Ottawa International Airport Authority

Annual Report 2008

International Airport Authority
Administration de l'aéroport international
Ottawa

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

STRATEGIC DIRECTIONS (2008–2012)

- To manage the business in a financially, environmentally and socially responsible manner.
- To be an industry leader in the planning, development and operation of world-class airport facilities.
- To provide the diverse and dynamic customer base with a high level of customer service.
- To further develop the commercial focus of the Authority.
- To develop and maintain productive, talented employees who are excited by their work, committed to the Authority's values and the achievement of its mission and business objectives.
- To foster partnerships that contribute to the viability of the airport and the socio-economic growth of the community.
- To continue to work proactively with all levels of government, the cities of Ottawa and Gatineau, the Community and major stakeholders.
- To operate the airport facilities in a safe manner.
- To manage the airport campus in a secure manner.
- To foster environmental stewardship in all facets of its business and throughout the campus.

ORGANIZATIONAL VALUES

- Transparency
- Responsibility
- Integrity

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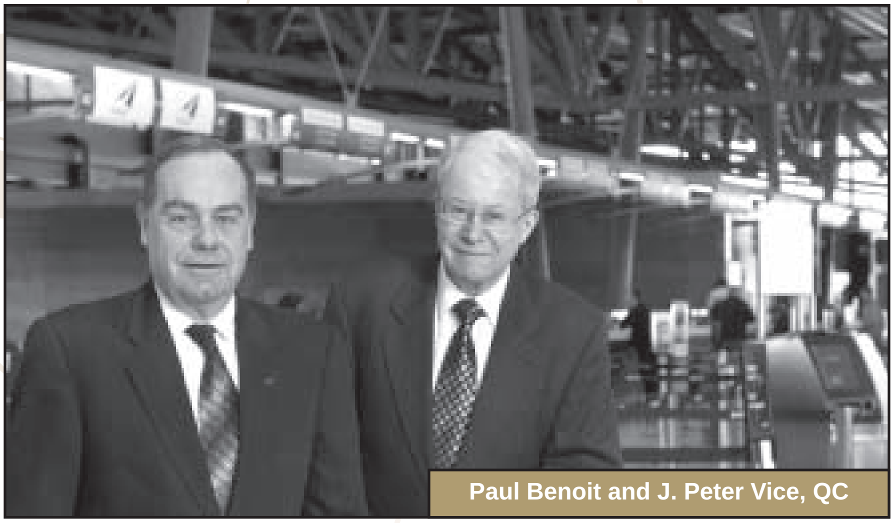
A Word from the Chairman of the Board, and the Chief Executive Officer



Paul Benoit and J. Peter Vice, QC

The Ottawa International Airport Authority was relatively quiet in 2008. Quiet does not, however, mean still. In fact, there was a lot of activity and much accomplished at the airport throughout the year.

The extreme weather provided the best reason for travel last winter, but people also travelled throughout the rest of the year as well, helping the Ottawa International Airport to once again set a record for passenger volumes. In 2008, 4,339,225 passengers travelled through the airport, representing an increase of 6.1% over 2007. There was movement in each sector: domestic volume at 3,255,541 passengers increased by 6.4%; transborder at 740,369 decreased by 0.8%; and international at 343,315 increased the most at 18.7%. The total increase earned the Ottawa International Airport recognition as one of the fastest growing airports in Canada.

The year over year increase in traffic further confirmed the need for additional capacity. So it was good news that Phase II of the Airport Expansion Program was completed in 2008. In the first wave of completion, the new 7,000 square metre wing was opened to the public in March, 2008. The gates on the east side of the wing were also opened in time for the peak school break travel season. The remaining gates on the west side opened in December, bringing the total to 12 gates in the new wing along with seven passenger loading bridges. A new Air Canada Maple Lounge also opened, to the delight of many of our regular customers. During the months in-between, the final stages of demolition of the old air terminal building were completed, and the surfaces were prepared to accommodate bridges and aircraft.

The new space is as meaningful as it is beautiful; we incorporated many architectural touches that celebrate the physical and geographical qualities of Canada, including sculptural interpretations of the country's longest rivers, highest mountains and the notation of the names of many Canadian cities and towns from sea to sea to sea. One of the most notable aesthetic features is the incorporation of reclaimed BC fir timbers from World War II hangars that were recently demolished at the airport. The wood has been incorporated into the interior soffits and future retail area enclosures and brings a sense of warmth and history to the space.

Needless to say, we are extremely proud of the newest addition to the Ottawa International Airport and don't mind telling you that it was completed on budget and on time. Credit for this feat goes to our construction partners, and of course to our employees who managed many aspects of the project, paid attention to the details and made sure that work on the expansion program did not affect the operation of the remainder of the terminal building. In fact, the opening went so well, most passengers would have hardly noticed the change – they simply walked to brand new gates as if they had always been there.

Coincident with the hard work that went into Phase II, many other projects were also completed. Efforts to increase recycling paid off to the tune of 35% waste diversion. A project to provide common use check-in kiosks for multiple airlines was rolled-out flawlessly in August. And, a project to reconfigure the transborder pre-board screening area was launched. These are but a few of the many activities that kept the Authority busy during the year. Perhaps most importantly, they

all required the support and partnership of the airlines, the retailers, and other on-campus organizations such as CATSA and US Customs and Border Protection.

Many years of effort paid off on June 1st when Air Canada's inaugural direct flight to Frankfurt took off to great fanfare and a beautiful water arch courtesy of the Airport Authority's firefighters. This flight is particularly important to the National Capital Region because it facilitates travel to more than 250 destinations in Europe, Africa, South Asia and the Middle East. Equally as important, the flight means that travellers from these same regions can now travel to Ottawa/Gatineau more easily than ever. From an economic impact standpoint, the flight means approximately 90 full-time equivalent jobs and nearly $4 million in wages.

Speaking of economic impact, the Authority received the results of its most recent effort to understand the impact that the airport has on the local economy. The economic impact study, which involved interviews with airline partners, concessionaires, hotels and other tourism-related organizations, confirmed that the airport's presence has a significant impact on the communities it serves. To sum it up, the total economic impact is $1.9 billion per year as well as 4,900 direct jobs and $180 million in direct wages.

In 2008, the Authority stayed true to its financial responsibility, finishing the year with earnings before depreciation of $14.3 million. Of course, the economics of the airport are impacted by the overall economic climate. The world has been hit with hardships, the magnitude of which has not been

experienced in decades. While the Ottawa International Airport fared better than many in 2008, we know that 2009 could mean a new set of challenges that the Authority will face with the same determination and prudence that it has used since it was formed. Capital projects and other spending will be reviewed in the context of affordability and necessity. This approach earned the Authority a debt rating of Aa3 from Moody's Investor Service – the highest rating that Moody's has ever given to an airport that it rates in Canada.

Another area of responsibility that the Authority continued to focus on was the community. Through various means, including *Project Clear Skies*, the United Way/Centraide Ottawa workplace giving program, Plane Pull Challenge 3 and regular sponsorships and donations we were able to give back to the community to the tune of nearly $150,000 in 2008. We also gave our support through pageantry and presence at the airport, as well as ground transportation and parking support to major events in the region such as the CN Canadian Women's Open golf event, Skate Canada and the World Junior Hockey Championships.

It has been said many times in the past, and will continue to be said – the Airport Authority is the success it is because of its people. From digging themselves out during the heaviest weekend snowfall of the year to get to the airport to help passengers, to coming in during the wee hours of the morning to attend to an airline computer problem or giving up a beautiful Saturday in September to volunteer at the Plane Pull, our people are second to none. They care, they are proud of the airport and it shows in everything they do. To each and every employee, we say thank you.

Another very proud group is the Authority's 14-member Board of Directors that represents the communities the airport serves. Thanks to their support, encouragement and trust, the Authority has been able to move quickly and deftly to respond to the ever-changing needs of our passengers and the industry. The time they give to examine and discuss the airport's issues and opportunities is needed and appreciated.

There was little change in the Board's composition 2008; we said farewell and thank you to Martin Leblanc who left, but welcomed Gilles Lalonde in his place. Gilles' solid background in business and the community is a welcome addition to the group and we look forward to working with him during the coming years.

Finally, we would be remiss if we did not say thank you to our clients and visitors who once again provided a significant amount of feedback during the year. What we were most pleased to discover is that many more took the time to provide praise for a job well done – whether referring to service from an airline, a pleasant experience at pre-board screening or helpful information from an Infoguide volunteer, we appreciated the bouquets. That's not to say it was all positive – we discovered a few areas that required attention during the year thanks to the feedback received. We encourage everyone to keep communicating so that we can achieve our ongoing goal of providing excellent customer service.

2009 will be an interesting year, to say the least. As we close the books on 2008, we know that we are in the best possible position to respond to fluctuations in the economy and passenger numbers. And we are thankful that our clients and partners have helped us get to where we are today.

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

Paul Benoit, President and CEO

2008 – The Highlights

"Quiet accomplishment" might be the most appropriate way to describe 2008; the items that the Ottawa International Airport Authority (the Authority) checked-off its "to-do" list throughout the year are both lengthy and comprehensive. This report will take you through some of major projects in the context of "four perspectives". During the strategic planning process for 2008, the Authority, together with the Board of Directors, decided that these would be areas of focus for 2008 and beyond.

The Four Perspectives are:
• Customer
• Financial
• Operations
• Employee

Customer

The Authority's focus on the Customer includes external business partners, passengers, and the community. Customer satisfaction ratings, air service development, strategic land development, and strengthening of the airport's reputation in the community are all critical elements of this focus.

Customer Service

The Authority participated in the Airport Service Quality (ASQ) program for a fourth year, and maintained an excellent result even as more airports internationally focus on customer service, join the program and compete for top marks. Now featuring more than 90 airports worldwide in the domestic airports category, the Ottawa International Airport (OIA) finished in 2nd place among airports in NorthAmerica, 2nd for airports that serve between 0 and 5 million passengers and 3rd for domestic airports.

Planning and anticipation are important keys to providing good service, particularly during times of crisis. To ensure that it is prepared, the Authority renewed its Mutual Aid Agreement with the Red Cross for a period of two years. The agreement provides for storage space in the Passenger Terminal Building for emergency supplies, which include shelter cots, blankets and comfort kits for use during emergency or extraordinary situations. When supplies are deployed, the Authority will replace items that are used to ensure that the supplies are ready for use by the Red Cross when necessary.

Customer Feedback

Our customers continued to provide feedback, to the tune of 616 comments in 2008. Of those, 381 were Airport Authority-related and overall there was a reduction of 11.3% in complaints year over year. All comments, positive and negative, provided the opportunity to make improvements in areas such as signage, flight information display systems and the Authority's website.

"While recently travelling on business, I had occasion to visit your airport for a very early morning flight and late evening return flight the following day. I wish to commend the Airport Authority on such a beautiful, clean and efficiently run airport and passenger terminal. During my visit, I also overheard a group of three other passengers commenting on how the Ottawa Airport is so "easy and simple", "no muss, no fuss" and the terminal is "bright and clean". I don't know if these passengers would think to fill out a comment card or pass on such positive comments to the Airport Authority via the Web, so I have taken it upon myself to pass them on to you."

The number of positive comments pertaining to the airport, the airlines and other partners and the Authority itself was greater than in past years. We appreciate when our clients tell us about their positive experiences and the great service they receive. Passing along these stories encourages and energizes all employees.

Making a Difference from the Ground Up

The Authority was active in the community during 2008 in terms of donations, sponsorships and participation in important events in the region. The Authority's *Project Clear Skies* contributed $125,000 to worthy projects in Ottawa and Gatineau. *La mie de l'entraide* received $3,000 to purchase an industrial-size fridge and freezer, enabling their food bank operation to store much more food while eliminating waste. The Aphasia Centre of Ottawa put its donation of just over $10,000 towards the purchase of kitchen appliances to equip a newly constructed adapted kitchen at its facility in Ottawa. The kitchen will allow its staff and volunteers to teach simplified food preparation methods to clients who have visual/spatial limitations caused by stroke or brain injury. An additional 15 organizations received funding in 2008.

Since it was launched in 2004, *Project Clear Skies* has created $500,000 worth of brighter days for charitable organizations in the National Capital Region.

Our workplace charitable campaign also had a very successful year, raising nearly $15,500 through employee payroll deductions, matching funds from the organization as well as special events including social events, bake sales and an all-employee BBQ.

Tug of War Anyone?

Plane Pull Challenge 3 was bigger and better than ever, with 32 teams competing to see who could pull a FedEx 727-200 aircraft 12 feet in the shortest time possible. The Ottawa Police Service proved victorious in the challenge, but more importantly, they, along with all participants and sponsors, helped raise more than $33,000 – funds which were divided equally between *Project Clear Skies* and United Way/Centraide Ottawa.

Getting out into the Community

The Authority was a visible supporter of many prestigious events that were hosted in the National Capital Region in 2008. During the CN Canadian Women's Open, the NHL Draft, Skate Canada and the International Ice Hockey Federation World Junior Championships, the terminal was decked out in event pageantry. Domestic and international arrivals, the Parkade and various locations

Plane Pull

On September 13th, the Airport Authority hosted the 3rd Annual Plane Pull for Charity in support of and United Way/Centraide Ottawa. 32 teams of 20 pulled together to raise more than $33,000 which was divided between the two charitable initiatives. Canadian Strongman Jessen Paulin made a valiant effort at a record-breaking solo pull, but despite enthusiastic cheering from the 1000+ spectators, the FedEx Boeing 727-200 won the tug-of-war.

In the end, the Ottawa Police "High Flyers" were victorious, taking only 9.70 seconds to move the aircraft 12 feet.

Sponsors and partners made the event the huge success that it was. They include FedEx Express, the Canada Reception Centre, Scotiabank, HMS Host, The Ottawa Citizen, Y101 (Rogers Radio) and EMC Your Community Newspaper.

Summary of amounts spent in the Ottawa region ($ in thousands)	2004	2005	2006	2007	**2008**	Total
Wage Bill	$ 11,250	$ 12,050	$ 13,367	$ 14,191	**$ 15,733**	$ 66,591
Payments in lieu of municipal taxes	3,515	3,690	3,875	4,069	**4,272**	19,421
Operations costs	15,000	16,000	16,500	17,000	**22,000**	86,500
Capital Costs	9,000	17,000	23,000	57,000	**31,000**	137,000
	$ 38,765	$ 48,740	$ 56,742	$ 92,260	**$ 73,005**	$ 309,512

Notes:
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

throughout the terminal building were decorated to fit each occasion. Further, the Authority's welcome kiosks were provided for use as a meeting place for arriving guests and participants and the Authority provided support to ensure that all ground transportation issues at the airport were handled effectively and efficiently.

The Airport's Ambassadors

In 2008, the airport and the Authority benefitted from the dedicated support of its volunteers. The 80-strong Infoguides, who volunteer their time at the info kiosks in Departures and Arrivals, logged 7,480 hours answering customer queries by phone and in person. The Airport Watch volunteers, 33 in all, who spend time monitoring the perimeter fence and other airport properties for suspicious activity, foreign object debris, wildlife and much more, logged a total of 3,818 hours.

The Authority would like to extend its thanks and appreciation to all volunteers who make the airport experience more pleasant for all.

From Ottawa to the World

On the air service development front, 2008 was an exciting year. Air Canada added service to Charlottetown, Thunder Bay, Saskatoon, and Washington-Reagan, all beginning in May. WestJet added direct service to Nassau, Bahamas in December.
On June 1, Air Canada inaugurated the first ever non-stop service between Ottawa and Frankfurt, Germany. The Authority marked the occasion with a fitting send-off under a spectacular water arch courtesy of the Authority's firefighters.

The Frankfurt flight is a particularly important one for Ottawa/Gatineau because of the incredible options it offers travellers. Frankfurt is a major European hub that is connected to over 250 cities, making it easier to get to almost anywhere in the world. From an economic impact point of view, the Frankfurt flight generates approximately $7.2 million in direct economic output annually.

However, the good news was tempered with the skyrocketing cost of jet fuel, coupled with the economic downturn which caused some airlines to reduce or cut service all together. Air Canada, Continental and Delta terminated service to Hamilton, Cleveland and Atlanta respectively, while frequencies were reduced on several other routes. On the air cargo side of the business, FedEx increased its capacity in Ottawa, bringing in a larger and quieter Airbus 310 to replace the 727 that had been serving the region's shippers for years.

Origin and Destination
94% of Traffic (estimated)

Food & Beverage and Retail Services – or Eat, Drink, Shop

There was a lot of activity in the retail and concession sectors as well, particularly in the third quarter, when several new stores opened for business. In April, D'Arcy McGee's Irish Pub opened in the new wing. In October, Fruits & Passion and Artizan opened in the domestic holdroom and Runway Duty Free moved to its new location past the US preclearance checkpoint, making it easier for our passengers to take advantage of duty free liquid

Aircraft Movements	
1997	68,000
1998	77,202
1999	81,808
2000	78,301
2001	72,630
2002	68,499
2003	69,798
2004	69,626
2005	66,146
2006	65,396
2007	72,342
2008	79,777

Direct Destinations	
1997	20
1998	21
1999	25
2000	26
2001	29
2002	30
2003	32
2004	25
2005	27
2006	31
2007	33
2008	34

Five-year Review ($ in thousands)	2004	2005	2006	2007	2008
Revenue	$ 69,632	$ 72,503	$ 75,820	$ 84,713	**$ 86,430**
Expenses before depreciation	60,712	63,491	64,943	66,491	**72,113**
Earnings before depreciation	8,920	9,012	10,877	18,222	**14,317**
Capital Expenditures	9,420	17,503	23,445	57,058	**31,306**
AIF Revenues	23,670	24,520	24,926	28,283	**27,816**

purchases (perfume, spirits, etc.) while adhering to security regulations. In December, Brookstone opened on level 3.

Welcome Neighbour

In terms of land development, the Authority was happy to welcome a new neighbour to the airport campus in the summer. The highly anticipated Hilton Garden Inn opened complete with restaurant, conference and fitness facilities. The hotel is built on airport lands which the Authority has leased to the hotel.

Financial

The Authority has consistently managed its finances with care and responsibility; 2008 was no different despite a challenging economic landscape. The Authority finished the year with earnings before depreciation of $14.3 million, which will be reinvested in airport operations and development in the coming years.

When the cost of jet fuel reached record heights in the summer and began having a serious impact on the airlines, the Authority took the well-received step of reducing the terminal fees that it charges the air carriers by 5%, keeping these fees among the lowest in the country.

Top Canadian Rating

Perhaps the strongest affirmation of the Authority's financial strength came on August 21, when Moody's, one of the Authority's bond rating agencies, upgraded OMCIAA's credit rating from A1 to Aa3 with a stable outlook. This rating is the highest rating that Moody's has given any airport in Canada.

Economic Impact

One of the Authority's goals has always been to give back to the community it serves. There is no better way to do so than through economic development and job creation. In order to effectively measure its contribution, the Authority commissioned an Economic Impact Study in 2008 that confirmed the importance of the Ottawa International Airport as an economic generator for the region. Highlights of the report include the following:

- Direct jobs = 4,900
- Total jobs = 11,800
- Direct wages = $180 million
- Total wages = $450 million
- Direct economic impact = $800 million

Total economic impact = $1.9 billion per year

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	7.37%
	2008	**3,255,540**	**6.64%**	**740,369**	**-0.81%**	**343,315**	**18.68%**	**4,339,225**	**6.13%**
Forecast	2009	3,185,000	-2.17%	712,000	-3.83%	364,000	6.03%	4,261,000	-1.80%
	2010	3,290,000	3.30%	741,000	4.07%	383,000	5.22%	4,414,000	3.59%
	2015	3,718,000	2.60%	878,000	3.70%	465,000	4.28%	5,061,000	2.93%
	2020	4,108,000	2.10%	1,023,000	3.30%	551,000	3.70%	5,682,000	2.45%

Operations

Managing this airport requires investment and infrastructure renewal. In keeping with its requirement to reinvest earnings back into operations and development, the Authority launched and completed several significant projects in 2008.

Phase II – Open for Business

Arguably the most important project was the completion and opening of Phase II of the Airport Expansion Program (Phase II). The new wing, which added more than 7,000 square metres of new domestic/international holdroom space in the Passenger Terminal Building (PTB), was opened in two stages. In March, five new domestic gates were opened on the east side of the wing, along with the new Air Canada Maple Leaf Lounge. In December, an additional seven new gates were opened on the west side, in all replacing seven gates that were eliminated with the closing of the old terminal building. During the months in-between, the remainder of the old terminal was demolished, and the remaining civil works were completed to prepare the apron and ramp area for paving and for the installation of new bridges – eight in total for the project. The expansion positions the airport for increased domestic passenger volumes beyond 2020, and has created space for increased retail and concession development.

More Parking Please

Increased passenger volumes filled the airport's various parking facilities to near capacity levels on a regular basis. To ensure that parking needs continue to be met well into the future, two projects were undertaken in 2008. P4, the airport's long-term surface parking lot was expanded to add 350 additional parking spaces, all of which were used during the holiday season. Further, a Parkade expansion feasibility study was completed to determine the most effective means of adding capacity to the parking structure.

Changing to Serve you Better

The design of the PTB was completed prior to the events of September 11, 2001. That one day caused the upheaval of security regulations and processes at all airports, particularly in the US preclearance area. These changes, as well as those that have been imposed in subsequent years, have resulted in more demand for operational space and left less space for queuing than was originally planned. 2006 restrictions on a passenger's ability to travel with liquids, gels and aerosols in their carry-on luggage have had a serious impact on not only the screening process, but on retailers such as the transborder Duty Free store that was located before the pre-board screening checkpoint.

Five-year Forecast

	Passengers	Annual Growth	Aircraft Movements	Annual Growth	Transport Canada	Annual Growth
1997	3,046,368	6.6%	67,867		$ 3,977,000	
1998	3,110,548	2.1%	77,202	13.8%	$ 5,301,000	33.3%
1999	3,211,607	3.3%	81,808	6.0%	$ 5,948,000	12.2%
2000	3,434,345	6.9%	78,301	-4.2%	$ 6,145,000	2.6%
2001	3,391,295	-1.3%	72,630	-7.2%	$ 8,840,000	43.9%
2002	3,216,886	-5.1%	68,499	-5.7%	$ 11,005,000	24.5%
2003	3,262,345	1.4%	69,798	1.9%	$ 11,329,000	2.9%
2004	3,609,885	10.7%	69,626	-0.2%	$ 11,643,000	2.8%
2005	3,735,433	3.5%	66,146	-5.0%	$ 12,958,000	11.3%
2006	3,807,756	1.9%	65,396	-1.1%	$ 12,487,000	-3.6%
2007	4,088,528	7.4%	72,342	10.6%	$ 11,546,000	-7.5%
2008	**4,339,225**	**6.1%**	**79,777**	**2.0%**	**$ 10,134,120**	**-12.2%**
2009	4,261,000	-1.8%	78,000	-2.2%	$ 7,300,000	-28.0%
2010	4,414,000	3.6%	80,000	2.6%	$ 5,400,000	-26.0%
2011	4,564,000	3.4%	82,000	2.5%	$ 6,000,000	11.1%
2012	4,710,000	3.2%	83,600	2.0%	$ 6,200,000	3.3%
2013	4,856,000	3.1%	85,000	1.7%	$ 6,400,000	3.2%

Notes:
Federal Government Net Book Value at time of transfer - $75M
Total rent projected 1997-2013 - $143M
Forecast passenger volumes are as provided by outside consultants
For financial planning purposes, the Authority forecasts on a more conservative basis

Experience German Engineering First Hand

The Authority participated in an extensive marketing and promotional campaign in support of Air Canada's new Ottawa–Frankfurt service. The campaign, sponsored by the Ottawa Citizen, Mark Motors and the Ottawa Senators included multi-media advertising campaigns in the National Capital Region and in Germany; a tourism mission to Germany to promote Ottawa and the new flight among tour operators; a contest featuring German-born Ottawa Senator, Christoph Schubert and an incredible grand prize of two Executive First tickets to Frankfurt including hotel accommodation, the use of an Audi vehicle while in Germany, a tour of the Audi factory in Germany, a six-month lease of an Audi vehicle and Ottawa Senators' playoff tickets.

In 2008, a $4.1 million project was approved to address these issues. The program included the relocation of the Duty Free store to a new space just beyond preclearance and many airline offices to vacant space on level 2. It also included the addition of a third pre-board screening lane and expansion of the US Customs and Border Patrol preclearance area.

A portion of the approved funds was also directed to improvements at the domestic pre-board screening point, including the addition of queuing space and public restroom facilities. The project will be completed in 2009.

Every Day is Earth Day

On the environmental front, the Authority is committed to minimizing the footprint left by our operations. We continued to reduce, re-use or recycle waste where possible. To this end, we continued with our strategy on paper towel reduction and composting that further reduced use of paper towels and diverted the remainder to compost. A project to compost coffee grinds was also initiated in 2008 with the help of our concessionaire, HMS Host. The end result was a decrease in overall waste produced by the airport in spite of an increase in passenger traffic. In addition, a larger percentage of the waste produced was directed to recycling programs. Our cleaning contractor, Bee Clean, is to be commended for their efforts to contribute to our waste management projects.

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
2008	**86**	**36**	**16**

Planning for the Future

In 2007, an update to the Airport Master Plan and corresponding Land Use Plan was launched. Once approved by the Board of Directors, the updated plans were presented to Transport Canada for review and approval in 2008.

Safety is Key

A multi-year project was launched in 2008 to upgrade the airfield electrical and lighting infrastructure to ensure continued reliability and compliance with safety standards. The firm that prevailed in the tender process, Pryde Schropp McComb Inc., has been working with the Authority to develop an implementation strategy that will be deployed over the next several years. The focus in 2008 was the design of new runway guard lights. The physical work was started in the fall and is to be completed in early 2009. In addition, wiring for Localizer (a navigational aid) for runway 32 was completed. On March 31st, the Authority submitted its Transport Canada Compliance Document, Airport Gap Analysis and Safety Management System (SMS) Implementation plan as required by Transport Canada SMS regulations. All plans received approval in September.

Now in year three of its revamped Bird and Wildlife Mitigation Program, the Authority has made significant strides overall, but particularly in the reduction of Ring Billed Gull strikes – a critical species at OIA. From 35 in 2006, to 17 in 2007 and just 6 in 2008; a reduction in strikes of more than 80% in the species has been recorded since the introduction of the program.

The Authority has implemented a program to train its firefighters as emergency medical first responders. The program provides "medical first responder" and "symptoms relief" training, which exceeds the certification standards set out by the Provincial Base Hospitals and Ministry of Health, Emergency Services. This training will allow for the coordination of the efforts of airport Emergency Response Services and City of Ottawa paramedics so that they may, together, work seamlessly to provide superior care to members of the travelling public and others who use the airport.

In addition, the Authority has purchased a new, state-of-the art command vehicle which not only serves as a response vehicle but can also be used to house command centre personnel from the City of Ottawa in the event of a major emergency. This vehicle was designed in-house and constructed locally.

Employees

The Authority recognizes that its talented and dedicated staff is the backbone of its organization. The continued dedication of all employees to the organization's goals and objectives is the greatest assurance of a bright future. As such, investing in employees' professional development and providing health and wellness initiatives to help achieve a realistic approach to work/life balance are key priorities.

The Workplace is No Place for Violence

The Authority recognizes that a safe workplace is a healthy environment in which employees can thrive, free from hazard. The Authority has developed and adopted a new Workplace Violence Policy, and is fully compliant with *Canada Labour Code* regulations relating to workplace violence. Policies and procedures were developed, and Workplace Violence training was held for all employees. The initiative also resulted in the formation of a Workplace Violence/Harassment Committee which is intended to encourage the reporting of hazards to Authority management.

Senior Management Team (left to right)
Ian Bell, Vice President, Infrastructure and Technology
Krista Kealey, Vice President, Communications and Public Affairs
Paul Benoit, President and CEO
John Weerdenburg, Vice President and Chief Financial Officer
Lisa Dwyer Hurteau, General Counsel
Louise Bergevin, Executive Assistant to the President and CEO
Michael Crockatt, Vice President, Business Development and Marketing
Jean Barrette, Vice President, Operations and Security

Ottawa

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 of the airport's 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 2008 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, 2008.

James Wright

Patrick Kelly **Geneviève Brown** **Raymond Brunet** **Eric McSweeney** **Joan Sun McGarry**

Ron Clifton **Barbara Farber** **Charlie Logue** Secretary **J. Peter Vice, Q.C.** Chairman **Pat Murray** **Pamela Sweet**

Absent: Gilles Lalonde
Michael Skrobica, Vice President

Ottawa

Members of the Board of Directors

Name and Position with Authority	Occupation	Selecting Body and Year Appointed
J. Peter Vice, Q.C. (2) (3) (4) Chairman of the Board Chair, Executive Committee Chair, Governance, Human Resources & Compensation Committee	Partner, Vice Hunter Labrosse LLP	At Large 2003
Michael Skrobica (2) (3) (5) Vice-Chair	Vice-President, Industry Monetary Affairs, Air Transport Association of Canada	Air Transport Association of Canada 2004
Charlie Logue (1) (2) (3) Secretary	Partner, Welch & Company	Minister of Transport 2006 (Government of Canada)
Geneviève Brown (2) (3) (5)	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 (1) (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 (3)	President, Ottawa Congress Centre	Ottawa Tourism 2007
Gilles Lalonde (4)	President and CEO, Provance Technologies Inc.	Ville de Gatineau 2008
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)	CFO, Hulse Playfair & McGarry	City of Ottawa 2006
Pamela Sweet (4)	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
(5) Member of ad hoc committee

Directors' Compensation in 2008

Annual Retainer

Chair	$35,000
Vice-Chair	$15,000
Audit Committee Chair	$17,000
Other Committee Chairs	$15,000
All other Directors	$12,000

Per meeting fee:
- $500 per meeting,
- $200 for attendance by telephone conference call

Attendance at Board and Committee Meetings

Board Member	Board Meetings Attended	Committee Meetings Attended while Member of a Committee
J. Peter Vice, Q.C.	11 out of 11	19 out of 19
Geneviève Brown	10 out of 11	7 out of 9
Raymond Brunet	11 out of 11	12 out of 12
Ron Clifton	8 out of 11	8 out of 12
Barbara Farber	8 out of 11	3 out of 4
Pat Kelly	10 out of 11	4 out of 5
Gilles Lalonde (note 1)	4 out of 4	2 out of 2
Charlie Logue	11 out of 11	8 out of 9
Eric McSweeney	11 out of 11	4 out of 4
Pat Murray	9 out of 11	6 out of 8
Michael Skrobica	10 out of 11	11 out of 11
Joan Sun McGarry	8 out of 11	2 out of 4
Pamela Sweet	9 out of 11	2 out of 4
James Wright	11 out of 11	15 out of 16
Martin Leblanc (note 2)	5 out of 6	1 out of 2

Note 1- new board member effective on August 20, 2008
Note 2- resigned on June 2, 2008

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. One ad hoc committee was formed and met during 2008 to examine the management incentive plan.

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 updated in 1998 and again in early 2008, and the Land Use Plan, which was last updated in 2008, 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.

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 $98,000 ($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.

Executive Management Salary Ranges

The base salary range for the President of the Authority in 2008 was between $200,000 and $250,000. The base salary range for each of the Vice Presidents in 2008 was between $100,000 and $180,000.

In addition, under the management incentive plan, 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.

Stars of the City

The Stars of the City program is an Ottawa Tourism initiative aimed at recognizing front line staff who go out of their way to ensure that visitors to the City have a memorable and outstanding stay. Over the years, Infoguide volunteers, airline staff and Authority staff, among others, have been nominated as "Stars". In an effort to encourage the best possible service across the campus, the Ottawa Airport has become a more involved participant in the program. Through an on-campus publicity campaign aimed at all tenants and partners, a wide distribution of pamphlets throughout the terminal, and a link to the program from the airport's website, we aim to have several nominees to honour by the fall of 2009. The good news is that we are on our way!

STARS OF THE CITY

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 charge, during its usual business hours:

- the current Airport Master Plan;
- a summary of the Authority's current Business and Strategic Plans;
- the most recent and the previous annual financial statements of the Authority, with the accompanying auditors reports (included in each year's Annual Report);
- its five most recent Annual Reports, each of which includes a general summary of the Authority's affairs during the previous fiscal year;
- summaries of the Authority's five most recent Business Plans;
- the Authority's Articles of Incorporation (its letters patent) and Bylaws, including any amendments;
- all signed airport transfer agreements; and
- a summary of the Authority's Five-year Performance Review document.

Contracts in excess of $98,000 that were not awarded on the basis of a public competitive process during 2008.

Contractor	Contract Description	Reason for Sole Source
ARINC	$695,200 Supply and install common use self-service kiosks (CUSS kiosks). $147,800 Maintenance agreement for CUSS kiosks.	To ensure integration and functionality with existing common use systems and equipment purchased following a public competitive process.
ThyssenKrupp Airport Systems Inc.	$183,400 Provide preventative maintenance for 8 passenger bridges.	Single source for service and maintenance of equipment purchased following a public competitive process.
JL Richards & Associates	$295,000 Architectural and engineering services for preclearance area modifications project.	Prior experience, knowledge of the facility, and expertise of the contractor and the need to expedite this project.
City of Ottawa -Ottawa Police Services	$14,292,300 over 5 years commencing 2009 Provide policing services.	Only source available to provide armed policing services.
Joe Johnson Equipment Inc.	$134,500 Supply trackless sidewalk plough.	Maintains a standard fleet of equipment to achieve operational efficiency.
Bee-Clean	$115,000 Provide concierge services to business class customers.	Pilot project – contracted rates are the same as contract for other services awarded on the basis of a public competitive process.
Basic Solutions North America Corp.	$122,200 Supply and deliver potassium acetate.	Specialized product with limited availability of supply in required quantity.
IMI Manufacturing	$138,300 Supply and install sound enclosure (preclearance area modifications project).	Prior experience and expertise of the contractor in a highly specialized area.
Cormier et Frères	$198,900 Lift tube repairs.	Prior experience and expertise of the contractor in a highly specialized area.

Contacting the Authority

There are a number of methods available to the public to contact and provide 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 Airport 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.

DND Military Repatriation

In the fall, the Authority worked with the Department of National Defence to determine the details of a program that would designate OIA as an arrival point for repatriated wounded soldiers from Afghanistan. As a result, with the assistance of Air Canada Concierge, the soldiers are met at the gate by a military representative and escorted to the Authority's VIP Lounge where the soldiers can be reunited with their loved ones in private. DND support personnel can also be available to provide assistance as required.

A "welcome home" banner was created by the Authority and the entire airport community was invited to put pen to paper as a show of support for the troops. Hundreds of signatures and messages of thanks and appreciation were written on the banner which now graces the entry of the VIP Lounge and welcomes the soldiers home.

2008 Financial Review

This Financial Review reports on the results and financial position of Ottawa International Airport Authority (the Authority) for its year ended December 31, 2008. 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, 2008 were $14.3 million compared to $18.2 million for the year ended December 31, 2007.

The largest factors that impacted results were a 6.1% increase in passenger volumes over 2007 volumes and a 6.6% increase in available airline seats serving the Ottawa market. These volume increases had a favourable impact on revenues from airport improvement fees, aeronautical fees charged to air carriers, and parking revenues. Over $2.1 million in unusual, non-recurring items affected the comparison of these 2008 results to 2007 results. These included $1.1 million in unusual and non-recurring airport improvement fee (AIF) receipts in 2007, $0.5 million in recoveries of bad debts in 2007, and $0.5 million in payment reductions in 2008 related to non-recurring AIF fee receipts recorded in 2007.

The Authority recorded depreciation of $17.2 million in 2008 compared to $14.6 million in 2007, reflecting depreciation of the terminal building and facilities over their estimated economic lives. The increase in depreciation in 2008 reflects depreciation on new investments in property, plant and equipment, including completion of Phase II of the Authority's Airport Expansion Program (Phase II) (AEP), which came into service in 2008. After subtracting depreciation, the excess of expenses over revenues in 2008 amounted to $2.9 million as compared to an excess of revenues over expenses of $3.6 million in 2007.

Selected Annual Information

The Authority's net operating results for the three years ended December 31, 2008 are summarized as follows:

(in millions)	2008	2007	2006
Revenues	$ **86.4**	$ 84.7	$ 75.8
Expenses before depreciation	**72.1**	66.5	64.9
Earnings before depreciation	**14.3**	18.2	10.9
Depreciation	**17.2**	14.6	14.2
Net of revenues over expenses (expenses over revenues)	$ **(2.9)**	$ 3.6	$ (3.3)
Total assets	$ **432.2**	$ 446.0	$ 360.8
Total long-term debt	$ **350.9**	$ 352.4	$ 273.7

Results Of Operations

Operating Activities

On March 13, 2008, a newly constructed addition to the Passenger Terminal Building (PTB), a significant part of Phase II, became operational. The remaining portions of Phase II, including demolition of the old terminal building, completion of the apron and installation of loading bridges, were completed in late 2008. Phase II was completed on schedule and on budget. As a result of start-up of operations in the expanded facilities, the Authority commenced depreciating these capital costs and ceased capitalizing interest costs for accounting purposes on March 13, 2008. Accordingly, depreciation and interest expense reflected in the statement of operations have increased.

During 2008, 4,339,225 passengers moved through the airport as compared to 4,088,528 passengers in 2007, an increase of 6.1%. This increase occurred as follows:

- domestic volumes increased 6.4%,
- transborder volumes decreased 0.8%, and
- international volumes increased 18.7%.

The increased travel to domestic destinations continued the pace set in 2007 through the first three quarters of 2008, and then slowed down in the fourth quarter, coincident with reports of a slowing Canadian economy. In early 2008, domestic growth exceeded expectations as airlines met the demand of the lucrative, high-yield Ottawa market with more competitive pricing and added domestic seat capacity with new routes and frequencies to the Ottawa market. Growth in travel to transborder destinations has been affected by the slowdown in the US economy.

With the exception of modest growth in 2005 due to the impacts of Hurricanes Katrina and Wilma, growth in travel to international (non US) sunshine destinations has continued to be significant since 2001. Robust seasonal traffic continued in 2008 with international travel volumes higher than 2007 by 18.7%. International volumes also increased as a result of passenger traffic on Air Canada's new direct non-stop flight to Frankfurt which commenced operations on June 1. The addition of the Ottawa-Frankfurt flight not only helps attract passengers connecting from other markets in Canada, but also targets passengers on competing airlines using surface transportation between Ottawa and Montreal. Driven by the Ottawa-Frankfurt route, 44% growth in international travel in the third quarter of 2008 set a new growth record with the previous record at 31% in the fourth quarter of 2007.

Both of Canada's largest carriers, Air Canada and WestJet, saw Ottawa passenger volumes to domestic destinations increase in 2008 with WestJet's volumes increasing more significantly of the two. Porter's 2008 domestic volumes for Ottawa increased very strongly. Porter's service to Toronto City Centre Airport has proven to be an exceptionally popular option for accessing Toronto, particularly for business travellers.

By sector, for each quarter of 2008 passenger volumes compared to comparable quarters in 2007 were as follows:

	Domestic	Transborder	International
Q1	Higher by 7.8%	Higher by 1.5%	Higher by 12.9%
Q2	Higher by 11.2%	Lower by 3.5%	Higher by 19.6%
Q3	Higher by 8.0%	Higher by 2.0%	Higher by 44.1%
Q4	Lower by 0.2%	Lower by 3.4%	Higher by 8.4%

By quarter, total passenger volumes were as follows:

	2008	2007	% change
Q1	**1,109,336**	1,035,044	7.2%
Q2	**1,120,606**	1,028,475	9.0%
Q3	**1,090,758**	1,003,255	8.7%
Q4	**1,018,525**	1,021,754	(0.3%)
Total	**4,339,225**	4,088,528	6.1%

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 2008, the number of landed seats increased by 6.6% from 2007. In the first nine months of 2008, the number of landed seats increased by 9.6% from the comparable period in 2007 as WestJet and Air Canada increased flight frequencies to add seat capacity to the Ottawa market and seasonal carriers added flights to sunshine destinations early in 2008; however, both WestJet and Air Canada, and also US carriers, such as United Airlines and Continental, decreased seat capacity out of Ottawa in the fourth quarter with a resultant decrease in landed seats in the fourth quarter of 2%. Porter Airlines, which has operated daily scheduled service between Ottawa and Toronto City Centre Airport since late October 2006, maintained and grew its available seat capacity in the market throughout the year. Airlines continue to fill more seats with passengers on fewer aircraft and both Air Canada and WestJet 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 2% to $86.4 million in 2008 compared to $84.7 million in 2007. Aeronautical revenues accounted for $1.3 million of the increase, with car parking increasing by $1.0 million.

Revenues by category

($ in thousands)	2008	2007	Change	%
Airport improvement fees	**$ 27,816**	$ 28,283	$ (467)	(2%)
Terminal fees and loading bridge charges	**19,707**	18,747	960	5%
Landing fees	**10,239**	9,949	290	3%
Concessions	**9,857**	9,094	763	8%
Car parking	**10,609**	9,640	969	10%
Land and space rentals	**4,609**	4,125	484	12%
Interest	**1,253**	2,327	(1,074)	(46%)
Other revenue	**2,340**	2,548	(208)	(8%)
	$ 86,430	$ 84,713	$ 1,717	2%

Although passenger volumes increased in 2008 from 2007, AIF revenues decreased from 2007 as a result of onetime payment adjustments in both years. Excluding onetime payment adjustments of $1.1 million in 2007 and a onetime reduction of payments by $0.5 million in 2008, AIF revenues would otherwise have increased from 2007 by $1.1 million, or 4%, commensurate with the increase in passenger volumes. In the second quarter of 2008, Air Canada corrected an error that it had made in a special payment made to the Authority in the third quarter of 2007. In the third quarter of 2007, Air Canada had 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. As a result, the Authority received an additional AIF payment of $0.8 million from Air Canada in September 2007. In the second quarter of 2008, Air Canada corrected this amount with a reduction of its payment and a subsequent correcting payment resulting in a net reduction of $0.5 million from its payment to the Authority. In addition, in the third quarter of 2007 the Authority received and recorded as AIF revenue $0.3 million related to the bankruptcy of Canada 3000 (bankrupt in 2001). An average of approximately 94% of departing passengers originated in Ottawa (versus connecting through Ottawa) in 2008, which was unchanged from 2007. 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.

Aeronautical revenues represent the largest source of revenues for the Authority. At $29.9 million in 2008, total aeronautical revenues, which include terminal fees, loading bridge charges and landing fees charged to air carriers, were 4.4% higher than revenues of $28.7 million in 2007. The increase reflects higher seat volumes provided by airlines to serve increased passenger demand in the Ottawa market, although some of these additional flights were exempt from certain fees as a result of the Authority's incentive programs. The Authority decreased its rates for general terminal fees by 5% effective July 1, 2008. The Authority's average aeronautical fee rates remain among the lowest in Canada.

Concession revenues increased to $9.9 million in 2008 from $9.1 million in 2007 primarily as a result of higher minimum annual guarantees in food and beverage and retail concession contracts, but also commensurate with increased passenger volumes. Car parking revenues increased to $10.6 million in 2008 from $9.6 million in 2007 commensurate with the increase in passenger volumes and an increase in the average stay in the parking facility. Demand for parking and the availability of convenient parking options have continued to contribute to increased parking revenues.

Revenues from land and space rentals increased primarily as a result of a new space lease in the new terminal building extension which opened on March 13, 2008, but also as a result of a new land lease on excess authority 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 decreased as a result of lower cash balances as funds have been spent on the expansion program.

In 2007, other revenue included proceeds of $0.4 million related to the sale by Transport Canada of lands to the City of Ottawa. These lands, included in the Authority's ground lease with Transport Canada, were required for road widening work by the City, and were excess to the airport's operational requirements. No such transactions occurred during 2008.

Expenses

Expenses by category

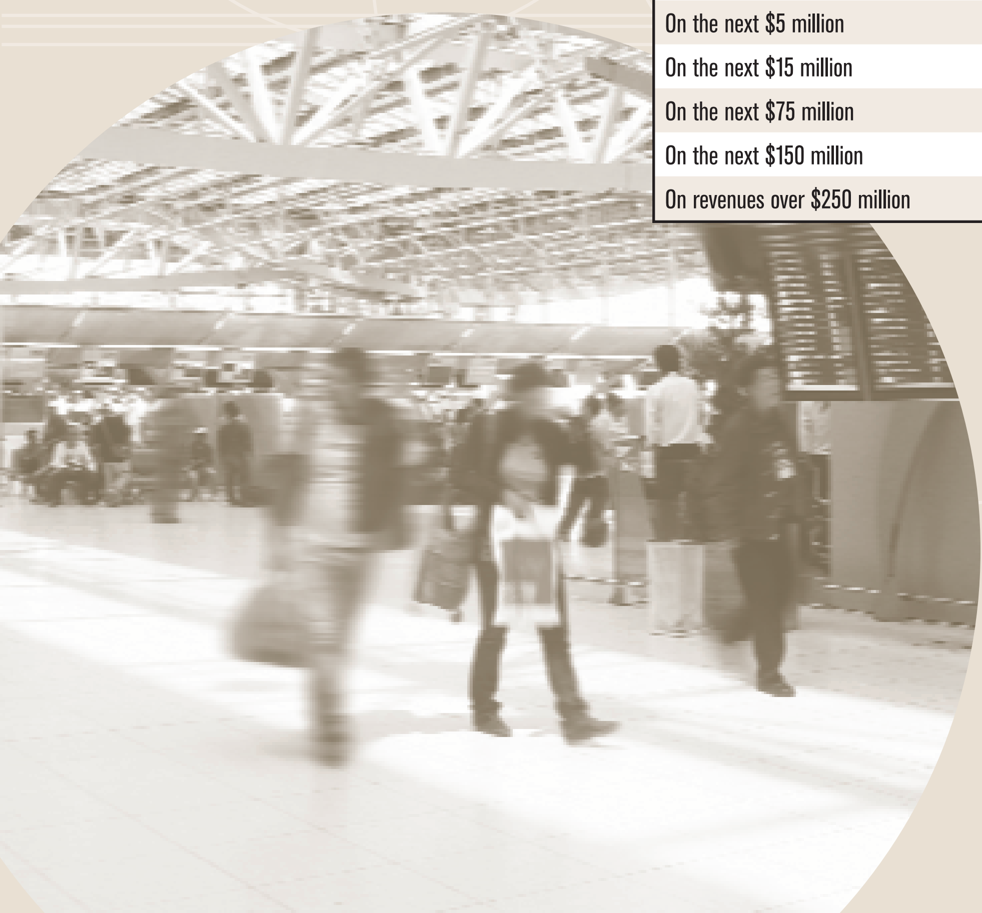
($ in thousands)	2008	2007	Change	%
Interest	$ 19,694	$ 18,810	$ 884	5%
Ground rent	10,134	11,546	(1,412)	(12%)
Materials, supplies and services	22,280	17,875	4,405	25%
Salaries and benefits	15,733	14,191	1,542	11%
Payments in lieu of municipal taxes	4,272	4,069	203	5%
	$ 72,113	$ 66,491	$ 5,622	8%

Expenses before depreciation increased to $72.1 million in 2008 from $66.5 million in 2007. In addition, depreciation increased to $17.2 million in 2008 from $14.6 million in 2007. The increase in depreciation reflects depreciation on new investment in property, plant and equipment which came into service in late 2007 (transborder modifications) and in March 2008. The addition to the PTB, a significant part of Phase II became operational on March 13, 2008.

Interest expense reflected in the statement of operations has increased as a result of borrowing to invest in the Airport Expansion Program (AEP). Prior to March 13, 2008, the Authority capitalized interest on new debt directly attributable to the cost of the AEP before the project became operational, but only to the extent that cash had been invested in the AEP. All interest expense is now reflected in the statement of operations.

Ground rent payable to the Government of Canada decreased by 12% to $10.1 million in 2008 as a result of changes in the rent formula announced 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:

2009	$ 7.3 million
2010	$ 5.4 million
2011	$ 6.0 million
2012	$ 6.2 million
2013	$ 6.4 million

The cost of materials, supplies and services increased from $17.9 million in 2007 to $22.3 million in 2008. The amount reflected as expense in 2007 was net of $0.5 million in recoveries of bad debts previously recognized as uncollectible from InterCanadien (bankrupt in 2000) and Canada 3000 (bankrupt in 2001). The record snow falls that occurred during the first quarter of 2008 caused an increase of over $0.6 million from the increased use of chemicals, fuel, equipment rentals and other supplies that were required to maintain runway conditions and remove snow from surface parking lots and roadways. In the fourth quarter, the price of chemicals used to maintain runway conditions increased considerably as a result of shortages in supply due to a strike at the supplier of these chemicals. This, together with increased usage, caused a further increase of approximately $0.4 million in the cost of runway maintenance in the fourth quarter of 2008. As expected, the cost of operating the physical plant increased with the opening of the new addition to the passenger terminal building on March 13, 2008. The costs of utilities, cleaning, and security have increased by approximately $1.0 million from the 2007. Lastly, the Authority has increased spending on facility repairs and maintenance, and repairs of loading bridges by approximately $1.3 million.

In its budget announced on January 27, 2009, the Government of Canada announced a reduction in its policing contribution agreement program to be implemented in the Government's 2009/2010 fiscal year. The Authority received $1.0 million in connection with this agreement during 2008 and recorded this as a reduction of the related cost of this service. It was subsequently determined that this program will be discontinued effective January 1, 2010. Accordingly, management believes that this will not affect the Authority in 2009.

The cost of salaries and benefits increased 11% from $14.2 million in 2007 to $15.7 million in 2008. Approximately $0.6 million of this increase was due to increased costs for seasonal workers and overtime as a result of severe weather conditions and record snow falls during the quarter ended March 31, 2008. In addition, the cost of salaries and other employee benefits reflects final contracted rate increases for the Authority's two collective agreements with its firefighters and other unionized employees, estimated contract rate increases for the Authority's collective agreement with its firefighters subsequent to its expiry on June 30, 2007, and a small increase in the number of employees related to the Authority's expanded facilities.

Payments in lieu of municipal taxes increased by 5% to comply with provincial legislation that prescribes the calculation of this payment. Under this legislation, payments in lieu of municipal taxes are based on a fixed legislated rate for the Authority, multiplied by the previous year's passenger numbers, but to a maximum increase of 5% over the previous year's payment amount. The $4.3 million paid for 2008 reflects the large increase in passenger volumes that occurred in 2004 and 2007. Payments in lieu of taxes will increase again in 2009 by 5% over the 2008 amount based on this legislation and, if passenger volumes in 2009 remain at 2008 levels, payments in lieu of taxes will increase by a further 4.2% in 2010.

Summary of Quarterly Results

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

(in millions)	2007				2008			
Quarter ended	Mar	June	Sept	Dec	**Mar**	**June**	**Sept**	**Dec**
Revenue	$ 20.6	$ 20.9	$ 21.6	$ 21.6	**$ 22.5**	**$ 22.0**	**$ 21.2**	**$ 20.7**
Expense	16.5	16.3	15.9	17.8	**18.0**	**17.7**	**17.0**	**19.4**
Earnings before depreciation	4.1	4.6	5.7	3.8	**4.5**	**4.3**	**4.2**	**1.3**
Depreciation	3.6	3.6	3.7	3.7	**3.9**	**4.3**	**4.4**	**4.6**
Excess revenue overexpense (expense over revenue)	$ 0.5	$ 1.0	$ 2.0	$ 0.1	**$ 0.6**	**$ 0.0**	**($ 0.2)**	**($ 3.3)**

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 2008, the Authority made cash payments of $33.7 million for major capital expenditures for Phase II. In addition, during 2008 the Authority made cash payments of $8.0 million for sustaining capital expenditures and special projects, including renovations to the US preclearance area of the terminal building which will be completed in early 2009.

On March 13, 2008, a newly constructed addition to the PTB, a significant part of Phase II became operational.

The Authority proceeded with the planning and design of Phase II 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 PTB (including 7,000 square meters added to the passenger holdroom level and 12 new gates), demolition of the original old air terminal building, and airside infrastructure to support the expanded terminal complex, and $3 million for improvements at the transborder end of the PTB. The remaining portions of Phase II including bridges and apron, were completed in the fourth quarter of 2008. Phase II was completed on schedule and on budget.

Contractual Obligations

In addition to ground rent payments noted above, the Authority has operating commitments in the ordinary course of business requiring payments which diminish as contracts expire as follows:

Payments for years ending December 31							
($ in thousands)	Total	2009	2010	2011	2012	2013	Thereafter
Long-term debt (note 1)	$350,939	$1,765	$2,041	$2,339	$2,097	$2,409	$340,288
Operating commitments	19,030	6,113	3,682	3,095	3,070	3,070	
Capital commitments	3,575	1,296	2,279				
Total contractual obligations	$373,544	$9,174	$8,002	$5,434	$5,167	$5,479	$340,288

Note 1 – Further information on interest rates and maturity dates on long-term debt are provided in note 7 to the financial statements.

Liquidity And Capital Resources

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

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 22, 2009. 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 AEP Phase I, the Authority established a Capital Markets Platform under a Master Trust Indenture (MTI) setting out the terms of all debt, including bank facilities and revenue bonds. Under the MTI, the Authority is required to maintain with the Trustee, a Debt Service Reserve Fund equal to six months' debt service. At December 31, 2008, the balance in the Debt Service Reserve Fund was $10.4 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, 2008, $8.1 million of the Authority's credit facilities had been allocated exclusively to the Operating and Maintenance Reserve Fund. At December 31, 2008 the Authority was in full compliance with the provisions of its debt facilities, including the MTI's provisions related to reserve funds, the flow of funds and the rate covenant.

During 2008 the Authority's cash balance decreased by $27.8 million as a result of the Authority's capital expenditure programs. The Authority completed the year with cash and short-term investments of $11.6 million. Cash has been invested in short-term investments permitted by the MTI, while maintaining liquidity for purposes of investing in the Authority's capital programs.

As at December 31, 2008, the Authority's accounts receivable had decreased from December 31, 2007 by $0.5 million to $6.0 million. Improved collections and a slight decrease in billed revenues in the last quarter caused this improvement. The decrease occurred in spite of an increase of $0.5 million in the amount receivable from Transport Canada related to the police contribution agreement. This program was transferred from the Canadian Air Transport Security Authority (CATSA) to the Government of Canada (Transport Canada) effective April 1, 2008. Delays by Transport Canada in rewriting and concluding a new contribution agreement caused delays in processing of claims for these amounts. The revised agreement was finalized in late December 2008 and these amounts were received in early 2009.

As at December 31, 2008, the Authority's accounts payable had decreased by $10.3 million to $12.5 million. The decrease is primarily attributable to payments and releases of holdbacks related to the AEP.

During 2008, Moody's upgraded the Authority's credit rating to Aa3 from A1 with a stable outlook in respect of the Authority's revenue bonds under the MTI. Standard & Poors and DBRS reaffirmed the Authority's credit ratings of A+ and A(high), respectively.

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 regulation, 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 OIA, 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 travelers, whose travel decisions are less discretionary than those of leisure travelers.

Aviation Liability Insurance

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

Ottawa

Financial statements of
Ottawa Macdonald-Cartier International Airport Authority

December 31, 2008

Management's Responsibility for Financial Statements

Management of Ottawa Macdonald-Cartier International Airport Authority is responsible for the integrity of the accompanying financial statements and all other information in this Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Their preparation necessarily involves the use of management's best estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the information and data contained in the financial statements.

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

The Board of Directors discharges its responsibilities for the financial statements primarily through its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Authority. This committee meets periodically with management and independent auditors to review performance and to discuss audit, internal control, accounting policy, and financial reporting matters. The Audit Committee reports its findings to the Board of Directors which reviews and approves annual financial statements. These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

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

Paul Benoit
President and Chief Executive Officer

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

Auditors' Report

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, 2008 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

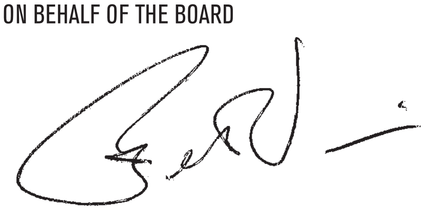
Ottawa Ontario
January 30, 2009

Balance Sheet

as at December 31, 2008 (in thousands of dollars)

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ **11,593**	$ 39,433
Accounts receivable	**5,958**	6,430
Consumable supplies	**1,469**	1,278
Prepaid expenses and advances	**708**	757
	19,728	47,898
DEBT SERVICE RESERVE FUND (Note 7(a))	**10,384**	10,605
PROPERTY, PLANT and EQUIPMENT (Note 3)	**395,806**	381,748
OTHER ASSETS (Note 4)	**6,290**	5,768
	$ **432,208**	$ 446,019
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ **12,504**	$ 22,832
Current portion of long-term debt (Note 7)	**1,765**	1,510
	14,269	24,342
ACCRUED BENEFIT LIABILITY (Note 9)	**4,363**	3,613
SECURITY DEPOSITS	**346**	390
LONG-TERM DEBT (Note 7)	**345,456**	347,023
	364,434	375,368
Commitments and Contingencies (Note 11)		
NET ASSETS (Note 8)	**67,774**	70,651
	$ **432,208**	$ 446,019

ON BEHALF OF THE BOARD



,Director ,Director

(See accompanying notes to the financial statements)

Statement of Operations and Changes in Net Assets

year ended December 31, 2008 (in thousands of dollars)

	2008	2007
REVENUES		
Airport improvement fees (Note 8)	**$ 27,816**	$ 28,283
Terminal fees and loading bridge charges	**19,707**	18,747
Landing fees	**10,239**	9,949
Concessions	**9,857**	9,094
Car parking	**10,609**	9,640
Land and space rentals	**4,609**	4,125
Interest	**1,253**	2,327
Other revenue	**2,340**	2,548
	86,430	84,713
EXPENSES		
Interest (Note 7(d))	**19,694**	18,810
Ground rent (Note 11)	**10,134**	11,546
Materials, supplies and services (Note 12)	**22,280**	17,875
Salaries and benefits	**15,733**	14,191
Payments in lieu of municipal taxes	**4,272**	4,069
	72,113	66,491
EARNINGS BEFORE DEPRECIATION	**14,317**	18,222
DEPRECIATION	**17,194**	14,622
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	**(2,877)**	3,600
NET ASSETS, BEGINNING OF YEAR	**70,651**	67,051
NET ASSETS, END OF YEAR	**$ 67,774**	$ 70,651

(See accompanying notes to the financial statements)

Statement of Cash Flows

year ended December 31, 2008 (in thousands of dollars)

	2008	2007
Cash provided by (used in) -		
Operations:		
Excess of revenues over expenses (expenses over revenues)	**$ (2,877)**	$ 3,600
Add non-cash items:		
Depreciation	**17,194**	14,622
Amortization of deferred financing costs	**194**	269
Increase in accrued benefit liability	**750**	877
Decrease (increase) in accrued benefit asset	**(522)**	237
Changes in non-cash working capital related to operations:		
Accounts receivable	**472**	(1,891)
Prepaids and consumable supplies	**(142)**	(257)
Accounts payable and accrued liabilities	**57**	2,237
	14	24
Total operations	**15,140**	19,718
Financing activities:		
Issue of long-term debt (Note 7)	**-**	200,000
Debt issue transaction costs	**-**	(1,224)
Decrease (increase) in debt service reserve fund (Note 7(a))	**221**	(1,399)
Repayment of long-term debt	**(1,510)**	(121,273)
Total financing activities	**(1,289)**	76,104
Investing activities:		
Purchase of property, plant and equipment	**(31,306)**	(57,058)
Change in accounts payable and accrued liabilities related to investing activities	**(10,385)**	9,381
Total investing activities	**(41,691)**	(47,677)
Increase (decrease) in cash	**(27,840)**	48,145
Cash and short-term investments (bank indebtedness), beginning of year	**39,433**	(8,712)
Cash and short-term investments, end of year	**$ 11,593**	$ 39,433

(See accompanying notes to the financial statements)

Notes to the Financial Statements

for the year ended December 31, 2008

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 (OIA), the premises of which are leased to the Authority by the Government of Canada (Transport Canada - see Note 11), 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 OIA.

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	3 – 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

Construction in progress includes costs associated with the Airport Expansion Program (AEP). 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. Under the effective interest rate method, amortization is recognized over the life of the debt at a constant rate applied to the net carrying amount of the debt. Amortization is included in interest expense. Deferred financing costs are reflected as a reduction in the carrying amount of related long-term debt.

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 7 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 and hedging

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, accounts payable and accrued liabilities, security deposits, and long-term debt. Bank indebtedness is 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

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 other comprehensive income items and no items in accumulated other comprehensive income.

International Financial Reporting Standards

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that use of International Financial Reporting Standards (IFRSs) will be required in 2011 for publicly accountable enterprises in Canada. IFRSs will replace Canada's current generally accepted accounting principles (GAAP) for those enterprises. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement, and disclosures. These standards will come into effect for the Authority's first quarter ending March 31, 2011. The Authority is currently evaluating the impact of adopting IFRS on its financial statements.

3. Property, Plant And Equipment

(in thousands of dollars)

	2008	2007
Cost:		
Buildings and support facilities		
Buildings and building improvements	$ 331,646	$ 264,205
De-icing facility	7,191	7,191
Pedestrian bridges	13,265	7,105
Utilities infrastructure	5,726	5,443
	357,828	283,944
Runways, roadways and other paved surfaces	49,710	29,402
Land improvements	21,977	21,660
Furniture and equipment	23,286	21,026
Computer equipment and systems	17,950	14,535
Vehicles	10,408	9,246
Construction in progress	-	70,128
	481,159	449,941
Less accumulated depreciation:		
Buildings and support facilities		
Buildings and building improvements	40,342	31,332
De-icing facility	2,046	1,733
Pedestrian bridges	1,935	1,438
Utilities infrastructure	1,325	1,104
	45,648	35,607
Runways, roadways and other paved surfaces	8,986	7,502
Land improvements	4,806	3,881
Furniture and equipment	10,196	8,276
Computer equipment and systems	10,591	8,325
Vehicles	5,126	4,602
	85,353	68,193
	$ 395,806	$ 381,748

Interest costs of $413 thousand (2007 – $1,055 thousand) were capitalized and included in construction in progress in 2008.

4. Other Assets

(in thousands of dollars)

	2008	2007
Accrued benefit asset (note 9)	$ 3,360	$ 2,838
Interest in future proceeds from 4160 Riverside Drive, at cost	2,930	2,930
	$ 6,290	$ 5,768

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

5. Credit Facilities

The Authority maintains credit facility agreements with two Canadian banks. Under these credit facilities the Authority is provided with a 364-day revolving operating facility in an amount of up to $20 million plus 364-day revolving credit facilities up to $97 million in the aggregate for general corporate purposes and for the financing of capital expenditure requirements associated with the Authority's Airport Expansion Program (AEP). These facilities are secured under the Master Trust Indenture (see Note 7) and are due on October 22, 2009. They are available by way of overdraft, Prime Rate Loans, or Banker's Acceptances. As at December 31, 2008, $8.1 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 7). In addition, as at December 31, 2008 the Authority has a letter of credit outstanding in the amount of $1,548,000 in favour of the Authority's pension plan (see Note 9).

6. Capital Management

The Authority is incorporated without share capital under Part II of the Canada Corporations Act and, as such, all earnings are retained and reinvested in airport operations and development. Accordingly, the Authority's only sources of capital for investing in airport operations and development are bank debt, long term debt and accumulated earnings included on the Authority's balance sheet as Net Assets.

The Authority incurs debt, including bank debt and long-term debt, to fund development. It does so on the basis of the amount that it considers that it can afford and manage based on revenues from airport improvement fees (AIF) and to maintain a minimum AIF: debt service coverage ratio. This provides for a self-imposed limit on what the Authority can spend on major development of the airport, such as the AEP.

The Authority manages its rates and charges for aeronautical and other fees to safeguard the Authority's ability to continue as a going concern and to maintain a conservative capital structure. It makes adjustments to these rates in light of changes in economic conditions and events, and to maintain sufficient net earnings to meet ongoing debt coverage requirements.

The Authority is not subject to capital requirements imposed by a regulator.

7. Long-Term Debt

(tabular amounts in thousands of dollars)

	2008	2007
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	$ 147,805	$ 148,635
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	200,000
Non-interest-bearing debt to the Province of Ontario, discounted at a rate of 6.0%, payable in 5 equal instalments of $532 thousand over a 5 year period commencing January 31, 2007	1,508	1,955
Deferred rent repayable to the Government of Canada, without interest in equal monthly instalments over a ten year period commencing in 2006	1,626	1,859
	350,939	352,449
Less: deferred financing costs	3,718	3,916
	347,221	348,533
Less: current portion	1,765	1,510
	$ 345,456	$ 347,023

a) Bond Issues

In May 2002, the Authority completed its original $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. In May 2007, the Authority completed a $200 million Revenue bond issue, in part to refinance the Series A, Revenue bonds payable on May 25, 2007. The $200 million Revenue bonds, Series D at 4.733% are due on May 2, 2017 and are expected to be refinanced in 2017.

The net proceeds from these offerings were used to finance the AEP and for general corporate purposes. These purposes included refinancing existing bank indebtedness incurred by the Authority in connection with the AEP and funding of the Debt Service Reserve Fund.

Under the Master Trust Indenture entered into by the Authority in connection with the original debt offering in May 2002, all of these bond issues are direct obligations of the Authority ranking pari passu with all other indebtedness issued. 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, 2008, the Debt Service Reserve Fund included $10.4 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 $8.1 million in 2008 based on 2007 expenses). The Operating and Maintenance Reserve Fund has been satisfied by the undrawn availability under a committed credit facility described above.

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

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

d) Interest expense

	2008	2007
Bond interest	$ 19,812	$ 19,303
Interest expense - Other	295	562
	20,107	19,865
Less: Capitalized interest	(413)	(1,055)
	$ 19,694	$ 18,810
Interest paid during the year	$ 19,834	$ 18,698

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

2009	$ 1,765
2010	2,041
2011	2,339
2012	2,097
2013	2,409
Beyond 2013	340,376

f) Deferred financing costs

	2008	2007
Deferred financing costs	$ 4,398	$ 4,398
Less: Accumulated amortization	(680)	(482)
	$ 3,718	$ 3,916

8. Airport Improvement Fees (AIF)

(tabular amounts in thousands of dollars)

On September 1, 1999, the Authority implemented an AIF of $10.00 per local boarded passenger to fund the cost of major capital expenditures under the Authority's AEP. This fee was increased to $15.00 effective January 1, 2003. These fees are collected by air carriers under an agreement between the Authority, the Air Transport Association of Canada, and the air carriers serving 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 of 6% withheld by air carriers of $1,647 thousand (2007 - $1,769 thousand).

	2008	Cumulative to date
Airport Expansion Program Expenditures:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	$ 47,988	$ 445,557
Interest capitalized	413	16,969
Interest expensed (including internal interest on funds provided by operations)	21,784	112,866
	70,185	575,392
AIF cash receipts:		
AIF revenue – net of collection fees	27,816	196,634
Interest on surplus funds	1,081	9,654
	28,897	206,288
(Increase) decrease in accounts receivable	321	(1,784)
AIF revenue – net cash received	29,218	204,504
Excess of expenditures over AIF receipts	$ 40,967	$ 370,888

Net assets of the Authority as at December 31, 2008 are as follows:

	2008	2007
Net assets provided by airport improvement fees:		
Accumulated airport improvement fees and interest on surplus funds	$ 206,288	$ 177,391
Less: Accumulated amortization of AEP assets	62,668	49,120
Interest and other expenses	116,157	93,885
	27,463	34,386
Net assets provided by other operations:		
Accumulated, end of year	40,311	36,265
Net assets, end of year	$ 67,774	$ 70,651

The Authority is not subject to externally imposed capital requirements

9. Pension Plan and Post Retirement Benefits

(tabular amounts in thousands of dollars)

The Authority sponsors and funds a pension plan for its employees, which has defined benefit and defined contribution components. The defined benefit component is for employees who were employees of the Authority on the date of transfer, including former Transport Canada employees, some of whom transferred their vested benefits from the Public Service Superannuation Plan to the Authority's pension plan. Pension benefits payable under the defined benefit component of the plan are based on members' years of service and the average of the best six years' consecutive earnings near retirement. Benefits are indexed annually to reflect the increase in the consumer price index to a maximum of 8% in any one year. Pension plan costs are charged to operations as services are rendered based on an actuarial valuation of the obligation.

In addition to pension plan benefits, the Authority provides other post-employment and retirement benefits to its employees including health care insurance and severance pay upon retirement or termination of employment. The Authority accrues the cost of these future benefits as employees render their services based on an actuarial valuation. This plan is not funded.

At the last actuarial valuation of the pension plan as at December 31, 2007 (completed and filed in June 2008), the plan had a surplus on a funding (going concern) basis of $1,759,000. 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 a decision to terminate. At the last actuarial valuation as at December 31, 2007, the plan had a deficit on a solvency basis of $4,727,000 ($3,508,000 as at December 31, 2006) before considering the present value of additional solvency payments required under the Act. The Authority made additional solvency payments of $761,700 in 2008 to amortize this deficiency. To allow for funding of the 2006 deficiency over a 10-year period, in accordance with Part 3 of the Solvency Funding Relief Regulations of the Pension Benefits Standards Act, 1985, in 2007 the Authority provided a standby letter of credit in favour of the plan which was subsequently increased in amount in accordance with the regulations. The amount of the letter of credit was increased to $1,548,000 as at December 1, 2008.

The next required actuarial valuation of the pension plan as at December 31, 2008 is scheduled to be completed and filed by its June 2009 due date. Based on the most recent actuarial determination of pension plan benefits completed as at December 31, 2007 and extrapolated to December 31, 2008, the status of the pension plan is as follows:

	2008	2007
Fair value of pension plan assets		
– defined benefit component	$ 24,262	$ 28,321
– defined contribution component	3,512	3,537
	27,774	31,858
Accrued pension benefit obligation	28,079	34,858
Funded Status – plan deficit	(305)	(3,000)
Balance of unamortized amounts	3,665	5,838
Accrued benefit asset	$ 3,360	$ 2,838

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:

	2008	2007
Accrued benefit obligation, other post-employment and retirement benefits	$ 4,952	$ 5,881
Balance of unamortized amounts	589	2,268
Accrued benefit liability	$ 4,363	$ 3,613

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:

	2008	2007
Discount rate to determine expense	5.50%	5.25%
Discount rate to determine year end obligations	7.50%	5.50%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of average 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%	5.0%

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:

	2008	2007
Fixed income funds	43%	37%
Equity funds – Canadian funds	15%	39%
Equity funds – US and foreign funds	-	23%
Equity funds – US funds	18%	-
Equity funds – International funds	11%	-
Emerging market funds	3%	-
Real estate funds	10%	-
Money market funds	-	1%

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

	2008	2007
Employer contributions, defined benefit pension plan	$ 635	$ 697
Employer contributions, special solvency payments	$ 762	$ 49
Employees' contributions, defined benefit pension plan	$ 224	$ 248
Benefits paid, defined benefit pension plan	$ 611	$ 630
Employer contributions, defined contribution plan	$ 278	$ 247
Employees' contributions, defined contribution plan	$ 379	$ 338

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:

	2008	2007
Defined benefit pension plan component	$ 930	$ 780
Defined contribution pension plan component	278	247
Other post retirement and employment benefits	922	930
Total	$ 2,130	$ 1,957

10. Financial Instruments

(tabular amounts in thousands of dollars)

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, 2008, 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 $141.6 million and $183.4 million respectively (2007 - $175.6 million and $184.6 million respectively). Fair values of other long-term debt are similar to their carrying values taking into account their maturity dates and current market rates for the same or similar instruments.

Risk Management

The Authority is exposed to a number of risks as a result of the financial instruments on its balance sheet that can affect its operating performance. These risks include interest rate risk, liquidity risk, credit risk, and concentration risk. The Authority's financial instruments are not subject to foreign exchange risk or other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following financial instruments are subject to interest rate risk as at December 31:

	2008		2007	
	Carrying value	Effective year-end interest rate	Carrying value	Effective year-end interest rate
Cash and short-term investments (at floating rates)	$11,593	1.57%	$39,433	4.51%
Debt service reserve fund (at floating rates)	$10,384	3.10%	$10,605	4.55%
Long-term debt (at fixed rates)	$347,221	See Note 7	$348,533	See Note 7

The Authority has entered into fixed rate long-term debt, and accordingly, the impact of interest rate fluctuations has no effect on interest payments until such time as this debt is to be refinanced. However, changes in prevailing benchmark interest rates and credit spreads may impact the fair value of this debt. The Authority's most significant exposure to interest-rate risk relates to its future anticipated borrowings and refinancing, which are not expected to occur in the near-term.

In addition, the Authority's cash and short-term investments, and its debt service reserve fund are subject to floating interest rates. Management has oversight over interest rates that apply to its cash and short-term investments, and its debt service reserve fund. These funds are invested from time to time in short term bankers' acceptances permitted by the Master Trust Indenture, while maintaining liquidity for purposes of investing in the Authority's capital programs.

If interest rates had been 50 basis points (0.50%) higher/lower and all other variables were held constant, including timing of expenditures related to the Authority's capital expenditure programs, the Authority's earnings for the year would have increased/ decreased by $185 thousand as a result of the Authority's exposure to interest rates on its floating rate assets. However, management believes that this exposure is not representative of the exposure during the year and that interest income is not essential to the Authority's operations as these assets are intended for reinvestment in airport operations and development, and not for purposes of generating interest income.

Liquidity risk

The Authority manages its liquidity risks by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis, and by matching its long-term financing arrangements with its cash flow needs. In view of its excellent credit ratings, the Authority has ready access to sufficient long-term funds as well as committed lines of credit through credit facilities with two Canadian banks. The Authority's obligation under a $1,548,000 letter of credit in favour of its pension plan is covered by these committed credit facilities (see Note 5).

The Authority is unregulated in its ability to raise its rates and charges as required to meet its obligations. Under the Master Trust Indenture entered into by the Authority in connection with its debt offerings (see Note 7), the Authority is required to take action, such as increasing its rates, should its projected debt service coverage ratio fall below 1.0. If this debt service covenant is not met in any year, the Authority is not in default of its obligations under the Master Trust Indenture as long as the test is met in the subsequent year. Because of the Authority's unfettered ability to increase rates and charges it expects to continue to have sufficient liquidity to cover all of its obligations as they come due, including interest payments of approximately $20 million per year. The future annual principal payment requirements of the Authority's obligations under its long-term debt are described in note 7(e).

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. The majority of the Authority's accounts receivable are paid within 35 days of the date that they are due. 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 an allowance for potential credit losses. The Authority's right under the Airport Transfer (Miscellaneous Matters) Act to seize and detain aircraft until outstanding aeronautical fees are paid mitigates the risk of credit losses.

The Authority derives approximately 55% (55% in 2007) 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. In addition, the Authority's unfettered ability to increase its rates and charges mitigates the impact of these risks.

11. 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 OIA. 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:

2009	$ 7.3 million
2010	$ 5.4 million
2011	$ 6.0 million
2012	$ 6.2 million
2013	$ 6.4 million

A letter of credit for $1,548,000 was outstanding as at December 31, 2008 in connection with the Authority's pension plan (see Note 9). The letter of credit expires on December 31, 2009.

In addition to the above, the Authority has operating commitments in the ordinary course of business requiring payments of $6.1 million in 2009 and diminishing in each year over the next 5 years as contracts expire. At December 31, 2008, the total of these operating commitments amounted to $19.0 million. These commitments are in addition to contracts for the purchase and construction of property, plant, and equipment of approximately $3.6 million.

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.

12. 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 CATSA contributing to the costs of policing incurred by the Authority in carrying out its responsibilities. This program was transferred from CATSA to the Government of Canada (Transport Canada) during 2008. Contributions are determined annually by Transport Canada up to a maximum amount not to exceed the actual allowable costs incurred by the Authority in providing these services. This agreement is expected to be extended for 2009, but will be discontinued effective January 1, 2010. In connection with this agreement, the Authority has recorded contributions of $999,000 (2007 - $999,000) as a reduction of related operating costs included in the statement of operations.