

Management's Discussion and Analysis and Consolidated Financial Statements of the
Greater Toronto Airports Authority

December 31, 2003

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
DATED MARCH 30, 2004**

The following is a discussion of the financial and operating results for the Greater Toronto Airports Authority ("GTAA") for the year ended December 31, 2003 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2003 and 2002. This report contains certain forward looking statements that are based on the GTAA's best information and assessment of the various internal and external factors and events as at the date of this report. The actual results realized will be subject to certain risks and uncertainties and may be substantially different than the outcomes discussed. All financial information, including the GTAA Annual Information Form, is available on SEDAR at www.sedar.com.

Corporate Profile

The GTAA was incorporated on March 3, 1993 as a not-for-profit corporation without share capital, constituted under Part II of the Canada Corporations Act. The GTAA was recognized as a Canadian Airport Authority by the federal government in November 1994, an acknowledgement that it was constituted fully in accordance with the terms of the National Airports Policy. Under this policy, the GTAA is authorized to operate airports within the region on a commercial basis, to set fees for their use and to develop and improve their facilities.

On December 2, 1996, the GTAA executed a ground lease with the federal government for all the lands of Toronto Pearson International Airport (the "Airport" or "Toronto Pearson"), buildings and structures, as well as certain roads and bridges providing access to the Airport (the "Ground Lease"). The Ground Lease has a term of 60 years, with one renewal term of 20 years. In accordance with the terms of the Ground Lease, the GTAA assumed operation, management and control of Toronto Pearson. This operation specifically excludes the provision of air navigation and the associated assets, which is provided by NAV CANADA.

Business Strategy and Vision

The vision of the GTAA is built on the cornerstones of our business in order to create an airport system that contributes to the region's economic development. The four cornerstones are:

- Safety and security
- Customer service
- Environmental sensitivity
- Financial responsibility

The GTAA's overall strategy is to operate a safe and secure airport and to ensure that the facilities provide the necessary services, amenities and capacity for the future. From a strategic perspective, this has included replacing aging infrastructure, consolidating the Airport lands and facilities into an integrated operation and designing and constructing facilities based on future demand and not current travel needs. Underlying the GTAA's strategy is the recognition that the facilities need to accommodate current and future passenger levels and provide safe, secure and cost effective operations.

Upon assuming responsibility for the Airport, the GTAA developed and implemented the Airport Development Program ("ADP") which covers the redevelopment of certain facilities. This has included additional and improved runways and taxiways, cargo facilities, utilities, new roadways, other ancillary facilities and a new passenger terminal which will ultimately replace Terminals 1 and 2. Details on the status of the ADP are outlined in the section on the Airport Development Program and Capital Projects. The new passenger terminal, the major component of the project, was showcased to the public in December 2003 with first operations scheduled for April 2004.

The ADP was recognized as a major capital program that would require ongoing funding during the construction timetable which was initially contemplated to continue to 2007 with further development beyond that date to be defined, subject to demand. In 1997, the GTAA established an overall program to enable ongoing access to the debt capital markets for the funding of the ADP and other capital projects (the "Capital Markets Program"). The criteria, covenants and restrictions for financing by the GTAA, as described later in this report, are set out in the master trust indenture executed at the time (the "Trust Indenture"). Since the GTAA is a non-share corporation, all funding is from operating revenue and the debt markets.

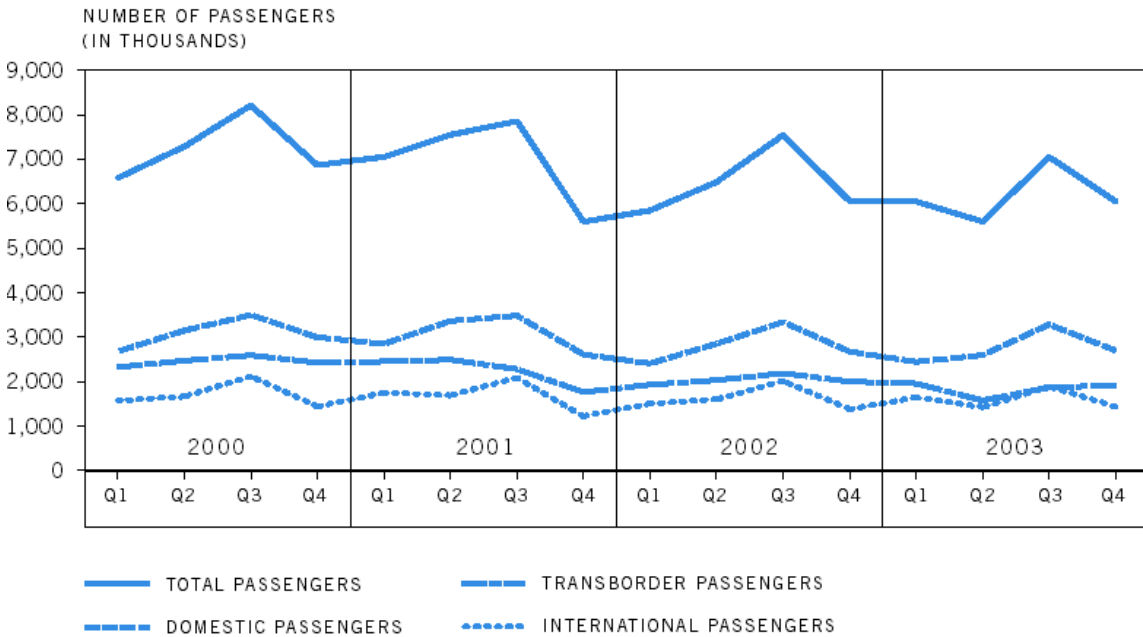
Operating Activity

Passenger activity levels are one of the most important performance measures for the Airport and translate directly into the financial results. As demand increases, airlines will add additional service which will result in increased revenue for the Airport through aeronautical fees, concession revenues and Airport Improvement Fees ("AIF"). Since 2001, there have been several significant events which have had a negative impact on passenger activities and consequently on the financial performance of the GTAA. These events include the terrorist attacks on September 11, 2001, the bankruptcy of Canada 3000 in November 2001, and more recently in 2003, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Toronto, Air Canada filing for creditor protection under the Companies' Creditors Arrangement Act ("CCAA"), the power blackout on August 14, 2003 throughout northeast North America and extreme weather conditions.

There are three sectors of activity at the Airport: domestic, or flights within Canada; transborder, or flights between Canada and the United States; and international, or flights between Canada and destinations outside of Canada and the United States. For each of these sectors, the recovery trend has been different with the strongest recovery in domestic traffic and the weakest in transborder traffic. In 2003, 24.7 million passengers moved through the Airport, a decrease of approximately 4.6% from 2002. As noted in our quarterly reports during the first part of 2003, there was an increase in passenger

levels compared to the same period for 2002. This trend came to an abrupt halt with the outbreak of SARS in April 2003.

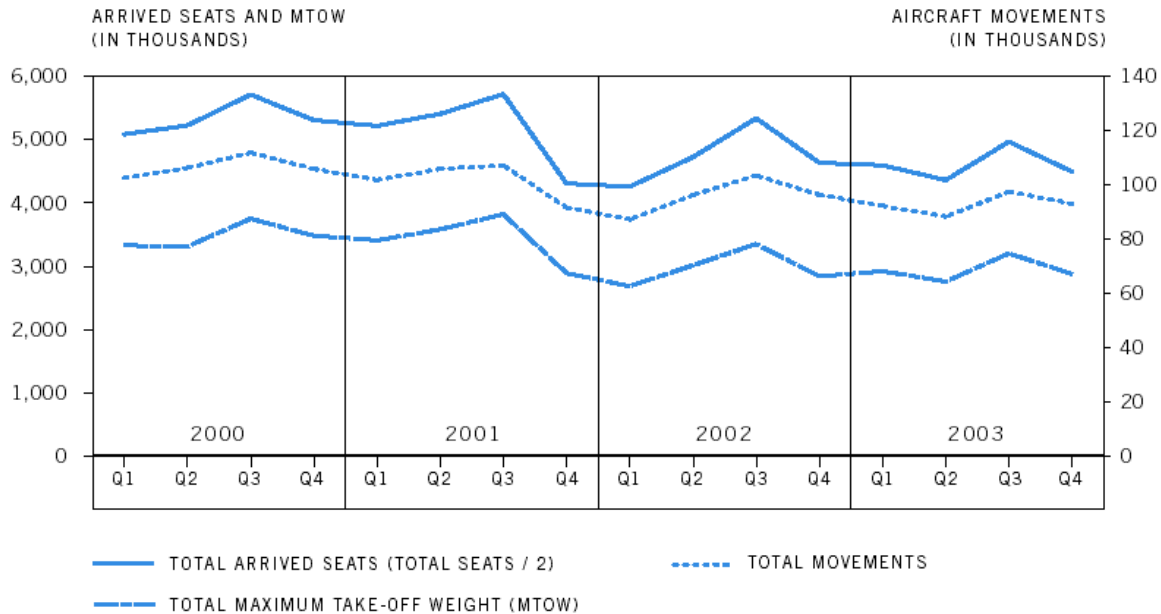
The following graph illustrates the passenger levels (in thousands) for the past four years, by quarter:



In the fourth quarter of 2003, the activity is lower than the third quarter, consistent with the seasonal trend of prior years. However, in comparison the passenger activity levels for the fourth quarter of 2002 and 2003 are virtually the same.

Other components of activity that impact revenue are the number of aircraft movements, the types of aircraft that are flown, the seat configuration and the resultant Maximum Take-Off Weight (“MTOW”). In response to the changes in passenger demand, there was some rationalization of routes by certain air carriers in recent years, offset by new services being offered by other carriers and new entrants. In 2003, aircraft movements were down compared to 2002 by approximately 3.2% to 370,996. Due to the types of aircraft, MTOW for 2003 was down from 2002 by approximately 6.3% to 11,749,298 tonnes.

The following graph illustrates arrived seats, MTOW and movements (in thousands) for the past four years, by quarter:



In early 2004, WestJet announced plans to expand its operations at Toronto. It is anticipated that this will generate additional passenger volumes and activity which will have a positive effect on the financial results of the GTAA. The GTAA had intended to have both WestJet and Air Canada operate in new Terminal 1. As a result of the Courts confirming Air Canada’s claim to fixed preferential use of all 14 contact gates initially available in the new Terminal 1, the GTAA will undertake some modifications to convert part of Terminal 2 to common use. WestJet’s expanded operation will be accommodated in the modified Terminal 2 space.

RESULTS OF OPERATIONS

The GTAA’s mandate is to operate Toronto Pearson on a commercial basis and within that mandate it has set an overall objective of fiscal responsibility. Accordingly, the financial model of the GTAA is based on the premise that all cash generated, either through revenue or debt funding, will be used to pay for Airport operations, ancillary aviation related activities, construction, debt payments, and other activities within the GTAA’s mandate.

Rate Setting Approach

Each year the GTAA estimates its operating and capital expenses for the following year together with the projected non-aeronautical revenue. The difference between the non-aeronautical revenue plus the AIF reserve or AIF revenue allocated and total expenses is used to calculate the total landing fee and general terminal charge requirements for the year. For the purposes of calculating these rates, capital expenses include the debt service requirements, certain capital expenditures for maintenance and certain reinvestment requirements for those facilities that are operating or will be operating for all or a portion of the year. For projects still under construction, the capital costs,

including interest and principal, are specifically excluded from the rate calculations. The GTAA uses MTOW to calculate the landing fee per tonne, and the number of seats on an aircraft to calculate the general terminal charge per seat. The risks inherent in this approach are that expenses may exceed projections or aeronautical revenue may be lower than expected if passenger or aircraft activity volumes are not realized or non-aeronautical revenue projections are not achieved. The GTAA has the right to implement a mid-year adjustment to aeronautical fees, but since assuming responsibility for the Airport, the GTAA has only made annual adjustments.

Revenue

The GTAA receives revenue from aeronautical charges such as landing fees, general terminal charges and AIF, and non-aeronautical revenue from other activities such as car parking, ground transportation, concession license fees, retail and concession rents, land lease rents and other sources such as interest on investments and reserve funds. The relationship between these revenue sources and expenses was noted previously in the explanation of the rate setting approach. The following summarizes revenue for the previous three years:

(in thousands)	2003	2002	2001
Landing fees	\$ 246,771	\$ 201,204	\$ 181,233
General terminal charges	113,663	105,022	105,246
Airport improvement fees, net	105,857	99,461	48,025
Car parking and ground transportation	76,556	74,806	78,607
Concessions and car rentals	98,812	91,722	92,774
Other	5,204	5,662	11,452
	\$ 646,863	\$ 577,877	\$ 517,337

Landing fees are set annually as a rate per tonne of MTOW to cover the projected operating costs associated with the airfield, plus ground rent, payments-in-lieu of real property taxes (“PILT”), and specified debt service costs, offset by projected non-aeronautical revenue and a specified amount of AIF. The specified debt service costs include the principal, interest and reserve fund requirements for the capital projects that are completed and operational. Revenue from landing fees for 2003 was \$246.8 million as compared to \$201.2 million for 2002, an increase of 22.6% as a result of the increase in the rate per tonne implemented for 2003. The increase in the rate per tonne reflected the projected increases in debt service costs as projects became operational during the year and the anticipated airline activity. However, the actual 2003 revenue results are lower than expected, since the actual MTOW flown was below the rate setting projections.

General terminal charges are set to cover the operating costs for the common areas in the three primary passenger terminals and the Infield Terminal as a rate per landed seat, whether or not the seat is occupied. The common areas include holdrooms, check-in counters, passenger processing areas and arrivals halls, but exclude space that is exclusively leased by a tenant, such as office space, ticket counters and retail or concession space. Compared with 2002, revenue from general terminal charges for 2003 increased to \$113.7 million from \$105.0 million, an 8.2% increase as a result of the

higher rate per seat in 2003 offset, in part, by a slight decrease of 2.8% in the actual number of landed seats.

Effective June 1, 2001, the GTAA implemented an AIF, which is included on the ticket, for passengers originating or connecting at Toronto Pearson. The rate for the AIF was \$10 for an originating passenger and \$7 for a connecting passenger until September 1, 2003, at which time these rates were increased to \$12 and \$8, respectively. Also included as AIF revenue is the interest earned on the AIF reserve fund. AIF revenue increased from \$99.5 million in 2002 to \$105.9 million in 2003 although total passengers were lower, reflecting the higher rates for the last four months and higher overall interest earnings for 2003. Under the terms of the AIF agreements executed with the airlines, the GTAA has committed that primarily all of the AIF revenue will be used for capital programs which includes the associated debt service (principal and interest) and reserve funds. It is the intent of the GTAA to utilize some of the AIF revenue collected each year to reduce the debt service component of the landing fee. In 2002, \$99.5 million of AIF revenue was earned and \$40.0 million was used for debt payments. Similarly, in 2003, \$105.9 million of AIF revenue was earned and \$95.0 million was used for debt payments. Amounts not used for capital or debt payments in any given year continue to be held in the AIF reserve fund.

As noted in our quarterly reports during 2003 and in the financial statements, on April 1, 2003, Air Canada filed for creditor protection under the CCAA. At the time of filing, Air Canada had not paid aeronautical charges for February and March 2003 and certain other fees due under other agreements incurred prior to April 1, 2003. The GTAA has filed a claim for \$41.8 million, including all amounts outstanding, GST and a provision for lost revenue for space surrendered since April 1, 2003. During 2003, provisions totalling \$32.2 million were recorded as an expense for this potential loss. There is no AIF revenue included in the provision since all amounts have been received in full.

The GTAA receives fees or rental payments from car parking, ground transportation, concessions, retail and other rental properties. For concessions and rental properties, revenue increased from \$91.7 million in 2002 to \$98.8 million in 2003, reflecting the contractual nature of this revenue. The increase is primarily due to the GTAA concluding a purchase-leaseback of a cargo building in December 2002, offset by some tenants surrendering space in Terminals 1 and 2 as part of the transition into the new Terminal 1. Car parking and ground transportation revenue increased to \$76.6 million in 2003 as compared to \$74.8 million in 2002 reflecting the parking rate increases implemented in August 2003.

Other revenue includes interest on reserve funds and investments and was relatively stable at \$5.2 million for 2003 compared to \$5.7 million for 2002. Other revenue will fluctuate depending on the timing of debt issues, interest rates and the use of capital funds in each quarter.

Operating expenses

The GTAA's operating expenses include the costs incurred to operate and maintain the Airport, together with interest and financing costs and amortization. Some of these expenses are unique to the GTAA as a Canadian Airport Authority. It is important to note that the expenses reported here are on an accrual basis and therefore, are not entirely consistent with the expenses used in the calculation of aeronautical fees outlined previously. As a specific example, amortization is a non-cash item and is not included in the landing fee, while a principal component for the outstanding debt is included in the landing fee and is not recorded as an operating expense. In 2003, amortization exceeded the principal component included in the landing fee by \$62.4 million. The following chart summarizes the operating expenses for the previous three years:

(in thousands)	2003	2002	2001
Ground rent	\$ 125,211	\$ 134,514	\$ 126,355
Goods and services	223,426	152,183	146,368
Salaries, wages and benefits	85,504	77,870	71,796
Real property taxes and PILT	25,927	23,057	26,268
Interest and financing costs	157,086	127,204	101,902
Amortization of capital assets	96,479	83,488	58,367
	<u>\$ 713,633</u>	<u>\$ 598,316</u>	<u>\$ 531,056</u>

The Ground Lease with the federal government sets out the calculation for the annual ground rent payments that the GTAA is required to pay. The annual rent payment is based on a fixed amount per revenue passenger, adjusted by inflation, up to a maximum of 25 million passengers for the first fifteen years, 26 million passengers for the subsequent five years and 27 million passengers thereafter. It is important to note that this calculation excludes "non-revenue" passengers such as airline employees and is less than the total number of passengers reported. The first threshold of 25 million passengers was achieved in 1998, but in 2002 and in 2003, revenue passengers dropped below the threshold.

The ground rent recorded in the financial statements for 2003 was \$125.2 million as compared to \$134.5 million in 2002. The reduction includes overpayments in 2002, the impact of reduced passenger levels in 2003 below the 25 million passenger cap but does not include the ground rent relief under a program announced by the Minister of Transport in July 2003. This program was intended to provide ground rent relief for airports in recognition of the difficulties in the industry, particularly the impact of SARS. For the GTAA the result of the program will be a ground rent deferral of approximately \$41.6 million over 24 months, commencing on July 1, 2003. For 10 years commencing in 2006, the ground rent payments will be increased by approximately \$4.2 million each year.

Goods and services include the general operating costs associated with the operation and maintenance of the Airport and ancillary facilities. In 2003, the total for goods and services was \$223.4 million as compared to \$152.2 million for 2002. Included in the goods and services for 2003 is a provision of \$32.2 million for the amounts owed to the GTAA by Air Canada prior to April 1, 2003. As of the date of this report, the

restructuring plan for Air Canada has not been submitted and the determination of the payment to unsecured creditors (which include the GTAA) has not been finalized. If required, any further provision will be made in the financial results for 2004. Some of the other factors which contributed to the increased goods and services expense include, snow removal costs due to heavier snowfall and increased snow clearing areas (\$5.4 million), policing and security costs, including a reimbursement received in 2002 and not in 2003 (\$9.1 million), insurance premiums (\$4.3 million), utilities and fuel (\$3.9 million), expanded Information Technology and Telecommunications (“IT&T”) services, including leasing costs (\$4.3 million), and additional services such as cleaning, bussing and the logistics centre and expanded facilities to service (\$8.0 million).

The GTAA has both union and non-union employees and both groups are compensated with salaries and benefits, including a pension plan, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits increased from \$77.9 million in 2002 to \$85.5 million in 2003. A settlement that provided for a three year contract was reached between the GTAA and the Public Service Alliance Canada during the third quarter of 2003 to replace the collective agreement that expired on July 31, 2003. The first increase which impacted salaries and benefits went into effect August 1, 2003. The actual salaries and benefits expenses for 2003 were within 1.5% of the total budget for the year.

To maintain its exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, the GTAA pays to each of the cities of Mississauga and Toronto an amount prescribed by an Ontario regulation, based on passenger activity in a prior year as PILT. The amount of PILT recorded in 2001 was based on an estimate and was overstated by \$2.3 million. This adjustment was recorded in 2002 representing the most significant part of the increase from 2002 to 2003, with the remaining being attributable to increased passenger activity from 1999 and 2000, the respective base years for calculation. Since the calculation of PILT is based on passenger activity in a prior year, the decline in passenger levels starting in 2001 will result in a decline in PILT payments in future years, until passenger traffic recovers.

The GTAA capitalizes interest for projects under construction and interest is expensed for projects that are complete and operational. The increase in interest and financing costs to \$157.1 million in 2003 from \$127.2 million in 2002 was anticipated as more projects have transitioned into operations. Similarly, the amortization of capital assets increased to \$96.5 million in 2003 from \$83.5 million in 2002.

Net Operating Results

The revenue and expenses outlined above generate the following overall operating results for the past three years:

(in thousands)	2003	2002	2001
Revenues	\$646,863	\$577,877	\$517,337
Operating Expenses	460,068	387,624	370,787
Revenue over expenses before interest and financing costs and amortization	186,795	190,253	146,550
Interest and financing costs and amortization of capital assets	253,565	210,692	160,269
Revenue under expenses	\$(66,770)	\$(20,439)	\$(13,719)

Although the GTAA has posted losses for the past three years as a result of unexpected events, there remains adequate liquidity to fund the capital programs and operating activities. For 2003, the revenue under expenses includes ground rent expense of \$10.0 million for which the payment has been deferred by Transport Canada and the provision for Air Canada accounts receivable of \$32.2 million.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited quarterly information, which has been prepared as described in the section entitled Significant Accounting Policies and Estimates, for each of the eight quarters ended March 31, 2002 through December 31, 2003:

(in millions)	2003				2002			
	Dec	Sept	June	Mar	Dec	Sept	June	Mar
Quarter ended								
Total revenue	\$ 161	\$ 176	\$ 152	\$ 158	\$ 142	\$ 162	\$ 143	\$ 131
Operating expenses	115	105	105	135	105	99	89	95
Revenue over expenses ¹	46	71	47	23	37	63	54	36
Interest & amortization	64	66	64	60	64	51	55	40
Revenue over expenses ²	\$ (18)	\$ 5	\$ (17)	\$ (37)	\$ (27)	\$ 12	\$ (1)	\$ (4)

Notes:

1. Revenue over expenses before interest, financing costs and amortization
2. Revenue over/(under) expenses

The level of passenger activity, aircraft movements and the influence on expenses by external factors such as weather will affect the financial results of the GTAA on a quarterly basis, but past results cannot necessarily be relied on for future trends.

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

When the GTAA assumed responsibility for the Airport in December 1996, it recognized that the facilities were not adequate and that redevelopment and investment in existing facilities was required to provide services and capacity for projected future demand. The

GTAA implemented the ADP which was planned as a staged program to permit construction while the Airport continued to operate. In addition, the ADP was designed as a demand driven program that would provide the GTAA with some flexibility on the timing of certain stages. The total program budget for construction costs was \$4.4 billion and to the end of 2003, \$3.2 billion had been spent.

The major component of the ADP that is still under construction is the new Terminal 1. The first phase of new Terminal 1 is expected to become operational in April 2004. In December 2003, the GTAA provided the public the opportunity to preview the new Terminal 1 during a weekend, with more than 30,000 people responding to the invitation. Since then, construction has continued to finalize the interior finishes and tenant spaces. In addition, extensive testing of systems and processes was initiated in 2003 and has continued into 2004 to ensure a smooth operational transition into the new facility.

To accommodate operations in the first phase, portions of the central processing area and piers D and E will be opened, enabling domestic and international passengers to be processed in new Terminal 1. During this first phase, some operations will be gated at the Infield Terminal or other locations as determined by the GTAA, while work continues on the new Terminal 1. The ADP will be ongoing with work to include the demolition of old Terminal 1 and part of Terminal 2, the completion of apron areas around the new Terminal 1, the addition of gates on the east side of pier E and the construction of pier F and the international hammerhead.

The plan for the final phase of the project called for the extension of the final pier to the east, pier G, or a link to the remaining portion of Terminal 2. In response to the decline in passenger activity experienced in 2002 and 2003, the GTAA has re-evaluated the staging of the design and construction of pier G. To reduce immediate expenditures, and permit time to confirm the type of traffic anticipated to be using the facilities in future years, the GTAA has deferred the detailed design of pier G.

Beyond the ADP, the GTAA has undertaken a plan to redevelop certain components of Terminal 3 to improve the processing of passengers and provide other facilities. This project has been underway since 2001, and although some components were deferred, the total project is proceeding with \$48.9 million spent in 2003. Certain components totalling \$93.4 million were transferred to operating assets during the year.

Other capital projects undertaken during the year include the airside low visibility route, taxiway extension, activation of the Infield Terminal and improvements to the Airport Operations Control Centre with a total of \$114.5 million being spent on these and other capital projects in 2003.

PICKERING

In 2001, the GTAA was asked by the federal government to undertake interim planning to determine the need for a future regional, reliever airport on the Pickering lands. Detailed planning and analysis is well underway and in 2003, the GTAA developed a series of background technical studies, the findings of which will be used to form the GTAA's Draft Plan for the Pickering lands and transition to an environmental impact

assessment process, expected to commence late in 2004. As well, the GTAA continued its extensive public outreach in 2003 as the Pickering Advisory Committee and its working groups – the Government Affairs Working Group and the Community Communications Working Group – met on a regular basis to discuss the project. The GTAA hosted several planning related public workshops at the Pickering site office in the spring and GTAA staff attended community events over the summer months, to better inform local residents and community members about the project and the planning process.

It is anticipated that the evaluation of the project through an environmental impact assessment will take several years. The GTAA estimates that it will be in a position to submit a final master plan to the federal government by 2007. Ultimately, it will be the Government of Canada, based on the planning and analysis completed by the GTAA and the evaluation of the environmental impact assessment that will decide whether an airport is built in Pickering. Should an airport be deemed necessary by the federal government, the GTAA will be the body to construct and operate an airport. It is anticipated that if an airport is approved it could not be operational before 2012.

ASSETS AND LIABILITIES

At December 31, 2003, total assets of the GTAA were \$5.9 billion, as compared to \$4.9 billion at the end of 2002. This increase during 2003 includes \$887.8 million of capital assets and work in progress related to the ongoing ADP and other capital programs as well as increases of \$84.9 million in the reserve funds. At the end of 2001, total assets were \$3.8 billion.

Total reserve funds at December 31, 2003 were \$632.4 million as compared to \$547.5 at the end of 2002. All of the reserve funds held by or for the GTAA are fully funded and represent cash for regular payments of interest and principal, amounts set aside with the Trustee as security for specific debt issues, funds set aside in accordance with the terms of the Trust Indenture, or funds set aside by the GTAA in accordance with its mechanism for setting rates and the allocation of certain revenue, such as AIF.

With respect to the AIF Reserve Fund, the GTAA has set aside certain AIF revenue which has been received, but not yet utilized for capital or debt payments. At December 31, 2003, \$104.5 million was held in the AIF Reserve Fund and will be applied to future debt payments. In 2003, \$95.0 million of the AIF Reserve Fund was used for debt or capital payments.

As part of the landing fee, the GTAA includes a principal component for each debt issue where the assets funded by that debt issue are or have become operational. The principal calculation is based on a 30-year amortization period for the debt issue, regardless of the actual term of the issue. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter. These funds will be used to repay Revenue Bonds or Medium Term Notes (“MTN”) in whole or in part at the end of the term for each respective issue. This approach provides a mechanism for debt reduction over time. At December 31, 2003, there was \$22.4 million in the Notional Principal Fund. During the year, \$3.3 million was transferred to the Debt Service Fund –

Principal as reserve for the first amortized principal payment of the Series 1999-1 revenue bonds in July 2004.

Total liabilities at December 31, 2003 were \$5.9 billion, an increase of \$1.1 billion during the year, which corresponds to the increase in capital assets, construction in progress and reserve funds. In addition, in 2003, in accordance with the ground rent relief program, the GTAA reduced the amount of ground rent paid by \$10.0 million, which improved its cash position, and recorded deferred ground rent liability. Recognized ground rent expense was unaffected by the deferred payment. Total long term liabilities for the three years 2001, 2002 and 2003 were \$2.9 billion, \$4.4 billion and \$5.6 billion respectively. During 2003, the GTAA issued \$975 million in MTN's as follows:

(in millions)

MTN Series	Original Issue Date	Reopen Issue Date	Principal Amount
2003-1	May 13, 2003	n/a	\$ 375
2003-2	May 20, 2003	n/a	\$ 400
2003-2 reopen	May 20, 2003	December 11, 2003	\$ 200

LIQUIDITY AND CAPITAL RESOURCES

As noted previously, the GTAA is a non-share corporation and therefore cash to fund operations is generated from operating activities, AIF, reserve funds, the debt capital markets and a bank credit facility. Accordingly, the aeronautical rates are set each year to cover the projected operating costs, taking into account projected passenger activity, aircraft movements and other revenue sources. With this approach, no annual fluctuation in liquidity is expected. Consistent with this residual rate setting approach, all revenue or cash generated by the GTAA is used within the Airport to cover expenses, debt, capital programs, reserves and other activities within its mandate.

The GTAA has implemented an AIF which is collected by the airlines on the ticket on behalf of the GTAA and remitted monthly in accordance with an agreement with each airline. In accordance with these agreements, the GTAA has committed that primarily all of the AIF revenue will be used for capital projects, including debt service payments, however this does not have to be in the year that the funds are collected. Any AIF revenue collected and not used in the same year is held in the AIF reserve fund for debt or capital payments in future years.

The GTAA has established a debt program under its Trust Indenture that sets out the terms of all debt, including bank facilities, revenue bonds and MTN's. The debt program has been used to fund the ongoing ADP and other capital projects. It is the intent of the GTAA to continue to utilize the capital markets to fund the capital programs. As at December 31, 2003, \$5.4 billion was outstanding as revenue bonds or MTN's. In December 2003, the GTAA filed a new shelf prospectus to enable the issue of up to \$2.0 billion of MTN's during the next 25 months. From time to time, the GTAA may issue debt prior to its specific capital spending requirements and these funds are invested and used to fund ongoing capital projects in subsequent months.

The GTAA issued \$350 million of 30 year MTN's and \$250 million of five year retail MTN's in February 2004. These funds will be used to fund ongoing capital requirements. It is expected that these two issues will provide liquidity for the ADP and other capital through to the fall of 2004.

In addition, the GTAA has two bank credit facilities with a bank syndicate totalling \$550 million. These include \$250 million as a 364-day facility which matures in November 2004 and may be extended for a further 364-day period and \$300 million as a 3 year facility which matures in November 2005. The GTAA utilizes these facilities to fund ongoing operations where expenses may exceed revenue due to timing of expenses and receipts, and to fund capital expenses on a periodic basis to provide flexibility in accessing the capital markets.

Principal payments for the next five years include the amortizing payments for MTN Series 1999-1, and the maturity of MTN Series 2003-2 and Series 1997-2. In addition, the GTAA has entered into certain capital leases for equipment. As at December 31, 2003, the principal and capital lease payments scheduled for each of the next five years are as follows:

(in millions)			
Year	Principal	Capital Leases	Total
2004	\$ 7.9	\$ 1.6	\$ 9.5
2005	753.4	0.9	\$ 754.3
2006	9.0	0.1	\$ 9.1
2007	384.5	-	\$ 384.5
2008	385.2	-	\$ 385.2
Thereafter	4,029.0	-	\$4,029.0
	\$ 5,569.0	\$ 2.6	\$5,571.6

The sources of funding as outlined above should enable the GTAA to adequately meet its short term and long term requirements for operating, capital and debt payments in the future.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The GTAA's accounting policies are set out in Note 4 of the Consolidated Financial Statements as at December 31, 2003 and 2002. Certain accounting policies require management to make estimates or assumptions for the completion of the financial statements. These include estimates for the depreciation or amortization of property, revenue recognition and the value of financial instruments.

Capital assets which include items such as improvements to leased land, runways, buildings and roadways are recorded at cost. Each of the asset types is amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. Amortization of assets commences when the asset is brought into operation, and for certain assets, such as terminal buildings, the asset may be brought into operation or removed from operation in stages.

Revenue is recognized at different points in time, depending on the nature of the revenue and the specific agreements. Landing fees, general terminal charges and car parking revenue are recognized as the Airport facilities are utilized. AIF, net of airline administration fees, are recorded upon the enplanement of passengers. Concession revenues, ground transportation revenue and rental revenue are recognized in accordance with the respective agreements. For each month end there are certain estimates relating to passengers, movements, sales and other criteria to determine revenue earned for the respective categories.

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.

RISKS AND UNCERTAINTIES

The past several years have demonstrated that the demand for air travel is subject to pressure from numerous external sources, including economic conditions, geopolitical unrest, government regulation and the financial uncertainty in the aviation industry. As noted, there was a negative financial impact on the GTAA during 2003 due to SARS, Air Canada filing under CCAA, extreme weather conditions and the power blackout of August 14, 2003. There was some improvement in passenger activity noted during the last quarter of 2003, however passenger levels remain uncertain. The GTAA has adjusted some short term development plans in response to the variable levels, but given the lengthy construction timetable for terminal and other airport facilities, the GTAA must remain committed to its longer term vision.

The financial stability of the aviation industry remains a concern for the GTAA. Certain losses have resulted from airlines ceasing operations or seeking protection under CCAA. In addition, any reduction in air carrier schedules can have a financial impact on the GTAA. The GTAA has reduced this exposure through modified payment processes, including electronic funds transfers, direct deposits and more effective monitoring of payments from all tenants. Although there is some risk for the Airport regarding airline exposures, any long term risk to changes in the industry or to a single airline is mitigated by the fact that approximately 75% of the passenger activity at the Airport originates or terminates at Toronto Pearson.

As previously noted, on April 1, 2003 Air Canada filed for creditor protection under CCAA and since that time has continued to operate at the Airport. Until the new restructuring plan for Air Canada is filed and accepted by the creditors and the court, the GTAA will not know the status of any payments that it may receive as an unsecured creditor. Further, if Air Canada is not successful with its plans, there would be significant financial and operational impacts on the GTAA during the time that the industry adjusts. It is anticipated that over time, new or existing carriers would expand operations to meet the passenger demand.

On March 20, 2003, the Minister of Transport tabled before Parliament Bill C-27 entitled The Canada Airports Act. The proposed legislation was intended to regulate the manner in which all airport authorities in Canada (including the GTAA) were governed, set fees and charges and managed their facilities. When Parliament adjourned in November 2003, this bill had not concluded second reading and therefore died on the order paper. There is a possibility that future governments may enact this or similar legislation.

The ADP continued to progress well through 2003 with extensive testing of the new Terminal 1 including the baggage and other systems in the latter part of the year and early into 2004. First operations in new Terminal 1 are scheduled for April 2004. As the project proceeds with the demolition of old Terminal 1 and the construction of pier F and the international hammerhead, there will be some ongoing construction risk. Clearly, the magnitude of the remaining construction is much smaller than before and so are the associated risks. It is anticipated that the GTAA will continue to meet the specified goals of the ADP within its construction budget for the final stages of the program.

The GTAA's approach for setting rates and charges has been outlined previously and works on a residual basis for each year. For assets under construction, the GTAA does not include the debt payments in the landing fee calculation. The underlying rationale is that the airlines would only pay for those assets for which they are receiving an operational benefit. As a result, with portions of the new Terminal 1 becoming operational in 2004, the debt payments associated with the operational portions of this asset have been included in the rate calculation for 2004. This is, however, at a time when reduced passenger levels are being experienced and will have a negative impact on the airline cost per passenger. Consequently, some airlines and their trade associations have expressed concern about the effect of the increase in the GTAA's aeronautical fees. The impact of these increases is anticipated to be mitigated by continued increases in passenger activity, the high level of origin and destination passenger traffic in Toronto and the added value of improved facilities and service levels for passengers and airlines. In early 2004, WestJet announced its plans to provide expanded service at Toronto, supporting the premise that the origin and destination base for Toronto will encourage other airlines to enter the Toronto market to meet expected passenger demand.

The GTAA has been very successful in raising funds in the Canadian debt capital markets when required. There is always some inherent risk in the market such as the cost and availability of funds at any point in time. There are certain issues that influence the markets that are beyond the GTAA's control, such as economic conditions, government policies, financial stability of other organizations and the overall state of the financial markets. The GTAA works with its financial advisors to select the timing, size and term of issues and monitors the overall debt markets to ensure continued access to the markets. The GTAA has typically issued 10 and 30 year fixed interest rate debt to match the long term life of the assets. To expand its opportunities in the capital markets and the potential investor base, during 2003, the GTAA issued five year MTN's and floating rate MTN's. Further, in February 2004, the GTAA launched its first retail issue of MTN's.

The Trust Indenture sets out certain covenants for the GTAA, including two specific coverage tests for operating expenses and debt payments. The operating covenant states that the ratio of revenues to operating expenses, plus interest and financing costs must be

at least 1.0. The debt service covenant states that the ratio of net revenues, which may include available credit, to interest and financing costs, including notional principal, is at least 1.25. For every year, including the year ended December 31, 2003, the GTAA has complied with both covenants. If revenue or expenses are substantially different than expected there is a risk of not meeting the tests defined. If the debt service covenant test is not met in any year, the GTAA is not in default of its obligations under the Trust Indenture so long as the test is met in the subsequent year.

During the past few years there have been significant changes in the insurance industry. As has been reported previously, after September 11, 2001, the war and terrorism coverage provided by liability insurance policies was cancelled. Since then the GTAA has purchased \$50 million of war and terrorism coverage and the excess is still covered by an indemnity from the federal government for 2004.

On August 14, 2003, the GTAA was affected, together with most of southern Ontario and the northeast United States, by a power blackout that lasted for an extended period of time in some areas. The GTAA was able to operate using its auxiliary power generators, but recognized that this was a short term solution and could not be sustained for extended periods. There is concern, given the current state of the power generation and distribution infrastructure in Ontario, that future power blackouts may be experienced. To minimize this risk and reduce future electricity costs the GTAA will be constructing a co-generation facility to be operated in conjunction with its existing central utility plant. The planned facilities will meet the GTAA's electrical requirements with some surplus power being sold. Construction is expected to commence by mid-2004 with the plant operational by late 2005 or early 2006.

CONCLUSION/OUTLOOK

The past year has been challenging for the GTAA, including the need to manage the financial impact of changes in passenger demand and aircraft movements, the financial uncertainty in the aviation industry, political unrest in certain parts of the world, Air Canada's CCCA filing, SARS, the power blackout, and extreme weather conditions. In the midst of these ongoing challenges, the GTAA moved forward with the ADP, hosted preview events of the new Terminal 1 and continued testing and implementation of systems in preparation for the first day of operations in the new facilities including the new terminal and parking garage. The success of the GTAA is demonstrated by the completion of the first stage of a complex construction project within two per cent of budget and only six years after groundbreaking, with minimal disruption to the travelling public.

Part of the success of the GTAA can be attributed to its ability to maintain a longer term vision while responding immediately to unexpected events. Recognizing the cyclical nature of the industry, the lead time for design and construction and the long term growth trend in passenger activity, the GTAA will continue to manage and be responsive to short term challenges while maintaining its long term vision and commitment to the travelling public in the Greater Toronto Area. The enhanced flexibility and high standards offered with the opening of the new Terminal 1 will set the stage for the future of aviation in Toronto.

Consolidated Financial Statements of

**GREATER TORONTO AIRPORTS
AUTHORITY**

December 31, 2003 and 2002

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, 2003 and 2002 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, 2003 and 2002 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 20, 2004, except as to Note 19,
second paragraph which is as of March 19, 2004

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands)	2003	2002
ASSETS		
Current		
Cash and cash equivalents	\$ 38,125	\$ 15,573
Accounts receivable	75,356	54,672
Prepaid expenses	3,491	3,595
Inventory	3,021	2,929
	119,993	76,769
Reserve and other funds (Note 5)	632,391	547,458
Deferred charges (Note 6)	47,007	47,237
Capital assets (Note 7)	2,298,837	2,029,223
Work in progress (Note 8)	2,770,494	2,148,250
Prepaid pension asset (Note 12)	3,708	3,378
	\$ 5,872,430	\$ 4,852,315
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 265,263	\$ 302,196
Security deposits and deferred credits	24,346	30,675
Current portion of long-term debt (Note 9)	9,536	1,887
	299,145	334,758
Deferred ground rent (Note 3)	10,024	-
Long-term debt (Note 9)	5,562,087	4,449,613
	5,871,256	4,784,371
NET ASSETS (Note 10)		
Externally restricted	57,100	46,649
Internally restricted	143,378	110,280
Unrestricted	(199,304)	(88,985)
	1,174	67,944
	\$ 5,872,430	\$ 4,852,315

SIGNED ON BEHALF OF THE BOARD

(signed) **Michael A. Butt**
Director

(signed) **Warren C. Hurren**
Director

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (in thousands)	2003	2002
REVENUES		
Landing fees	\$ 246,771	\$ 201,204
General terminal charges	113,663	105,022
Airport improvement fees, net	105,857	99,461
Car parking and ground transportation	76,556	74,806
Concessions	54,287	54,488
Rentals	44,525	37,234
Other	5,204	5,662
	646,863	577,877
OPERATING EXPENSES		
Ground rent (Note 3)	125,211	134,514
Goods and services	223,426	152,183
Salaries, wages and benefits	85,504	77,870
Real property taxes and payments-in-lieu of real property taxes (Note 13)	25,927	23,057
	460,068	387,624
Revenues over expenses before interest and financing costs and amortization	186,795	190,253
Interest and financing costs (Note 11)	157,086	127,204
Amortization of capital assets	96,479	83,488
Revenues under expenses	\$ (66,770)	\$ (20,439)

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

2003

Year Ended December 31 (in thousands)	Balance, Beginning of year	Revenues Under Expenses	Transfers/ Allocations	Use of Funds	Balance, End of Year
Externally Restricted					
Operating and maintenance reserve	\$ 43,649	\$ -	\$ 7,157	\$ -	\$ 50,806
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	3,294	-	3,294
	46,649	-	10,451	-	57,100
Internally Restricted					
Airport improvement fees collected, net	93,727	-	105,748	(95,000)	104,475
Notional principal of long-term debt	-	-	25,644	(3,294)	22,350
Debt service coverage requirement	16,553	-	-	-	16,553
	110,280	-	131,392	(98,294)	143,378
Restricted net assets	156,929	-	141,843	(98,294)	200,478
Unrestricted net assets	(88,985)	(66,770)	(43,549)	-	(199,304)
Total net assets	\$ 67,944	\$ (66,770)	\$ 98,294	\$ (98,294)	\$ 1,174

2002

Year Ended December 31 (in thousands)	Balance, Beginning of year	Revenues Under Expenses	Transfers/ Allocations	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 fees 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

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (in thousands)	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues under expenses	\$ (66,770)	\$ (20,439)
Items not affecting cash		
Amortization of capital assets	96,479	83,488
Loss on disposal of capital assets	234	478
Increase in prepaid pension asset	(330)	(3,298)
Changes in non-cash working capital		
(Increase) decrease in accounts receivable	(20,684)	2,249
Decrease (increase) in prepaid expenses	104	(1,720)
Increase in inventory	(92)	(173)
(Decrease) increase in accounts payable and accrued liabilities	(36,933)	9,379
Increase in deferred ground rent	10,024	-
(Decrease) increase in security deposits and deferred credits	(6,712)	12,222
	(24,680)	82,186
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and disposal of capital assets	(9,028)	(81,067)
Work in progress	(977,238)	(945,431)
	(986,266)	(1,026,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of medium term notes (Note 9)	975,000	1,525,000
Medium term notes premium	382	4,163
Credit facility (Note 9)	145,000	(270,000)
Repayment of long-term debt	(2,181)	(201,427)
Reserve and other funds	(84,933)	(102,824)
Deferred charges, net (Note 6)	230	(6,019)
	1,033,498	948,893
NET CASH INFLOW	22,552	4,581
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,573	10,992
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 38,125	\$ 15,573

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

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, licence 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 changed the process for the nomination and appointment of Directors. These amendments allow certain non-governmental organizations to make nominations to the Board. As a result, the Board will have greater choice for the selection of new directors.

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 an 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, 2003 and 2002

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 the 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 with amendments made in April 1997 provided a total of \$199.6 million in rent credits consisting of \$113.4 million for specified development projects, \$72.3 million for Airside Development Projects, \$10.0 million for security costs, \$3.5 million for the acquisition of two pieces of land which were subsequently transferred to the landlord and \$0.4 million for a restoration project. The rent credits for development projects and land acquisitions 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. This proposed legislation would have regulated the manner in which all CAAs, (including the GTAA) would be governed, set fees and charges and manage their facilities. Bill C-27 received first reading in the House of Commons, but died on the order paper when Parliament was prorogued in the fall of 2003.

In July 2003, the Government of Canada announced a program to allow for a reduction in the ground rent, for a two-year period commencing July 1, 2003. For each of the 10 years following January 1, 2006, the GTAA's annual ground rent payments will be increased by approximately \$4.2 million per year (see Note 18, Ground Rent Agreement).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

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 Work 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, 2003 and 2002

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 1 to 4 years straight-line for Terminals 1 and 2 improvements 2.5% to 20% declining balance for non-terminal facilities
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% to 30% declining balance
Capital leases	10% to 30% declining balance

Work in Progress

Work in progress is transferred to Capital assets when the asset is placed in service. Interest associated with borrowing funds for construction purposes is 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 passenger. 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, 2003 and 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Salaries, Wages and Benefits

Reimbursements to service organizations for their 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 unamortized net actuarial gain or loss exceeding 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year 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 certain 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-retirement 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 an investment.

The GTAA designates its interest rate swap 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 investments is adjusted to include payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative financial 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 item is realized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gain or loss on such derivative financial instrument is recognized in income.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

5. RESERVE AND OTHER FUNDS

The Debt Service Fund and Debt Service Reserve Fund (the “Trust Funds”) and Operations, Capital and Financing Funds invested in cash and qualified short-term investments are as follows:

(in thousands)	2003	2002
Debt Service Fund		
Interest	\$ 59,603	\$ 55,807
Principal	3,294	-
	62,897	55,807
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	34,991	35,479
Series 1997-3 due December 3, 2027	36,820	37,303
Series 1999-1 due July 30, 2029	40,116	40,642
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,591	39,138
Series 2000-2 due July 19, 2010	39,660	40,129
Series 2001-1 due June 4, 2031	35,131	35,572
Series 2002-1 due January 30, 2012	31,073	31,530
Series 2002-2 due December 13, 2012	29,500	30,001
Series 2002-3 due October 15, 2032	38,303	38,418
Series 2003-1 due June 2, 2008	19,350	-
Series 2003-2 due May 20, 2005	22,358	-
	365,893	328,212
Bank indebtedness secured by Series 1997 - A Bond	6,417	6,510
	372,310	334,722
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	50,806	43,649
Renewal and Replacement Reserve Fund	3,000	3,000
Airport Improvement Fee Reserve Fund	104,475	93,727
Notional Principal Fund	22,350	-
Debt Service Coverage Fund	16,553	16,553
	197,184	156,929
	\$ 632,391	\$ 547,458

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

5. RESERVE AND OTHER FUNDS (continued)

Trust Funds

The GTAA is required to establish and maintain with the Trustee 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 Trust Indenture.

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.

During 2003, \$3.3 million was deposited to the Debt Service Fund Principal Account by the GTAA as reserve for the amortized principal of the series 1999-1 revenue bonds which is due July 2004. 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.

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 medium term 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 each series of bonds or medium term notes, funds not applied by the Trustee will be returned to the GTAA.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

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 Reserve 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, 2003 this fund had a balance of \$50.8 million (2002 - \$43.6 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 \$3.0 million (2002 - \$3.0 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 participating 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, 2003, this fund had an accumulated balance of \$104.5 million (2002 - \$93.7 million). During 2003, \$95.0 million (2002 - \$40.0 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 (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 medium term notes. The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2003 had a balance of \$16.6 million (2002 - \$16.6 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

6. DEFERRED CHARGES

(in thousands)	December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 37,734	\$ 10,453	\$ 27,281
Unrealized gain on interest rate swaps	(1,233)	-	(1,233)
Deferred interest	81	-	81
Deferred bond hedge loss	17,953	5,606	12,347
Bond discount costs	10,685	2,154	8,531
	<u>\$ 65,220</u>	<u>\$ 18,213</u>	<u>\$ 47,007</u>

(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
	<u>\$ 61,488</u>	<u>\$ 14,251</u>	<u>\$ 47,237</u>

The aggregate amortization expense in respect of deferred charges for the year ended December 31, 2003 was \$4.0 million (2002 - \$3.7 million) and is included in interest and financing costs. Additions to deferred charges during the year totaled \$3.7 million (2002 - \$ 10.0 million).

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Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

7. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	\$ 1,690,155	\$ (131,088)	\$ 1,559,067
Baggage handling systems	49,591	(11,974)	37,617
	1,739,746	(143,062)	1,596,684
Airside assets			
Improvements to leased land	24,000	(2,833)	21,167
Runways and taxiways	310,234	(12,121)	298,113
Deicing facilities	29,730	(3,243)	26,487
	363,964	(18,197)	345,767
Other assets			
Utilities and stormwater management facilities	189,383	(11,199)	178,184
Operating assets	313,709	(139,912)	173,797
Capital leases	9,679	(5,274)	4,405
	512,771	(156,385)	356,386
	\$ 2,616,481	\$ (317,644)	\$ 2,298,837

(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	261,922	(96,872)	165,050
Capital leases	7,373	(3,929)	3,444
	450,732	(107,514)	343,218
	\$ 2,250,388	\$ (221,165)	\$ 2,029,223

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

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Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

8. WORK IN PROGRESS

(in thousands)	Beginning of Year	Additions / Adjustments	Transfers to Capital Assets	End of Year
Airside Development Project	\$ 2,181	\$ 16,091	\$ (16,079)	\$ 2,193
Terminal Development Project	1,769,153	796,343	(34,074)	2,531,422
Infield Development Project	94,791	(1,192)	(91,517)	2,082
Utilities and Area Support Facilities	1,858	4,392	(5,697)	553
Central Utilities Plant	1,800	(1,782)	(18)	-
	1,869,783	813,852	(147,385)	2,536,250
Restoration Projects	188,851	114,455	(114,238)	189,068
T3 Redevelopment	89,616	48,931	(93,371)	45,176
	\$ 2,148,250	\$ 977,238	\$ (354,994)	\$ 2,770,494

As at December 31, 2003, Work in progress included capitalized interest and financing costs in the amount of \$297.0 million (2002 – \$178.4 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

9. LONG-TERM DEBT

As at December 31, 2003 the long-term debt outstanding is comprised of:

(in thousands)	Coupon Rate	Maturity Date	2003	2002
	(Note 17)			
Revenue Bonds, <i>See below</i>				
1997-2	5.95%	December 3, 2007	\$ 375,000	\$ 375,000
1997-3	6.45%	December 3, 2027	375,000	375,000
1999-1	6.45%	July 30, 2029	500,000	500,000
Medium Term Notes				
2000-1	7.05%	June 12, 2030	550,000	550,000
2000-2	6.70%	July 19, 2010	600,000	600,000
2001-1	7.10%	June 4, 2031	500,000	500,000
2002-1	6.25%	January 30, 2012	500,000	500,000
2002-2	6.25%	December 13, 2012	475,000	475,000
2002-3	6.98%	October 15, 2032	550,000	550,000
2003-1	5.17%	June 2, 2008	375,000	-
2003-2, <i>See below</i>	floating	May 20, 2005	600,000	-
			5,400,000	4,425,000
Credit facility, <i>See below</i>				
Secured by 1997-A Bond			145,000	-
Capital leases, <i>See below</i>			2,623	2,500
Province of Ontario				
Interest-free, payable in five equal annual instalments commencing 2011			24,000	24,000
			5,571,623	4,451,500
Less current portion			9,536	1,887
			\$ 5,562,087	\$ 4,449,613

Interest arising from these debt instruments amounted to \$318.4 million (2002 - \$256.9 million).

For Series 2003-2 the interest rate is adjusted quarterly at the 3-month Bankers' Acceptance rate plus 55 basis points. The rate for the initial period commencing May 20, 2003 was 3.90%. The rate was adjusted to 3.36% effective November 20, 2003.

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Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

9. LONG-TERM DEBT (continued)

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing capital 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 the following Revenue Bonds and Medium Term Notes outstanding:

<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
2003-1	May 13, 2003	\$ 375,000	December 2, 2003
2003-2	May 20, 2003	\$ 400,000	August 20, 2003
2003-2 reopen	December 11, 2003	\$ 200,000	February 20, 2004

With the exception of Series 2003-2, interest is payable semi-annually from the Interest Payable Commencement Date. Series 2003-2 interest is payable quarterly from the Interest Payable Commencement Date. With the exception of Series 2003-1 and Series 2003-2 medium term notes which are not redeemable, 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, 2003 and 2002

9. LONG-TERM DEBT (continued)

Credit Facility

The GTAA maintains a Credit Facility with a syndicate of six Canadian banks. The Credit Facility is secured by a \$550 million pledge bond issued pursuant to the Trust Indenture. Indebtedness under the Credit Facility ranks pari passu with other indebtedness issued under the Trust Indenture. Under this Credit Facility, the GTAA is provided with a 364-day revolving operating facility in an amount up to \$250 million due November 24, 2004 and a revolving term facility in an amount up to \$300 million due November 28, 2005. At December 31, 2003, \$145 million was drawn on the revolving term facility (2002 – nil). Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates incurred during the year ranged from 3.13% to 5.00% (2002 – 2.24% to 4.50%)

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:

<u>(in thousands)</u>	
2004	\$ 9,536
2005	754,301
2006	9,069
2007	384,537
2008	385,152
Thereafter	4,029,028
	<u>\$ 5,571,623</u>

During the year, the GTAA incurred interest costs, on a cash basis, of \$314.5 million (2002 - \$235.1 million).

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Notes to the Consolidated Financial Statements

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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 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 disbursed 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 on the Debt Service Reserve Fund and capitalized interest:

(in thousands)	2003	2002
Interest and financing costs incurred	\$ 321,333	\$ 251,598
Less:		
Interest earned on the Debt Service Reserve Fund	(17,535)	(9,413)
Capitalized Interest	(146,712)	(114,981)
	\$ 157,086	\$ 127,204

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

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, 2003, 121 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 March 2004. 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 is as follows:

(in thousands)	2003	2002
Accrued benefit obligation		
Balance at beginning of year	\$ 47,097	\$ 34,068
Transfer of PSSA liabilities	-	6,767
Actuarial gain	(314)	(1,415)
Current service cost	3,769	3,539
Interest cost	3,208	2,792
Benefits paid	(325)	(231)
Employee contributions	1,080	933
Past service costs	-	644
Balance at end of year	54,515	47,097
Plan assets		
Fair value at beginning of year	45,051	34,148
Transfer of PSSA assets	-	6,767
Employee contributions	1,080	933
Employer contributions	4,388	5,245
Actuarial gain / (loss)	2,314	(4,996)
Expected return on plan assets	3,002	3,185
Benefits paid	(325)	(231)
Fair value at end of year	55,510	45,051
Funded status - plan surplus (deficit)	995	(2,046)
Unamortized net actuarial loss	2,534	5,230
Unamortized transitional obligation	179	194
Prepaid pension asset	\$ 3,708	\$ 3,378

One of the GTAA's two defined benefit pension plans is in a deficit position of \$2.9 million (2002 - \$4.3 million deficit), with an accrued obligation of \$48.6 million and a fair value of \$45.7 million and the other is in a surplus position of \$3.9 million (2002 - \$2.3 million surplus) as at December 31, 2003.

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Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

12. EMPLOYEE BENEFITS (continued)

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

(in thousands)	2003	2002
Current service cost	\$ 3,769	\$ 3,539
Interest cost	3,208	2,792
Amortization of transitional amount	15	15
Amortization of past service cost	-	644
Net actuarial loss	31	44
Expected return on plan assets	(3,002)	(3,185)
Net defined benefit pension plan expense	\$ 4,021	\$ 3,849

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31, 2003):

	2003	2002
Discount rate	6.50%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.50%
Rate of compensation increase	3.75%	3.75%

Defined Contribution Pension Plan Expense

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

(in thousands)	2003	2002
Defined contribution pension plan expense	\$ 811	\$ 643

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

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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 real property taxes.

14. RELATED PARTY TRANSACTIONS

Directors' Fees

Directors' fees for the year ended December 31, 2003 were \$498,050 (December 31, 2002 - \$474,550).

15. COMMITMENTS AND CONTINGENT LIABILITIES

Ground Lease

The GTAA's commitment in respect of annual Ground Lease Base Rent, net of the ground rent deferral, has been estimated at approximately \$120.9 million for the year ending 2004; \$122.7 million for the year ending 2005; \$141.7 million for the year ending 2006; \$156.3 million for the year ending 2007 and \$160.0 million for the year ending 2008 (see Note 18, Ground Rent Agreement).

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2003 of approximately \$384 million (2002 - \$677 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, were set at approximately \$422 million by December 31, 2001, which the GTAA has 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

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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 development of highway infrastructure and transit improvements related to 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 this requirement.

Boeing Lands

In July 2001, the GTAA and Boeing Toronto, Ltd. ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of \$30 million. These lands will be transferred to the GTAA in stages. It is anticipated that the first parcel will be conveyed in mid 2004, following completion of the environmental remediation of the first parcel by Boeing. The remaining lands will be conveyed from time to time thereafter over a maximum period of 20 years. Deposits totaling \$8 million have been made, of which \$3.3 million will be credited to the purchase price for the first parcel and \$4.7 million to the purchase price for the second 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. The Order in Council has been approved for 2004. Official declarations of its status occur every 90 days to account for the potential of change in the insurance industry. As part of the original Order in Council of September 2001 the GTAA was required to purchase a \$50 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place for 2004.

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Notes to the Consolidated Financial Statements

December 31, 2003 and 2002

15. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Litigation

Canada 3000

In 2001 the GTAA, together with other CAAs, applied to the Ontario Superior Court of Justice for an order under the Airport Transfer (Miscellaneous Matters) Act to permit the GTAA and the other CAAs 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 which was fully reserved in prior years. In a decision released May 7, 2002, the Ontario court held that the GTAA and the other CAAs were not entitled to seize and detain aircraft leased by Canada 3000 and its affiliates. The GTAA and the other CAAs have appealed this decision to the Ontario Court of Appeal. In a decision dated January 20, 2004, the Ontario Court of Appeal upheld the lower court's decision by a majority. The GTAA and the other CAAs have filed for leave to appeal the Court of Appeal decision to the Supreme Court of Canada.

Air Canada

On April 1, 2003 Air Canada filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). Air Canada's plan of arrangement is not yet known, so the financial impact of the CCAA filing on the GTAA is uncertain at this time. The GTAA has filed a claim in the CCAA proceedings for \$41.8 million, including G.S.T., for landing fees, general terminal charges and other agreement charges. Given the preliminary status and the uncertainty of the outcome of Air Canada's filing, the GTAA made a decision in the first quarter to make a provision for \$18.7 million. Further provisions were made in the third and fourth quarter of \$7.8 million and \$5.7 million respectively, increasing the total provision to \$32.2 million.

16. GUARANTEES

In the normal course of operations, the GTAA provides indemnification agreements to counterparties in a wide variety of transactions such as contracts for goods and services, maintenance agreements, design-build contracts, construction contracts, and information technology agreements. These indemnification agreements require the GTAA to indemnify the counterparties in respect of costs incurred as a result of certain changes in the underlying nature of the contracts (including, without limitation, changes in laws, delays caused by the GTAA, pre-existing environmental conditions) and in respect of costs incurred as a result of certain litigation claims that may result from the transaction (such as, by way of example, patent infringement or personal injury and property damage due to the GTAA's negligence). The terms of the indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents Management from making a reasonable estimate of the maximum potential amount the GTAA may be required to pay to or expend on behalf of such counterparties because such limits are most commonly not set out in the said agreements and the events in question are themselves highly contingent and variable in nature. Management attempts to limit its liability in respect of the indemnifications provided to such counterparties through the purchase of liability and property insurance and the allocation of risk to other contractors.

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Notes to the Consolidated Financial Statements

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17. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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 who are under no compulsion to act 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 the exercise of significant judgment.

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

(in thousands)	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 5,571,623	\$ 5,795,857	\$ 4,451,500	\$ 4,597,899

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Notes to the Consolidated Financial Statements

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17. FINANCIAL INSTRUMENTS (continued)

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, 2003, the interest rate swap contracts had a total unrealized gain of \$15.6 million (2002 - \$14.4 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 2003 would have amounted to approximately \$3.6 million (2002 - \$0.5 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 \$5.2 million (2002 - \$3.7 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).

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.

GREATER TORONTO AIRPORTS AUTHORITY

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17. FINANCIAL INSTRUMENTS (continued)

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 revenues or operations.

18. GROUND RENT AGREEMENT

In July 2003 the Government of Canada announced a program to allow for a reduction in the ground rent, for a two-year period commencing July 1, 2003. The deferral during this period is \$41.6 million. For each of the 10 years following January 1, 2006, the GTAA's annual ground rent payment will be increased by approximately \$4.2 million per year. The 2003 ground rent deferral of \$10.0 million has been set up as long-term liability.

19. SUBSEQUENT EVENTS

Medium Term Note Issue

In February 2004, the GTAA issued Series 2004-1 and Series 2004-2 Medium Term Notes in the amount of \$350 million and \$250 million respectively. Series 2004-1 has a term of 30 years and bears interest at 6.47%. Interest is payable semi-annually commencing August 2, 2004. Series 2004-2 has a term of 5 years and bears interest at 4.45%. Interest is payable semi-annually commencing August 4, 2004. The Series 2004-1 Medium Term 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 a similar term to maturity.

New Terminal 1 Operations

On February 19, 2004 Air Canada brought a motion in the Ontario Superior Court for an order against the GTAA claiming that it had exclusive rights to all of the 14 contact gates initially available at the new Terminal 1. The GTAA maintained that the facility was designed and built as a common use facility and that in preparing to locate WestJet in new Terminal 1, the GTAA had allocated facilities in accordance with its protocols. The Court decision upheld Air Canada's claim. The GTAA filed a leave to appeal the Court's decision which was declined by the Courts on March 19, 2004. As a result, the GTAA will modify parts of Terminal 2 to a common use facility to accommodate WestJet's operations.