

Consolidated Financial Statements of

GREATER TORONTO AIRPORTS AUTHORITY

December 31, 2002 and 2001

Auditors' Report

To the Board of Directors of
The Greater Toronto Airports Authority

We have audited the consolidated balance sheets of the Greater Toronto Airports Authority as at December 31, 2002 and 2001 and the consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Greater Toronto Airports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2002 and 2001 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Deloitte & Touche LLP”

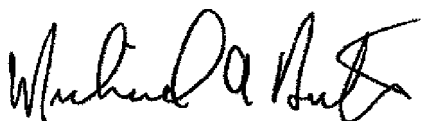
Chartered Accountants

Mississauga, Ontario
February 28, 2003, except as to Note 17, first paragraph
which is as of March 20, 2003 and Note 17, second paragraph
which is as of April 1, 2003

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Balance Sheets

AS AT DECEMBER 31 (IN THOUSANDS)	2002	2001
Assets		
Current		
Cash and cash equivalents	\$ 15,573	\$ 10,992
Accounts receivable	54,672	56,921
Prepaid expenses	3,595	1,875
Inventory	2,929	2,756
	76,769	72,544
Reserve and other funds (Note 5)	547,458	444,634
Deferred charges (Note 6)	47,237	41,218
Capital assets (Note 7)	2,029,223	1,606,146
Construction in progress (Note 8)	2,148,250	1,628,239
Prepaid pension asset (Note 12)	3,378	80
	\$ 4,852,315	\$ 3,792,861
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 302,196	\$ 292,817
Security deposits and deferred credits	30,675	14,290
Current portion of long-term debt (Note 9)	1,887	471,568
	334,758	778,675
Long-term debt (Note 9)	4,449,613	2,925,803
	4,784,371	3,704,478
Net Assets (Note 10)		
Externally restricted	46,649	39,324
Internally restricted	110,280	110,256
Unrestricted	(88,985)	(61,197)
	67,944	88,383
	\$ 4,852,315	\$ 3,792,861



Michael A. Butt
Director



Warren C. Hurren
Director

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Statements of Operations

YEARS ENDED DECEMBER 31 (IN THOUSANDS)	2002	2001
Revenues		
Landing fees	\$ 201,204	\$ 181,233
General terminal charges	105,022	105,246
Airport improvement fee, net	99,461	48,025
Car parking and ground transportation	74,806	78,607
Concessions	54,488	59,103
Rental	37,234	33,671
Other	5,662	11,452
	577,877	517,337
Operating Expenses		
Ground rent	134,514	126,355
Goods and services	152,183	146,368
Salaries, wages and benefits	77,870	71,796
Real property taxes and payments in lieu of real property taxes (Note 13)	23,057	26,268
	387,624	370,787
Revenues over expenses before interest and financing costs and amortization	190,253	146,550
Interest and financing costs (Note 11)	127,204	101,902
Amortization of capital assets	83,488	58,367
Revenues under expenses	\$ (20,439)	\$ (13,719)

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Statements of Changes in Net Assets

2002

YEARS ENDED DECEMBER 31 (in thousands)	Balance, Beginning of Year	Revenues Under Expenses	Transfers to Restricted Net Assets	Use of Funds	Balance, End of Year
Externally Restricted					
Operating and maintenance reserve	\$ 36,324	\$ -	\$ 7,325	\$ -	\$ 43,649
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	15,181	(15,181)	-
	39,324	-	22,506	(15,181)	46,649
Internally Restricted					
Airport improvement fee collected, net	34,993	-	98,734	(40,000)	93,727
Notional principal of long-term debt	58,710	-	9,431	(68,141)	-
Debt service coverage requirement	16,553	-	-	-	16,553
	110,256	-	108,165	(108,141)	110,280
Restricted net assets	149,580	-	130,671	(123,322)	156,929
Unrestricted net assets	(61,197)	(20,439)	(7,349)	-	(88,985)
Total net assets	\$ 88,383	\$ (20,439)	\$ 123,322	\$ (123,322)	\$ 67,944

2001

Externally Restricted					
Operating and maintenance reserve	\$ 32,443	\$ -	\$ 3,881	\$ -	\$ 36,324
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	-	-	-
	35,443	-	3,881	-	39,324
Internally Restricted					
Airport improvement fee collected, net	-	-	34,993	-	34,993
Notional principal of long-term debt	41,510	-	17,200	-	58,710
Debt service coverage requirement	10,553	-	6,000	-	16,553
	52,063	-	58,193	-	110,256
Restricted net assets	87,506	-	62,074	-	149,580
Unrestricted net assets	14,596	(13,719)	(62,074)	-	(61,197)
Total net assets	\$ 102,102	\$ (13,719)	\$ -	\$ -	\$ 88,383

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (IN THOUSANDS)	2002	2001
Cash Flows from Operating Activities		
Revenues under expenses	\$ (20,439)	\$ (13,719)
Items not affecting cash		
Amortization of capital assets	83,488	58,367
Loss on disposal of capital assets	478	103
Changes in non-cash working capital		
Decrease in accounts receivable	2,249	9,184
Increase in prepaid expenses	(1,720)	(935)
Increase in inventory	(173)	(685)
Increase in prepaid pension asset	(3,298)	-
Increase in accounts payable and accrued liabilities	9,379	110,457
Increase (decrease) in security deposits and deferred credits	12,222	(113)
	82,186	162,659
Cash Flows from Investing Activities		
Acquisition of capital assets	(81,067)	(118,985)
Construction in progress	(945,431)	(1,066,785)
	(1,026,498)	(1,185,770)
Cash Flows from Financing Activities		
Issuance of medium term notes (Note 9)	1,525,000	1,075,000
Medium term notes premium	4,163	10,042
Credit facility (Note 9)	(270,000)	85,000
Repayment of long-term debt	(201,427)	(1,524)
Reserve and other funds	(102,824)	(147,920)
Deferred charges	(6,019)	(4,865)
	948,893	1,015,733
Net cash inflow (outflow)	4,581	(7,378)
Cash and cash equivalents, Beginning of Year	10,992	18,370
Cash and cash equivalents, End of Year	\$ 15,573	\$ 10,992

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

1. NATIONAL AIRPORTS POLICY

In July 1994, the federal government announced its National Airports Policy whereby the management, operation and maintenance of 26 airports within the National Airport System was to be transferred through various ground lease arrangements to locally controlled Canadian Airport Authorities (“CAAs”). The National Airports Policy also prescribed the Fundamental Principles for the Creation and Operation of CAAs including the Public Accountability Principles to be adopted by each CAA.

CAAs are free to operate airports on a commercial basis and have the authority to set all fees and charges. The federal government retains regulatory control over aeronautics and as such will set safety and security standards for airports, license airports and regulate the aviation industry as a whole. The federal government does not retain regulatory responsibility for any operations undertaken by the CAAs.

2. CORPORATE PROFILE OF THE GREATER TORONTO AIRPORTS AUTHORITY

Greater Toronto Airports Authority (“GTAA”) was incorporated on March 3, 1993 under Part II of the *Canada Corporations Act*, as a corporation without share capital. This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in airports and airport operations under control of the GTAA. The By-Laws of the GTAA were amended in 1994 to conform with the requirements of the National Airports Policy. The GTAA has all the powers, obligations and duties of any private Canadian corporation. The 15-member Board of Directors (the “Board”) is comprised of nominees from four Regional Municipalities, the City of Toronto, the Government of Ontario and the Government of Canada and is meant to reflect the interests of the business community, organized labour and consumers. Amendments to the GTAA By-Laws were approved in 2003 that will change the process for the nomination and appointment of Directors. These amendments will allow certain non-governmental organizations to make nominations to the Board. In addition the Board will have greater choice among nominees.

The mandate of the GTAA is to operate and develop a regional network of airports in the Greater Toronto Area (“GTA”). Under the terms of a ground lease (see Note 3, Airport Subject To Ground Lease), the first airport in this network, Toronto Pearson International Airport (the “Airport”), was transferred to the GTAA in 1996. The Airport’s operations on 4,400 acres of land include Terminals 1, 2 and 3, airside assets including five runways, taxiways and aprons, groundside assets including bridges and parking lots, infield assets including aircraft deicing facility and cargo buildings, and ancillary structures. Excluded are any assets owned by NAV CANADA, the operator of Canada’s civil air navigation system.

The GTAA is committed to the continuing development of the Airport. This includes the staged replacement of Terminals 1 and 2 with a single unified terminal, increasing airside capacity up to six runways, increased cargo and aircraft facilities, and the reconstruction of the roadway system.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

3. AIRPORT SUBJECT TO GROUND LEASE

On December 2, 1996, the GTAA assumed the operation, management and control of the Airport for a period of 60 years, together with one renewal term of 20 years, by virtue of a ground lease (the "Ground Lease") between the GTAA, as tenant, and Her Majesty the Queen in Right of Canada, represented by the Minister of Transport ("Transport Canada"), as landlord. The GTAA assumed the obligations of Transport Canada under all existing agreements at the Airport.

The Ground Lease is the principal document governing the relationship between the GTAA and Transport Canada at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport. Under the Ground Lease, all revenue and expenditure contracts in effect on December 1, 1996 were assigned to the GTAA. The GTAA did not assume any liability with respect to claims against the federal government incurred prior to December 2, 1996.

By virtue of its status as a tenant under the Ground Lease, the GTAA has the authority to set and collect airline rates and charges; negotiate and issue leases, licences and permits; and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

Rent under the Ground Lease is comprised of Base Rent, Participation Rent and Deficiency Rent. Base Rent is calculated on a capped passenger volume formula subject to adjustments for inflation. Participation Rent is based on a measure of incremental revenues and is not applicable until year 2012. Deficiency Rent is payable in the event the GTAA does not meet capital expenditure targets delineated in the Ground Lease (see Note 15, Commitments and Contingent Liabilities). The Ground Lease also provided \$14 million in rent credits to offset certain policing and security costs and capital expenditures. On April 7, 1997, the Ground Lease was amended to provide a further \$185.3 million in rent credits in addition to the \$3.9 million provided in 1996. The credits consisted of \$3 million for improvements to leased land, \$72 million for Airside Development Projects and \$110 million for specified development projects. The rent credits for capital expenditures have been fully allocated to capital assets (see Note 7, Capital Assets).

Under the Ground Lease, Transport Canada is required to assume all costs associated with environmental remediation in the event an order is issued by an appropriate government agency requiring the clean-up of any noxious or hazardous substance where such substance was present prior to December 2, 1996 (See Note 15, Commitments and Contingent Liabilities).

On March 20, 2003, the Minister of Transport tabled before Parliament Bill C-27 entitled The Canada Airports Act. When enacted into law, this proposed legislation will regulate the manner in which all Airport Authorities, (including the GTAA) are governed, set fees and charges and manage their facilities. While Bill C-27 must still be examined and debated by Parliament, it is anticipated that the GTAA will be able to comply with the provisions of the legislation without significant changes to the manner in which it currently operates.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

4. SIGNIFICANT ACCOUNTING POLICIES

Presentation and Basis of Accounting

The GTAA's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Examples of such estimations and assumptions include the useful lives of capital assets, provisions for projected costs and valuation allowances. Actual results could differ from estimates.

Principles of Consolidation

The financial statements consolidate the accounts of GTAA and its wholly-owned subsidiary, Greater Toronto Airports Authority Associate Inc. (the "GTAAA").

Ground Lease

The Ground Lease is accounted for as an operating lease. Rent credits under the Ground Lease have been applied to reduce the cost of completed capital assets (see Note 3, Airport Subject To Ground Lease).

Cash and cash equivalents

Cash and cash equivalents include cash and short term, highly liquid investments with an original term of 90 days or less.

Inventory

Inventory, which is held for use at the Airport, is stated at the lower of cost and replacement value.

Deferred Charges

Costs relating to long-term financing including underwriter fees, professional fees, derivative instruments and bond discounts are deferred and amortized over the terms of the respective debt instruments. The amortization of these charges is included in interest and financing costs.

Acquisitions

Assets acquired related to the development of the Airport are capitalized to Construction in Progress or Capital Assets. Net revenues related to projects under construction are capitalized until the construction project or replacement facilities become operational.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets are recorded at cost. Capital assets include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease.

The costs of capital assets (less estimated residual values) are amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. Capital assets are amortized at the following annual rates:

Terminal assets

Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	5% sinking fund over 35 years for Terminal facilities. 4 to 7 years straight line for Terminals 1 and 2 improvements 2.5% to 20% declining balance for others
Baggage handling systems	Straight-line over 25 years

Airside assets

Improvements to leased land	Straight-line over remaining term of the Ground Lease
Runways and taxiways	2.5% declining balance
Deicing facilities	2.5% declining balance

Other assets

Utilities and stormwater management facilities	2.5% declining balance
Operating assets	10% - 30% declining balance

Construction in Progress

Construction in progress is transferred to capital assets when the asset is placed in service. Interest associated with borrowing funds for construction purposes are capitalized through the construction period.

Revenue Recognition

Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport improvement fees, net of airline administration fees, are recorded upon the enplanement of the passengers. Concession revenues are charged on a monthly basis and are recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rental revenues are recognized over the duration of the respective agreements.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Salaries, Wages and Benefits

Reimbursements to a service organization for its salaries, wages and benefits have been included in this expense category. Employee benefits are accrued as earned by employees.

Employee Future Benefit Plans

The GTAA maintains both defined benefit pension plans and a defined contribution pension plan for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Pension plan assets are valued at fair value. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is deferred and amortized over the average remaining service period of active employees. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plan are expensed as paid.

The GTAA also offers other non-pension post retirement benefits to employees. The costs associated with these other future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. The GTAA has not accrued the costs associated with non-pension post employment benefits. Costs associated with these benefits are recorded when paid.

Derivative Financial Instruments

Derivative financial instruments are used from time to time to reduce exposure to fluctuations in interest rates or to modify the interest rate profile of outstanding financial assets and liabilities. These instruments include interest rate swap agreements and are accounted for, under the accrual method, as hedges. Accordingly, the book value is not adjusted to reflect the current market value. Payments and receipts under interest-rate swap agreements are recognized as adjustments to interest and financing costs where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is a fixed-income investment.

The GTAA designates its interest rate hedge agreements as hedges of the underlying financial asset or liability. Interest expense on debt is adjusted to include the payments made or received under the interest rate swaps. Interest income from fixed-income investments is adjusted to include payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

5. RESERVE AND OTHER FUNDS

The Trust Funds, Operations, Airport Improvement Fee, Capital and Financing Funds, invested in cash and qualified short-term investments, are as follows:

(in thousands)	2002	2001
Debt Service Fund		
Interest	\$ 55,807	\$ 38,335
Principal	-	-
	55,807	38,335
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-1 due December 3, 2002	-	17,688
Series 1997-2 due December 3, 2007	35,479	35,274
Series 1997-3 due December 3, 2027	37,303	37,094
Series 1999-1 due July 30, 2029	40,642	40,321
Medium Term Notes		
Series 2000-1 due June 12, 2030	39,138	38,895
Series 2000-2 due July 19, 2010	40,129	39,753
Series 2001-1 due June 4, 2031	35,572	35,363
Series 2002-1 due January 30, 2012	31,530	-
Series 2002-2 due December 13, 2012	30,001	-
Series 2002-3 due October 15, 2032	38,418	-
	328,212	244,388
Bank indebtedness secured by Series 1997- A Bond	6,510	12,331
	334,722	256,719
Operating and Maintenance Reserve Fund	43,649	36,324
Renewal and Replacement Reserve Fund	3,000	3,000
Notional Principal Fund	-	58,710
Debt Service Coverage Fund	16,553	16,553
Airport Improvement Fee Reserve Fund	93,727	34,993
	156,929	149,580
	\$ 547,458	\$ 444,634

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

5. RESERVE AND OTHER FUNDS (continued)

Trust Funds

The GTAA is required to establish and maintain with the Trustee a Debt Service Fund and Debt Service Reserve Fund (the "Trust Funds") in accordance with the terms of the Trust Indenture (see Note 9, Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Indenture.

During 2002 \$15.2 million was deposited to the Debt Service Fund Principal Account by the GTAA and disbursed by the Trustee as part of the repayment of the series 1997-1 revenue bonds. The deposit to the Debt Service Fund Principal Account was funded from the Notional Principal Fund (see Operations, Capital and Financing Funds below) during the year.

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. On a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. Also on a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30 year amortization, commencing on the same date as interest is expensed. Amounts held in the Debt Service Funds are held by the Trustee for the benefit of the bond or noteholders and are disbursed by the Trustee to pay interest and principal as it becomes due.

To the extent provided in any Supplemental Indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bonds or medium term notes. The required amount is established at the time of issue of each series of bonds or notes and funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held by the Trustee for the benefit of the bond or noteholders for use and application in accordance with the terms of the Trust Indenture. At the maturity of any series, funds not applied by the Trustee will be returned to the GTAA.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

5. RESERVE AND OTHER FUNDS (continued)

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Fund pursuant to the Trust Indenture (see Note 9, Long-Term Debt). The Operating and Maintenance Reserve Fund is equal to one-sixth of the projected operating and maintenance expenses for the following fiscal year. As at December 31, 2002 this fund was \$43.6 million (2001 - \$36.3 million). This amount is to be used only for operating and maintenance expenses, or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of \$3 million (2001 - \$3 million) is to be used for unanticipated repairs to, or the replacement of property and equipment.

In conjunction with the airport improvement fee agreements with the airlines the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2002, this fund had an accumulated balance of \$93.7 million (2001 - \$35 million). During 2002, \$40 million of accumulated Airport Improvement Fee Funds were utilized for the payment of debt service associated with the Airport Development Program.

Capital and financing funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges as required under the Trust Indenture (see Note 9, Long-Term Debt). The Notional Principal Fund will be used to reduce future debt obligations, on the maturity of each series of bonds or notes as demonstrated by its use to redeem bond series 1997-1 which matured on December 3, 2002. As a result the Notional Principal Fund had a zero balance at December 31, 2002 (2001 - \$58.7 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2002 had a balance of \$16.6 million (2001 - \$16.6 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

6. DEFERRED CHARGES

(in thousands)	December 31, 2002		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 34,384	\$ 7,960	\$ 26,424
Unrealized gain on interest rate swaps	(1,226)	-	(1,226)
Deferred bond hedge loss	17,953	4,684	13,269
Bond discount costs	10,377	1,607	8,770
	\$ 61,488	\$ 14,251	\$ 47,237

(in thousands)	December 31, 2001		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 26,397	\$ 5,710	\$ 20,687
Unrealized gain on interest rate swaps	(1,267)	-	(1,267)
Deferred bond hedge loss	18,234	3,763	14,471
Bond discount costs	8,425	1,098	7,327
	\$ 51,789	\$ 10,571	\$ 41,218

The aggregate amortization expense in respect of deferred assets for the year ended December 31, 2002 was \$3.7 million (2001 - \$3.1 million) and is included in interest and financing costs. Additions to deferred charges during the year totaled \$10.0 million (2001 - \$ 7.8 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

7. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	December 31, 2002		
	Cost	Accumulated Amortization	Net Book Value
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	\$ 1,434,997	\$ (92,732)	\$ 1,342,265
Baggage handling systems	49,359	(9,954)	39,405
	1,484,356	(102,686)	1,381,670
Airside assets			
Improvements to leased land	24,000	(2,433)	21,567
Runways and taxiways	263,119	(6,323)	256,796
Deicing facilities	28,181	(2,209)	25,972
	315,300	(10,965)	304,335
Other assets			
Utilities and stormwater management facilities	181,437	(6,713)	174,724
Operating assets	269,295	(100,801)	168,494
	450,732	(107,514)	343,218
	\$ 2,250,388	\$ (221,165)	\$ 2,029,223

(in thousands)	December 31, 2001		
	Cost	Accumulated Amortization	Net Book Value
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	\$ 1,245,901	\$ (58,022)	\$ 1,187,879
Baggage handling systems	49,152	(7,979)	41,173
	1,295,053	(66,001)	1,229,052
Airside assets			
Improvements to leased land	24,000	(2,033)	21,967
Runways and taxiways	65,001	(2,984)	62,017
Deicing facilities	27,546	(1,547)	25,999
	116,547	(6,564)	109,983
Other assets			
Utilities and stormwater management facilities	132,756	(2,479)	130,277
Operating assets	200,044	(63,210)	136,834
	332,800	(65,689)	267,111
	\$ 1,744,400	\$ (138,254)	\$ 1,606,146

Rent credits of \$189.2 million have been applied to the costs of airside assets.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

8. CONSTRUCTION IN PROGRESS

(in thousands)	Beginning of Year	Additions	Transfers to Capital Assets	End of Year
Airside Development Project	\$ 101,895	\$ 16,384	\$ (116,098)	\$ 2,181
Terminal Development Project	1,031,410	742,349	(4,606)	1,769,153
Infield Development Project	169,143	20,056	(94,408)	94,791
Utilities and Area Support Facilities	23,637	5,215	(26,994)	1,858
South Development	20	185	(205)	-
Central Utilities Plant	4,360	3,399	(5,959)	1,800
	1,330,465	787,588	(248,270)	1,869,783
Restoration Projects	257,609	85,933	(154,691)	188,851
T3 Redevelopment	40,165	71,910	(22,459)	89,616
	\$ 1,628,239	\$ 945,431	\$ (425,420)	\$ 2,148,250

As at December 31, 2002, Construction in Progress included capitalized interest and financing costs in the amount of \$178.4 million (2001 – \$97.3 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

9. LONG-TERM DEBT

As at December 31, 2002 the long-term debt outstanding is comprised of:

(in thousands)	Coupon Rate	Maturity Date	2002	2001
	(Note 16)			
Revenue Bonds, <i>See below</i>				
Series 1997-1	5.40%	December 3, 2002	\$ -	\$ 200,000
Series 1997-2	5.95%	December 3, 2007	375,000	375,000
Series 1997-3	6.45%	December 3, 2027	375,000	375,000
Series 1999-1	6.45%	July 30, 2029	500,000	500,000
Medium Term Notes				
Series 2000-1	7.05%	June 12, 2030	550,000	550,000
Series 2000-2	6.70%	July 19, 2010	600,000	600,000
Series 2001-1	7.10%	June 4, 2031	500,000	500,000
Series 2002-1	6.25%	January 30, 2012	500,000	-
Series 2002-2	6.25%	December 13, 2012	475,000	-
Series 2002-3	6.98%	October 15, 2032	550,000	-
			4,425,000	3,100,000
Credit facility, <i>see below</i>				
Secured by 1997-A Bond			-	270,000
Capital leases, <i>see below</i>			2,500	3,371
Province of Ontario				
Interest-free, payable in five equal instalments commencing 2011			24,000	24,000
			4,451,500	3,397,371
Less current portion			1,887	471,568
			\$ 4,449,613	\$ 2,925,803

Interest arising from these debt instruments amounted to \$256.9 million (2001 - \$189.8 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

9. LONG-TERM DEBT (continued)

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing financial requirements are financed with debt. The GTAA developed a financing plan referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under a Master Trust Indenture (the "Trust Indenture") dated December 2, 1997, and supplemented from time to time, which establishes common security and a set of common covenants by the GTAA for the benefit of its lenders. The security comprises an assignment of the revenues of the GTAA, a specific charge on certain funds, reserve funds and accounts, an unregistered first leasehold mortgage of the GTAA's leasehold interest in the Airport and a guarantee and related collateral security of subsidiaries as designated from time to time.

Revenue Bonds and Medium Term Notes

The GTAA has issued Revenue Bonds and Medium Term Notes as follows:

<u>Series</u>	<u>Settlement Date</u>	<u>Principal Amount (in thousands)</u>	<u>Interest Payable Commencement Date</u>
Revenue Bonds			
1997-2	December 2, 1997	\$ 375,000	June 3, 1998
1997-3	December 2, 1997	\$ 375,000	June 3, 1998
1999-1	July 20, 1999	\$ 500,000	January 30, 2000
Medium Term Notes			
2000-1	June 12, 2000	\$ 250,000	December 12, 2000
2000-1 reopen	January 16, 2001	\$ 300,000	December 12, 2000
2000-2	July 17, 2000	\$ 325,000	January 19, 2001
2000-2 reopen	January 09, 2001	\$ 275,000	January 19, 2001
2001-1	June 4, 2001	\$ 500,000	December 4, 2001
2002-1	January 28, 2002	\$ 500,000	July 30, 2002
2002-2	June 13, 2002	\$ 475,000	December 13, 2002
2002-3	October 15, 2002	\$ 285,000	April 15, 2003
2002-3 reopen	November 22, 2002	\$ 265,000	April 15, 2003

Interest is payable semi-annually from the Interest Payable Commencement Date. The notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with similar terms to maturity.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

9. LONG-TERM DEBT (continued)

Credit Facility

The GTAA maintains a Credit Facility with a syndicate of six Canadian banks and one international chartered bank. Under this Credit Facility, the GTAA is provided with a 364 day revolving operating facility in an amount up to \$250 million due November 27, 2003 and a revolving term facility in an amount of up to \$300 million due November 28, 2005. Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rates, bankers' acceptance rates and LIBOR, as appropriate. Interest rates incurred during the year ranged from 2.24% to 4.5% (2001 – 2.28% to 7.5%).

Capital Leases

The GTAA has undertaken to lease certain operating equipment. Effective interest rates of the capital leases range from 4.5% to 10.8%.

Principal repayments

Principal payments scheduled for each of the next five years are as follows:

(in thousands)	
2003	\$ 1,887
2004	8,425
2005	8,510
2006	8,959
2007	384,537
Thereafter	4,039,182
	<hr/>
	\$ 4,451,500

During the year, the GTAA incurred interest costs, on a cash basis, of \$235.1 million (2001 - \$189.0 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

10. NET ASSETS

The GTAA has established within its net assets funds for operational requirements and debt-related obligations. The net assets consist of three components: externally restricted, internally restricted and unrestricted.

Externally Restricted Net Assets

A portion of net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund and Renewal and Replacement Reserve Fund (see Note 5, Reserve and Other Funds) set out in the Master Trust Indenture (see Note 9, Long-Term Debt).

Internally Restricted Net Assets

A portion of net assets that has been collected in revenue has been allocated for capital projects and financing purposes through the debt-related obligations of notional principal and debt service coverage requirements (see Note 5, Reserve and Other Funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in separate investment accounts by the GTAA and will be dispersed in accordance with its policies or commitments for these funds.

Unrestricted Net Assets

Unrestricted net assets are the cumulative revenue over (under) expenses, including amortization, which exceed, or are deficient, to fund the reserve commitments.

11. INTEREST AND FINANCING COSTS

Interest and financing costs for long-term debt and bank facilities, net of interest earned from the debt service reserve fund and capitalized interest:

(in thousands)	2002	2001
Interest and financing costs incurred	\$ 251,598	\$ 189,111
Less:		
interest earned on externally restricted fund investment	(9,413)	(12,238)
interest capitalized	(114,981)	(74,971)
Interest and financing costs	\$ 127,204	\$ 101,902

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

12. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

The GTAA maintains two defined benefit pension plans. One of these plans is for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan. As at September 30, 2000, the final election date, 151 of these employees elected to transfer their credits. As at December 31, 2002, 192 employee pension credits were transferred to the GTAA from the Public Service Superannuation Account ("PSSA"). The remaining (30 employees) credits are expected to be transferred by the end of June 2003. No unfunded pension liability in respect of employees who transfer these pension credits will be assumed by the GTAA plan on transfer.

Aggregate information about the GTAA's defined benefit pension plans as at December 31, 2002 is as follows:

(in thousands)	2002	2001
Accrued benefit obligation		
Balance at beginning of year	\$ 34,068	\$ 15,558
Transfer of PSSA liabilities	6,767	12,308
Actuarial loss	(1,415)	666
Current service cost	3,539	2,639
Interest cost	2,792	1,929
Benefits paid	(231)	(80)
Employee contributions	933	1,048
Past service costs	644	-
Balance at end of year	47,097	34,068
Plan assets		
Fair value at beginning of year	34,148	15,334
Transfer of PSSA assets	6,767	12,308
Employee contributions	933	1,048
Employer contributions	5,245	4,335
Actuarial loss	(4,996)	(1,027)
Expected return on plan assets	3,185	2,230
Benefits paid	(231)	(80)
Fair value at end of year	45,051	34,148
Funded status - plan surplus (deficit)	(2,046)	80
Unamortized net actuarial loss	5,230	-
Unamortized transitional obligation	194	-
Prepaid pension asset	\$ 3,378	\$ 80

One of the GTAA's two defined benefit pension plans is in a deficit position of \$ 4.3 million (2001 - \$.7 million deficit) and the other is in a surplus position of \$2.3 million (2001 - \$.7 million surplus) as at December 31, 2002.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

12. EMPLOYEE BENEFITS (continued)

The GTAA's net defined benefit pension plan expense is as follows:

(in thousands)	2002	2001
Current service cost	\$ 3,539	\$ 2,639
Interest cost	2,792	1,929
Amortization of transitional amount	15	-
Amortization of past service cost	644	-
Net actuarial loss	44	1,693
Expected return on plan assets	(3,185)	(2,230)
Net defined benefit pension plan expense	\$ 3,849	\$ 4,031

The significant actuarial assumptions adopted in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31, 2002):

	2002	2001
Discount rate	6.50%	6.50%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.75%	3.75%

Defined Contribution Pension Plan Expense

The GTAA maintains a defined contribution plan providing pension benefits to certain of its employees. The net expense for the defined contribution plan is as follows:

(in thousands)	2002	2001
Defined contribution plan expense	\$ 643	\$ 514

The GTAA's contribution to the defined contribution plan matches each participating employee's contribution to a maximum of 6% of the employee's earnings.

Other Employee Future Benefits

Each employee is provided with paid-up life insurance at the time of retirement, the cost of which is recorded in the period in which the insurance is acquired. The estimated accumulated benefit obligation for this expected payment has not been recorded, as it is not considered to be a material amount.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

13. TAXATION

The GTAA, and its wholly-owned subsidiary, are exempt from federal and provincial income tax, federal large corporations tax and Ontario capital tax.

The GTAA is exempt from real property tax under the Assessment Act (Ontario). However, the GTAA is required to pay each of the Cities of Toronto and Mississauga an amount determined by the Minister of Finance of Ontario, as a Payment-in-lieu of taxes.

14. RELATED PARTY TRANSACTIONS

Directors' Fees

Directors' fees for the year ended December 31, 2002 were \$474,550 (December 31, 2001 - \$461,550).

15. COMMITMENTS AND CONTINGENT LIABILITIES

Ground Lease

The GTAA's commitment in respect of annual Ground Lease Base Rent has been estimated at approximately \$137.9 million for the year ending 2003; \$140.3 million for the year ending 2004; \$143.8 million for the year ending 2005; \$147.4 million for the year ending 2006 and \$151.1 million for the year ending 2007.

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2002 of approximately \$677 million (2001 - \$948 million).

The GTAA would be required to pay a Deficiency Rent (see Note 3, Airport Subject To Ground Lease) equal to any shortfall, which may exist between actual eligible capital expenditures and target capital expenditure amounts established in the Ground Lease. Target capital expenditure amounts, subject to adjustments for inflation, have been set at approximately \$422 million by December 31, 2001, which the GTAA has already met. Target capital expenditure amounts, subject to adjustments for inflation, have also been established for the five-year periods ending December 31, 2006, 2011 and 2016 at \$345 million, \$313 million and \$835 million respectively with total target capital expenditures aggregating \$1.915 billion.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

15. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Environmental

As part of its obligations prior to the transfer of the Airport to the GTAA, Transport Canada commissioned an environmental baseline study report for the Airport. This report delineates the state of environmental contamination at the Airport and discloses processes and practices which were not in full compliance with environmental laws or accepted environmental practices at the time of transfer. Since the transfer, the GTAA has performed environmental assessments as part of its ongoing environmental management program and has achieved ISO 14001 certification.

The GTAA is committed to ensuring that activities undertaken at the Airport are carried out in an environmentally sensitive manner, in compliance with applicable environmental laws and regulations following good environmental management practices, and with sensitivity to community and public concerns.

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011, the GTAA has agreed to participate in the funding of highway infrastructure and transit improvements related to the redevelopment of the Airport. The timing and amount of funding participation has yet to be negotiated and agreed to with the Province of Ontario and will be dependent upon the redevelopment process. The GTAA has undertaken significant transportation infrastructure work in meeting its requirement.

Boeing Lands

In July 2001, the GTAA and Boeing signed an agreement, as amended in June 2002, under which Boeing would sell to the GTAA 45.73 hectares of land that adjoins the Airport property for a total of \$30 million. It is anticipated that Boeing will convey the first parcel of the land (the Initial Parcel) for \$8 million in the spring of 2003, and convey the second parcel (the Middle Parcel) for \$11 million in early fall of 2003. The remaining lands will be transferred from time to time thereafter over a maximum period of 20 years. Deposits totaling \$8 million have been paid, of which \$3.3 million will be credited to the purchase price for the Initial Parcel and \$4.7 million to the purchase price for the Middle Parcel.

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian Aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. This indemnity was originally in place for 90 days ending December 24th, 2001. It has been extended several times since the original expiry date and currently expires April 30th, 2003. The GTAA has purchased a \$50 million primary layer of war and terrorist coverage which is available in the insurance markets.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

15. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Litigation

Canada 3000

In 2001 the GTAA, together with other Canadian Airport Authorities, applied to the Ontario Superior Court of Justice for an order under the Airport Transfer (Miscellaneous Matters) Act permitting the GTAA and the Canadian Airport Authorities to seize and detain aircraft operated by Canada 3000 in respect of outstanding fees, charges and airport improvement fees owed by Canada 3000 and its affiliates who filed for bankruptcy protection on November 11, 2001. The GTAA is owed approximately \$12.8 million. In a decision released May 7, 2002, the Ontario court held that the GTAA and the Canadian Airport Authorities were not entitled to seize and detain aircraft leased by Canada 3000 and its affiliates. The GTAA and the Canadian Airport Authorities have appealed this decision to the Ontario Court of Appeal. The appeal will be heard in the summer of 2003.

16. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Cash, reserve funds, accounts receivable, accounts payable and accrued liabilities and security deposits are reflected in the financial statements at carrying values which approximate fair values because of the short-term maturities of these instruments.

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. The GTAA's fair values are management's estimates and are generally determined using market conditions at a specific point in time and may not reflect future fair values. The determinations are subjective in nature, involving uncertainties and matters of significant judgment.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

16. FINANCIAL INSTRUMENTS (continued)

Set out below is a comparison of the amounts that would be reported if long-term debts were reported at fair values:

(in thousands)	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 4,451,500	\$ 4,597,899	\$ 3,397,371	\$ 3,345,545

Derivative Financial Instruments

The GTAA has entered into interest rate swap contracts to mitigate negative carry arising from investing the proceeds of fixed rate Revenue Bonds and Medium Term Notes in short-term floating rate investments to fund Reserve Funds (see Note 5, Reserve and Other Funds). The GTAA will receive the following fixed interest rates and pay variable interest rates semi-annually based on bankers' acceptance rates.

Series		Nominal Value (in thousands)	Fixed Interest Rate	Term	Maturity Date
1999-1	July 20, 1999	\$ 40,000	6.450%	30 years	July 30, 2029
2000-1	June 12, 2000	\$ 17,500	6.310%	30 years	June 12, 2030
2000-2	July 17, 2000	\$ 21,000	6.274%	10 years	July 19, 2010
2000-1 reopen	January 16, 2001	\$ 21,000	6.131%	30 years	June 12, 2030
2000-2 reopen	January 9, 2001	\$ 18,400	5.851%	10 years	July 19, 2010
2001-1	June 4, 2001	\$ 35,000	6.395%	30 years	June 4, 2031

As at December 31, 2002, the interest rate swap contracts had a total unrealized gain of \$14.4 million (2001 - \$7.3 million).

Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its floating rate current and long-term bank indebtedness (see Note 9, Long-Term Debt). The impact of a 1% change in interest rates applied to the average bank indebtedness outstanding during 2002 would have amounted to approximately \$0.5 million (2001 - \$0.7 million). The Debt Service Reserve Fund for bank indebtedness (see Note 5, Reserve and Other Funds) is adjusted annually on December 2nd based on the prevailing bankers' acceptance rate.

The impact of a 1% change in the interest rate on the Reserve Funds would amount to approximately \$3.7 million (2001 - \$1.6 million). The GTAA reduces its interest rate risk through the use of derivative financial instruments (see above and Note 4, Significant Accounting Policies - Derivative Financial Instruments).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

16. FINANCIAL INSTRUMENTS (continued)

Credit Risk

The GTAA is subject to credit risk through its accounts receivable. The GTAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss.

The GTAA is also subject to credit risk through interest rate swap contracts arising from the possibility that the counterparties to the swap contract may default on their obligations. The GTAA manages this risk by effecting transactions with major financial institutions that carry a satisfactory credit rating from an independent rating agency.

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. Passenger activity at the airport is approximately 75% origin and destination traffic, and although there is a concentration of service with one air carrier, the GTAA believes that any change in the airline industry will not have a significant long-term impact on revenue or operations.

17. SUBSEQUENT EVENTS

On March 20, 2003 the Minister of Transport introduced in the House of Commons the proposed act respecting airport authorities and other airport operations. (See Note 3, Airport Subject to Ground Lease.)

On April 1, 2003, Air Canada filed for protection under the Companies Creditors Arrangement Act ("CCRA"). Air Canada's plan of arrangement is not yet known, to the financial impact of the CCAA filing on the GTAA is uncertain at this time.

18. COMPARATIVE FIGURES

Certain of the 2001 comparative figures have been reclassified to conform to the 2002 basis of presentation.