Lease

The ground lease with the Government of 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. The Authority has a landing fee rebate incentive program which provides airlines with incentives, such as free landing fees, to operate flights to new destinations for a minimum duration of one year. These rebate obligations are recognized as a reduction of revenues until the expiry of the obligation.

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

Rental revenues are recognized over the lives of respective leases, licences, and permits.

Airport improvement fees ("AIF"), net of airline administrative fees, are recognized on an estimated basis 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 8 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 property, plant and equipment, 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.

Financial instruments, hedging, and comprehensive income

The Canadian Institute of Chartered Accountants issued accounting recommendations related to financial instruments, hedges, and comprehensive income that came into effect for the Authority's first quarter ended March 31, 2007. These standards are accounted for retrospectively without restatement of prior year results.

As a result of this change in generally accepted accounting principles, deferred financing costs are reflected as a reduction in the carrying amount of related long-term debt and are amortized using the effective interest rate method. Under the effective interest rate method, this amortization is recognized to vary over the life of the debt based on the net carrying amount of the debt. As a result of the accounting change to reflect the effective interest rate method on January 1, 2007, opening Net Assets increased by \$385,000 with a corresponding decrease in long-term debt.

Under the recommendations, financial assets are to be classified as loans and receivables, held-for-trading, held-to-maturity, or available-for-sale. Financial liabilities are to be classified as either held-for-trading or other liabilities.

The Authority's financial assets include cash and short-term investments, accounts receivable, advances (included with prepaid expenses), and the debt service reserve fund. Accounts receivable and advances are classified as loans and receivables and are accounted for at amortized cost. Cash and short-term investments, and the debt service reserve fund are classified as held-for-trading and are recorded at fair value with realized and unrealized gains and losses reported in earnings for the period in which they arise. The Authority has no held-to-maturity or available-for-sale financial assets.

The Authority's financial liabilities include bank indebtedness (on adoption at January 1, 2007), accounts payable and accrued liabilities, security deposits, and long-term debt. On adoption of the new accounting recommendations, bank indebtedness was classified as a held-for-trading liability. All remaining financial liabilities are classified as other liabilities and are accounted for at amortized cost with gains and losses reported in earnings for the period in which they arise.

Comprehensive income is defined to include net income (in the case of the Authority, excess of revenues over expenses) plus or minus other comprehensive income. Other comprehensive income includes changes arising from gains and losses in the fair values of certain financial instruments and hedges, which in the Authority's circumstances, are nil. Other comprehensive income is accumulated in a separate component of Net Assets called accumulated other comprehensive income.

The Authority has no items in accumulated other comprehensive income.

New accounting standards

The Canadian Institute of Chartered Accountants has issued accounting recommendations related to disclosures of financial instruments and the management of capital that will come into effect for the Authority's first quarter ending March 31, 2008. Management is currently evaluating the impact of these recommendations on the Authority's financial statements, but the impact of these additional disclosure requirements is not expected to be material.

» 3. PROPERTY, PLANT and EQUIPMENT

(IN THOUSANDS OF DOLLARS)	2007	2006
COST:		
Buildings and support facilities		
Buildings and building improvements	\$261,884	\$258,234
De-icing facility	7,191	7,032
Pedestrian bridges	7,105	7,099
Utilities infrastructure	5,443	5,394
	<u>281,623</u>	<u>277,759</u>
Runways, roadways and other paved surfaces	29,402	28,256
Land improvements	21,660	21,228
Furniture and equipment	21,026	20,212
Computer equipment and systems	14,535	13,783
Vehicles	9,246	8,965
Leasehold improvements	2,321	1,951
Construction in progress	70,128	20,729
	<u>449,941</u>	<u>392,883</u>
LESS ACCUMULATED DEPRECIATION:		
Buildings and support facilities		
Buildings and building improvements	30,079	22,862
De-icing facility	1,733	1,448
Pedestrian bridges	1,438	1,083
Utilities infrastructure	1,104	888
	<u>34,354</u>	<u>26,281</u>
Runways, roadways and other paved surfaces	7,502	6,316
Land improvements	3,881	2,920
Furniture and equipment	8,276	6,504
Computer equipment and systems	8,325	6,370
Vehicles	4,602	4,127
Leasehold improvements	1,253	1,053
	<u>68,193</u>	<u>53,571</u>
	<u>\$381,748</u>	<u>\$339,312</u>

Interest cost of \$1,055 thousand (2006 – \$40 thousand) were capitalized and included in construction in progress in 2007.

» 4. OTHER ASSETS

(IN THOUSANDS OF DOLLARS)	2007	2006
Accrued benefit asset (note 8)	\$2,838	\$3,075
Interest in future proceeds from 4160 Riverside Drive, at cost	<u>2,930</u>	<u>2,930</u>
	<u>\$5,768</u>	<u>\$6,005</u>

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

» 6. LONG-TERM DEBT

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

	2007	2006
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	\$148,635	\$149,254
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
4.733% Revenue bonds, Series D, due May 2, 2017, interest payable on May 2 and November 2 of each year until maturity commencing November 2, 2007	200,000	-
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	1,955	2,377
Deferred rent repayable to the Government of Canada, without interest in equal monthly instalments over a 10 year period commencing in 2006	<u>1,859</u>	<u>2,091</u>
	352,449	273,722
Less: current portion	<u>1,510</u>	<u>1,273</u>
	350,939	272,449
Less: deferred financing costs	<u>3,916</u>	<u>2,576</u>
	<u>\$347,023</u>	<u>\$269,873</u>

» 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 23, 2008. They are available by way of overdraft, Prime Rate Loans, or Banker's Acceptances. Interest rates incurred during the year ranged from 4.36% to 6.25%. As at December 31, 2007, \$7.9 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 6).

a) Bond Issues

In May 2007, the Authority completed a \$200 million Revenue bond issue. The \$200 million Revenue bonds, Series D at 4.733% are due on May 2, 2017. The net proceeds from this offering are being 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, refinancing the Series A, 5.64% Revenue bonds payable on May 25, 2007, and the funding of an additional deposit to the Debt Service Reserve Fund required by the Master Trust Indenture entered into by the Authority in connection with the original debt offering in May 2002.

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% due on May 25, 2007 and the \$150 million Revenue bonds, Series B at 6.973% due on May 25, 2032.

All of these 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, 2007, the Debt Service Reserve Fund included \$10.6 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 \$7.9 million in 2007 based on expenses for the 12 months ended April 2007). 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

	<u>2007</u>	<u>2006</u>
Bond interest	\$19,303	\$17,196
Interest expense – other	<u>562</u>	<u>567</u>
	<u>19,865</u>	<u>17,763</u>
Less: Capitalized interest	<u>(1,055)</u>	<u>(40)</u>
	<u>\$18,810</u>	<u>\$17,723</u>
Interest paid during the year	<u>\$18,698</u>	<u>\$17,259</u>

e) The future annual principal payments for all long-term debt are as follows:

2008	\$1,510
2009	1,765
2010	2,041
2011	2,339
2012	2,097

f) Deferred financing costs

	<u>2007</u>	<u>2006</u>
Deferred financing costs	\$4,398	\$4,327
Less: Accumulated amortization	<u>(482)</u>	<u>(1,751)</u>
	<u>\$3,916</u>	<u>\$2,576</u>

» 7. AIRPORT IMPROVEMENT FEES (AIF)

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. AIF revenues are recorded net of collection fees withheld by air carriers of \$1,769 thousand (2006 – \$1,614 thousand).

	2007	CUMULATIVE TO DATE
AIRPORT EXPANSION PROGRAM EXPENDITURES:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	\$51,516	\$397,570
Interest capitalized	1,055	16,556
Interest expensed (including internal interest on funds provided by operations)	19,852	91,082
	<u>72,423</u>	<u>505,208</u>
AIF CASH RECEIPTS:		
AIF revenue – net of collection fees	28,283	168,818
Interest on surplus funds	1,974	8,573
	<u>30,257</u>	<u>177,391</u>
Increase in accounts receivable	<u>(1,492)</u>	<u>(2,105)</u>
AIF revenue – net cash received	<u>28,765</u>	<u>175,286</u>
EXCESS OF EXPENDITURES OVER AIF RECEIPTS	<u><u>\$43,658</u></u>	<u><u>\$329,922</u></u>

Net assets of the Authority as at December 31, 2007 are as follows:

	2007	2006
NET ASSETS PROVIDED BY AIRPORT IMPROVEMENT FEES:		
Accumulated airport improvement fees and interest on surplus funds	\$177,391	\$147,134
Less: Accumulated amortization of AEP assets	49,120	37,644
Interest and other expenses	<u>93,885</u>	<u>73,535</u>
	<u>34,386</u>	<u>35,955</u>
NET ASSETS PROVIDED BY OTHER OPERATIONS:		
Accumulated, end of year	<u>36,265</u>	<u>30,711</u>
NET ASSETS, END OF YEAR	<u><u>\$70,651</u></u>	<u><u>\$66,666</u></u>

The Authority is not subject to externally imposed capital requirements.

» 8. PENSION PLAN AND POST RETIREMENT BENEFITS

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, 2006 (completed and filed in June 2007), the plan had a surplus on a funding (going concern) basis of \$1,259,000. 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 as if it were fully terminated on the valuation date due to insolvency of the sponsor or decision to terminate. As at December 31, 2006, the plan had a deficit on a solvency basis of \$3,508,000 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 to amortize this deficiency. To allow for funding of the deficiency over a 10-year period, in accordance with Part 3 of the Solvency Funding Relief Regulations of the Pension Benefits Standards Act, 1985, during 2007 the Authority provided a standby letter of credit in the amount of \$612,000 in favour of the plan. The amount of the letter of credit was increased to \$1,003,000 as at December 1, 2007.

The next required actuarial valuation of the pension plan as at December 31, 2007 is scheduled to be completed and filed by its June 2008 due date. Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2006 and extrapolated to December 31, 2007, the status of the pension plan is as follows:

<small>(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)</small>	<u>2007</u>	<u>2006</u>
Fair value of pension plan assets		
» defined benefit component	\$28,321	\$27,989
» defined contribution component	<u>3,537</u>	<u>2,882</u>
	31,858	30,871
Accrued pension benefit obligation	<u>34,858</u>	<u>33,776</u>
Funded Status – plan deficit	(3,000)	(2,905)
Balance of unamortized amounts	<u>5,838</u>	<u>5,980</u>
Accrued benefit asset	<u><u>\$2,838</u></u>	<u><u>\$3,075</u></u>

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:

<small>(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)</small>	<u>2007</u>	<u>2006</u>
Accrued benefit obligation, other		
post-employment and retirement benefits	\$5,881	\$5,017
Balance of unamortized amounts	<u>2,268</u>	<u>2,281</u>
Accrued benefit liability	<u><u>\$3,613</u></u>	<u><u>\$2,736</u></u>

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:

	2007	2006
Discount rate to determine expense	5.25%	5.25%
Discount rate to determine year end obligations	5.50%	5.25%
Expected long-term rate of return on plan assets	7.0%	7.0%
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 8 years by	5.0%	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:

	2007	2006
Equity funds – Canadian funds	39%	37%
Equity funds – U.S. and foreign funds	23%	25%
Fixed income funds	37%	37%
Money market funds	1%	1%

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

	2007	2006
Employer contributions, defined benefit pension plan	\$697	\$657
Employer contributions, special solvency payments	\$49	\$1,256
Employees' contributions, defined benefit pension plan	\$248	\$238
Benefits paid, defined benefit pension plan	\$630	\$389
Employer contributions, defined contribution plan	\$247	\$225
Employees' contributions, defined contribution plan	\$338	\$287

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:

	2007	2006
Defined benefit pension plan component	\$780	\$1,151
Defined contribution pension plan component	247	225
Other post retirement and employment benefits	930	795
Total	<u>\$1,957</u>	<u>\$2,171</u>

» 9. FINANCIAL INSTRUMENTS

Fair values

The Authority's cash and short-term investments, accounts receivable, advances, debt service reserve fund, accounts payable and accrued liabilities, and security deposits are reflected in the financial statements at fair values. As at December 31, 2007, based on year-end benchmark interest rates and credit spreads for similar instruments, the estimated fair value of the long-term Series B and Series D Revenue bonds was \$175.6 million and \$184.6 million respectively (2006 – \$182.7 million for Series B). 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

The Authority's most significant exposure to interest-rate risk relates to its future anticipated borrowings and refinancing. In addition, its cash and short-term investments are subject to floating interest rates.

Credit and concentration risks

The Authority is subject to credit risk through its accounts receivable, which consist primarily of current aeronautical fees and airport improvement fees owing from air carriers. A significant portion of the Authority's revenues, and resulting receivable balances, are derived from air carriers. The Authority performs ongoing credit valuations of receivable balances and maintains provisions for potential credit losses.

The Authority derives approximately 55% (57% in 2006) of its landing fee and terminal fee revenue from Air Canada and its affiliates. Management believes, however, that the Authority's long-term exposure to any single 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 the Government of Canada (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 a 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 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:

2008	\$10.1 million
2009	\$7.3 million
2010	\$5.4 million
2011	\$5.6 million
2012	\$5.9 million

A letter of credit for \$1,003,000 was outstanding as at December 31, 2007 in connection with the Authority's pension plan (see Note 8). The letter of credit expires on December 31, 2008.

In addition to the above, the Authority has operating commitments in the ordinary course of business requiring payments of \$5.4 million in 2008 and diminishing in each year over the next 5 years as contracts expire. At December 31, 2007, the total of these operating commitments amounted to \$7 million. These commitments are in addition to contracts for the purchase and construction (the Authority's Airport Expansion Program) of property, plant, and equipment of approximately \$88 million. Of this latter amount, \$57 million has been paid prior to December 31, 2007.

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.

» 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 (2006 – \$1,000,000) as a reduction of related operating costs included in the statement of operations.

» 12. COMPARATIVE FIGURES

Certain of the 2006 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2007.