

Management's Discussion and Analysis and Consolidated Financial Statements of the

Greater Toronto Airports Authority

June 30, 2003

(unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2003

The Financial Statements and Notes, Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2002 provide details on the structure, mandate and performance of the Greater Toronto Airports Authority ("GTAA"), and a more comprehensive discussion of certain matters that are also covered in this quarterly report, should be read in conjunction with this quarterly report. The following discussion provides an update of activities in the first six month period ended June 30, 2003.

Introduction

The GTAA was incorporated as a not-for-profit corporation without share capital. The GTAA is responsible for the operation, management and development of Toronto Pearson International Airport (the "Airport" or "Toronto Pearson") as set out in the ground lease with the federal government (the "Ground Lease"). The mandate of the GTAA is to operate a safe and secure airport, and to ensure that the facilities will provide appropriate services, amenities and capacity for the future. Accordingly, operations and the development at the Airport are managed on a commercial basis within the overall strategy of financial responsibility.

Operating Activity

During the first six months of 2003, approximately 11.6 million passengers moved through the Airport, as compared to 12.3 million for the same period in 2002. In the first quarter of 2003, passenger activity was up 3.44% over 2002, and in the second quarter, passenger activity was down 13.7% for a combined reduction of 5.6% for the six-month period ended June 30, 2003. The reduced activity in the second quarter is the result of the outbreak of Sudden Acute Respiratory Syndrome ("SARS") in Toronto, the related travel advisory issued by the World Health Organization in April and to a lesser extent, the impact of continued geopolitical unrest. Late in the second quarter Toronto was removed from all designated watches relating to SARS. Consequently, gradual increases in passenger activity are expected. Maximum Take-off Weight ("MTOW") was down 5.8% in the first six months in comparison to 2002.

The following table summarizes the passenger activity for the three months and six months ended June 30, 2003 and 2002:

(in thousands)	<u>Three Months Ended</u>			<u>Six Months Ended</u>		
	2003	2002	% change	2003	2002	% change
Domestic	2,595	2,851	(9.0%)	5,040	5,259	(4.2%)
Transborder	1,577	2,034	(22.5%)	3,533	3,964	(10.9%)
International	1,425	1,601	(11.0%)	3,071	3,108	(1.2%)
Total	5,597	6,486	(13.7%)	11,644	12,331	(5.6%)

RESULTS OF OPERATIONS

The GTAA sets its annual aeronautical rates and charges to cover its projected operating costs on a breakeven basis for each year, after taking into account all non-aeronautical revenue. The projected operating costs include interest for the debt associated with operating assets, but do not include the amortization of these assets. If during the period, there is a shortfall between the receipt of revenue and the actual disbursements for operating expenditures, including interest, the shortfall is funded through the bank facilities described later in this document. The capital costs, including interest, for projects or assets under construction, such as the new Terminal 1, are funded through debt and are not included in the calculation of aeronautical charges.

Revenue

The underlying driver for all revenue earned by the GTAA is passenger activity and aircraft activity, measured by MTOW and arrived seats, as reflected by the number and type of aircraft used by the airlines. The GTAA receives revenue for aeronautical charges, airport improvement fees (“AIF”) and non-aeronautical revenue. Aeronautical charges, which are the fees paid by the airlines for their use of the airport facilities, include landing fees and general terminal charges. AIF revenue is collected by the airlines on behalf of the GTAA and is remitted in accordance with their agreements. Non-aeronautical revenue includes revenue from car parking, ground transportation, retail or concession rent, land leases and other sources such as interest income on investments. The following chart summarizes the revenue for the three month and six month periods ended June 30, 2003 and 2002:

(in thousands)	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	2003	2002	2003	2002
Landing fees	\$ 58,556	\$ 50,914	\$119,259	\$ 96,158
General terminal charges	26,170	26,220	55,427	49,997
AIF, net	21,807	23,458	47,147	45,401
Car parking & ground transportation	17,873	18,269	35,253	35,229
Concessions	14,056	12,889	27,596	26,670
Rental	11,046	9,542	22,393	17,421
Other	1,960	1,343	2,572	2,468
	<u>\$151,468</u>	<u>\$142,635</u>	<u>\$309,647</u>	<u>\$273,344</u>

For the first six months of 2003, the GTAA’s aeronautical revenue increased by \$28.5 million to \$174.7 million from \$146.2 million for the same period in 2002. However, for the three months ended June 30, 2003, this increase was only \$7.6 million, indicating that the primary increase was in the first quarter which experienced higher traffic. The reduced rate of increase in the second quarter is the direct result of the decline in traffic noted earlier due to SARS and geopolitical unrest.

As noted in our first quarter report, Air Canada filed for creditor protection under the Companies' Creditors Arrangement Act ("CCAA") on April 1, 2003. At the time of filing, Air Canada had not paid landing fees, general terminal charges, central de-icing fees, aircraft parking and certain other fees due under other agreements for February and March 2003, totaling \$37.4 million, excluding GST. As at June 30, 2003, these amounts are still outstanding.

In the first six months of 2003 the GTAA earned \$47.1 million of AIF revenue, as compared to \$45.4 million in 2002. The AIF revenue earned in the three months ended June 30, 2003 is \$21.8 million which is actually \$1.7 million less than the amount earned in the same period of 2002. This decline in the second quarter again reflects the reduction in passenger activity due to SARS and geopolitical unrest. The GTAA has announced an increase in the AIF, effective September 1, 2003 from \$10 to \$12 for an originating passenger, and from \$7 to \$8 for a connecting passenger. This increase is expected to generate approximately \$6 million in additional revenue in 2003. In accordance with the terms of the AIF agreements with the airlines, the GTAA has committed that primarily all of the AIF revenue will be used for capital programs, including payment of the associated debt service (principal and interest). The GTAA does not necessarily use all of the AIF revenue in the period earned, and any AIF revenue not utilized is invested in the AIF Reserve Fund.

The GTAA also earns revenue from car parking, ground transportation, concessions, retail and other rental properties. In the six months ended June 30, 2003 these totaled \$85.2 million as compared to \$79.3 million in the same period in 2002. In the three months ended June 30, 2003 these non-aeronautical revenues totaled \$43.0 million as compared to \$40.7 million in 2002. Rental income was relatively stable for each quarter, reflecting the contractual nature of the revenue and includes rent collected from Air Canada for its use of the cargo facility that the GTAA purchased from Air Canada and is leasing back to Air Canada. The offsetting decline in the second quarter in car parking and ground transportation reflects the impact of passenger activity levels on these sources of revenue.

Other revenue, which includes interest on reserve funds and investments, is relatively flat year over year, at \$2.6 million for the six months ended June 30, 2003, as compared to \$2.5 million for the same period in 2002. This revenue will fluctuate depending on the timing of debt issues and 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. The following chart summarizes the operating expenses for the three month and six month periods ended June 30, 2003 and 2002:

(in thousands)	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	2003	2002	2003	2002
Ground rent	\$ 29,836	\$ 33,628	\$ 64,632	67,257
Goods and services	48,006	29,528	118,423	65,583
Salaries, wages and benefits	20,322	19,101	43,653	39,819
Real property taxes and payments-in-lieu of real property taxes	6,485	6,038	12,970	10,433
	104,649	88,295	239,678	183,092
Interest and financing costs	39,338	33,363	76,815	58,212
Amortization of capital assets	24,005	21,663	46,512	37,352
	\$167,992	\$143,321	\$363,005	\$278,656

Operating expenses for the six months ended June 30, 2003 were \$239.7 million as compared to \$183.1 million for the same period in 2002. For the three month period ended June 30, 2003 and 2002 the operating expenses were \$104.6 million and \$88.3 million respectively. The operating expenses include some expenses which are unique to a Canadian Airport Authority and are driven by passenger activity whereas other expenses may be driven by external effects such as energy costs, weather and the provision of services.

Ground rent payments are calculated and made on a rate per passenger, up to a maximum of 25 million revenue passengers, adjusted by CPI, in accordance with the Ground Lease. In 2002, and the first quarter of 2003, the GTAA made payments to the federal government based on the revenue passenger maximum. In the second quarter of 2003 it was determined that the total revenue passengers for 2002 were 24.8 million (25.9 million total passengers), and therefore a ground rent rebate was due and received. Further, the Ground Lease provides for reduced payments in 2003 based on the prior year activity. After taking these adjustments into consideration, the ground rent for the six months ended June 30, 2003 was \$64.6 million as compared to \$67.3 million for the same period of 2002.

In July 2003, the Minister of Transport announced a program to provide a ground rent deferral for airports in recognition of the difficulties in the industry, particularly the impacts of Air Canada filing under the CCAA and SARS. For the GTAA the result of the program will be a reduction in ground rent payments of approximately \$41 million over 24 months, commencing July 1, 2003. For 10 years, commencing in 2006, the ground rent otherwise payable by the GTAA annually will be increased by approximately \$4.1 million each year. The GTAA and Transport Canada are negotiating the details and structure of the amendment to the Ground Lease.

Goods and services, which include general operating costs, were \$118.4 million for the six month period and \$48.0 million for the three month period ended June 30, 2003. These compare to \$65.6 million and \$29.5 million respectively for the same periods in 2002. The six month results include a provision of \$18.7 million which was taken in the first quarter for the amounts owed to the GTAA by Air Canada prior to April 1, 2003. No further provision has been taken. The drivers of the increases in goods and services

include energy costs, severe weather conditions, security and a move to leasing computer equipment. Some of the primary increases over 2002 include higher fuel costs and rebates received in 2002 which were not received in 2003 (\$3.8 million); electricity (\$1.3 million); bussing (\$0.7 million); snow removal (\$6.1 million); expanded IT&T services, including leasing costs (\$5.5 million); security and policing, including reimbursements received from Transport Canada in 2002 (\$8.7 million) and insurance premiums (\$2.6 million).

Salaries, wages and benefits increased from \$39.8 million in 2002 to \$43.7 million for the six months in 2003, reflecting previously agreed increases in the collective agreements and some increases in staff numbers.

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 Toronto and Mississauga an amount prescribed by an Ontario regulation, based on passenger activity as payments-in-lieu of taxes (“PILT”). The PILT payments for the three months ended June 30, 2003 were \$6.5 million as compared to \$6.0 million for the same period in 2002. As noted in the first quarter results, there was an adjustment to lower the PILT in the first quarter of 2002 by \$2.3 million to offset for an over accrual from 2001. This adjustment is included in the six month comparative figures for 2003 and 2002, \$13.0 million and \$10.4 million respectively.

The GTAA capitalizes interest for projects under construction and interest is expensed for projects that are complete and operational. Interest and financing costs include interest paid on the bank facility, together with interest and amortization of financing costs for revenue bonds and medium term notes (“MTN’s”), net of capitalized interest. The increase to \$76.8 million from \$58.2 million for interest and financing costs for the three and six month periods was anticipated as projects continue to be completed. Similarly, the amortization of capital assets increased to \$46.5 million from \$37.4 million for the respective six month periods.

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

The Airport Development Program (“ADP”) continues to progress well with most components of the Infield, Airside and Utilities and Airport Support projects complete or near completion. Work for the first half of the year has been focused on completing the parking garage, roadways and advancing the fit-up work inside the new terminal building. The program budget remains at \$4.4 billion as a staged development with four project areas.

- **Terminal development** – a new single Terminal 1, designed to ultimately replace Terminals 1 and 2, including improved access roads and a new central parking garage. At June 30, 2003, work was continuing on new Terminal 1 and the parking garage was essentially complete with final signage and testing underway.

- **Infield development** – new facilities have been constructed in the infield to replace and expand certain facilities for freight, ancillary aviation functions, hangars and cargo, a new infield terminal and central deicing facility. The area is linked to the east terminal aprons by a four-lane dual tunnel under one of the north-south runways. These facilities are essentially complete and the infield terminal opened for operations in April 2003.
- **Airside development** – enhanced airside facilities include a fifth runway, dual taxiway systems, new taxiways, and an extension to an existing runway to support additional capacity. These facilities are essentially complete.
- **Utilities and Airport support** – include support projects to improve the utilities and support facilities.

During the three months ended June 30, 2003, \$231.5 million, including capitalized interest, was spent on the ADP, as compared to \$184.8 million in the first quarter. It is anticipated that this will be one of the peak years for expenditures on the ADP as projects are being completed and the focus is now on the fit-up of the new Terminal 1. Testing of certain systems in the new Terminal 1 has commenced and plans have been developed for complete end-to-end testing. It is anticipated that the initial phase of the terminal building will be substantially complete by the end of 2003. The recent decline in traffic had enabled the GTAA to accommodate moving all domestic traffic from Terminal 2 and all traffic (including international traffic) from Terminal 1 into the new Terminal 1, in conjunction with the Infield Terminal, in a single move. Under this plan, the first operations from the new Terminal 1 will commence in the first quarter of 2004.

In addition to the ADP, the GTAA undertakes ongoing capital improvements and restoration projects each year. By the end of June 2003, \$32.7 million had been spent on ongoing projects and \$18.5 million on the Terminal 3 redevelopment program. The GTAA continues to review its capital program and schedule on a monthly basis in order to manage expenditures and cash flow.

ASSETS AND LIABILITIES

At June 30, 2003 total assets were \$5.5 billion, as compared to \$4.9 billion at December 31, 2002, with increases in cash and cash equivalents, reserve and other funds, capital assets and work in progress. The proceeds of two series of MTN's issued in May (as noted below), were used to repay the bank facility with the excess funds invested, to be used to pay for future capital expenditures. Similarly there have been increases in the Debt Service Reserve Fund for each issue and the Notional Principal Fund has been funded, and will continue to be funded for utilization with the next debt maturity.

The GTAA did issue two series of MTN's in May, being a five year issue of \$375 million with an interest rate of 5.17% and a two year issue of \$400 million with a floating rate set quarterly at 55 basis points over Bankers' Acceptances. These funds were used to repay

the outstanding amounts on the bank facilities and the excess was invested to fund future cash requirements for the ADP.

LIQUIDITY AND CAPITAL RESOURCES

As has been noted, the GTAA is a non-share corporation and therefore cash to fund the ADP and operations is received from operating activities, AIF, the debt capital markets and a \$550 million syndicated bank credit facility. Any revenue or cash generated by the GTAA remains within the airport system managed by the GTAA.

In May 2003, the GTAA completed two issues of additional debt financing. The first was a 5 year issue of MTN's for \$375.0 million, at an interest rate of 5.17%. The second was a 2 year floating rate issue for \$400.0 million, with the interest set quarterly at 3-month Bankers' Acceptance rates plus 55 basis points. The rate for the initial period commencing May 20, 2003 was 3.90%. The funds from these issues were used to repay the bank credit facility and the remainder invested to fund the ADP and ongoing capital expenditures during the year. At June 30, 2003, \$188.9 million was invested in short term securities. It is anticipated that these two issues will provide funding through to the end of the year. However, the GTAA continues to monitor the markets and may issue additional debt if market conditions are favourable. Any subsequent issues would reduce the use of the bank facility in the later months of 2003.

As at June 30, 2003 the GTAA held reserves of \$608.7 million, an increase of \$61.3 million since December 31, 2003. The increased reserves include the Debt Service Reserve Fund for the two new issues (\$35.5 million), the Debt Service Fund for ongoing interest payments (\$4.0 million), the Notional Principal Fund (\$17.0 million), the AIF Reserve Fund (\$4.5 million), and some small adjustments in the other funds. The Debt Service Fund continues to be funded monthly for upcoming interest payments. The Notional Principal Fund will be used to partially repay debt issues on maturity. The AIF Reserve Fund will be used for capital or debt service payments in future years.

The GTAA maintains a \$550 million credit facility with a syndicate of Canadian banks, comprised of a 364-day \$250 million operating facility maturing in November 2003 and a 3-year \$300 million term facility maturing in November 2005. As at June 30, 2003 no amounts were outstanding under the bank credit facilities.

The investment and cash management strategy of the GTAA is to maintain maximum flexibility for the corporation and to ensure that future cash requirements for the ADP and other demands can be met. In addition, as required under the Trust Indenture, certain reserve and trust funds are held for the benefit of debt holders. This approach will continue through 2003 to ensure that the corporation maintains adequate liquidity. As noted, it is anticipated that the funds from the MTN's issued in the second quarter, together with the bank credit facility will provide sufficient liquidity to fund the ADP, other capital and any operational requirements through to the end of the year.

RISKS AND UNCERTAINTIES

Air traffic demand is subject to pressure from several external sources, including economic conditions, geopolitical unrest within the world, government regulation and the financial uncertainty in the aviation industry. The impact of SARS and geopolitical unrest on the recent financial results has been noted. There has been some improvement in passenger activity following the removal of Toronto from all designated watches relating to SARS; however the decline in traffic in April and May particularly will impact the cash flow for 2003. The GTAA continues to monitor events, revise its activity projections accordingly and ensure that appropriate operational and financial responses are undertaken. There is some continued risk of airlines implementing flight reductions which could have a negative financial impact. However, the long term risk is mitigated by the high origin and destination passenger traffic at the Airport.

Each year the GTAA estimates the costs to operate the Airport in the next year and the projected passenger and flight activity, to set its budget. As noted above, there is risk associated with the projected demand. In addition, there is risk associated with costs due to events which cannot be anticipated or controlled such as weather. In late March, and early April, severe weather conditions including ice and snow storms, drove some seasonal costs higher than anticipated. Every effort is made to provide some contingency in planning, but not all events can be anticipated.

As has been discussed in more detail in the Annual Information Form, Air Canada filed under CCAA on April 1, 2003 and since that time has continued to operate at the Airport. Through the media and court documents, there has been information on Air Canada's progress on establishing a business plan to enable the company to restructure and continue to operate. To date there has been no business plan released and the GTAA continues to work with Air Canada in anticipation of Air Canada moving its domestic and international operations into the new Terminal 1. Should Air Canada be unsuccessful in its restructuring, and be unable to occupy the new Terminal 1, the GTAA has mitigated some of its exposure to Air Canada's situation by ensuring that the new Terminal 1 is a common use facility and is able to accommodate other airlines.

On March 20, 2003, the Minister of Transport tabled before Parliament Bill C-27, entitled "The Canada Airports Act". If enacted into law, this proposed legislation would regulate the manner in which all Airport Authorities, including the GTAA, are governed, establish consultation processes for the setting of fees and charges, and manage their facilities. At the time of recess for the last session of Parliament, second reading of the Bill had not been completed. If an election is called before the Bill is enacted into law, the Bill will not proceed unless reintroduced into the House thereafter.

The ADP continues to progress well, with substantial completion of the first phase anticipated by the end of 2003 and first flight operations in the first quarter of 2004. As individual components of the overall program have been completed the construction risk has been reducing. The GTAA recognizes that there continues to be risks associated with the construction and transition of operations into the new facilities for such a complex

program. To minimize the risks, there are ongoing program reviews as well as a program to test all systems prior to full operations.

Since its inception, the GTAA has been very successful in accessing the debt capital markets to fund the ADP and other capital programs. There is always some risk in the capital markets with respect to the cost of funds and availability at any particular time. In the second quarter, the GTAA was downgraded by DBRS to “A” and by Standard and Poors to “A-”. The primary reasons stated for these actions were the uncertainty in the industry, and the impact of SARS and other events on passenger traffic. Any rating action may impact the GTAA’s ability to access the debt markets operations. The GTAA continues to monitor the capital markets, investor demand and its cash flow requirements in an effort to minimize financial risks.

CONCLUSION

The first half of 2003 has been very challenging as the GTAA managed the financial impact of changes in air traffic demand, the financial uncertainty in the industry, the completion of phase I of the ADP, and ongoing operations. Part of the success of the GTAA during the last seven years can be attributed to its ability to maintain a long-term vision while responding to immediate events. The GTAA will maintain this management approach with the objective of effectively managing through the new challenges and ensuring that the opening and first operations in the new Terminal 1 are successful. The enhanced flexibility offered by the opening of the new Terminal 1 will set the stage for the future at Toronto Pearson.

Consolidated Financial Statements of

GREATER TORONTO AIRPORTS AUTHORITY

June 30, 2003

(unaudited)

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Balance Sheets

(unaudited) (in thousands)	June 30 2003	December 31 2002
Assets		
Current		
Cash and cash equivalents	\$ 188,909	\$ 15,573
Accounts receivable	76,861	54,672
Prepaid expenses	4,248	3,595
Inventory	2,857	2,929
	272,875	76,769
Reserve and other funds (Note 1)	608,738	547,458
Deferred charges (Note 2)	48,513	47,237
Capital assets (Note 3)	2,139,368	2,029,223
Work in progress (Note 4)	2,472,530	2,148,250
Prepaid pension asset	3,378	3,378
	\$ 5,545,402	\$ 4,852,315
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 275,707	\$ 302,196
Security deposits and deferred credits	27,669	30,675
Current portion of long-term debt (Note 5)	2,105	1,887
	305,481	334,758
Long-term debt (Note 5)	5,225,335	4,449,613
	5,530,816	4,784,371
Net Assets (Note 6)		
Externally restricted	46,649	46,649
Internally restricted	131,761	110,280
Unrestricted	(163,824)	(88,985)
	14,586	67,944
	\$ 5,545,402	\$ 4,852,315

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Statements of Operations

(unaudited) (in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2003	2002	2003	2002
Revenues				
Landing fees	\$ 58,556	\$ 50,914	\$ 119,259	\$ 96,158
General terminal charges	26,170	26,220	55,427	49,997
Airport improvement fee, net	21,807	23,458	47,147	45,401
Car parking and ground transportation	17,873	18,269	35,253	35,229
Concessions	14,056	12,889	27,596	26,670
Rental	11,046	9,542	22,393	17,421
Other	1,960	1,343	2,572	2,468
	151,468	142,635	309,647	273,344
Operating Expenses				
Ground rent	29,836	33,628	64,632	67,257
Goods and services	48,006	29,528	118,423	65,583
Salaries, wages and benefits	20,322	19,101	43,653	39,819
Real property taxes and payments in-lieu-of real property taxes (Note 8)	6,485	6,038	12,970	10,433
	104,649	88,295	239,678	183,092
Revenues over expenses before interest and financing costs and amortization	46,819	54,340	69,969	90,252
Interest and financing costs (Note 7)	39,338	33,363	76,815	58,212
Amortization of capital assets	24,005	21,663	46,512	37,352
Revenues under expenses	\$ (16,524)	\$ (686)	\$ (53,358)	\$ (5,312)

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Statements of Changes in Net Assets

Six-month period ended June 30, 2003 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers to Restricted Net Assets	Use of Funds	Balance, End of Period
Externally Restricted					
Operating and maintenance reserve	\$ 43,649	\$ -	\$ -	\$ -	\$ 43,649
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	-	-	-
	46,649	-	-	-	46,649
Internally Restricted					
Airport improvement fee collected, net	93,727	-	44,481	(40,000)	98,208
Notional principal of long-term debt	-	-	17,000	-	17,000
Debt service coverage requirement	16,553	-	-	-	16,553
	110,280	-	61,481	(40,000)	131,761
Restricted net assets	156,929	-	61,481	(40,000)	178,410
Unrestricted net assets	(88,985)	(53,358)	(21,481)	-	(163,824)
Total net assets	\$ 67,944	\$ (53,358)	\$ 40,000	\$ (40,000)	\$ 14,586

Six-month period ended June 30, 2002 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers to Restricted Net Assets	Use of Funds	Balance, End of Period
Externally Restricted					
Operating and maintenance reserve	\$ 36,324	\$ -	\$ -	\$ -	\$ 36,324
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	8,856	-	8,856
	39,324	-	8,856	-	48,180
Internally Restricted					
Airport improvement fee collected, net	34,993	-	44,512	-	79,505
Notional principal of long-term debt	58,710	-	3,036	(8,856)	52,890
Debt service coverage requirement	16,553	-	-	-	16,553
	110,256	-	47,548	(8,856)	148,948
Restricted net assets	149,580	-	56,404	(8,856)	197,128
Unrestricted net assets	(61,197)	(5,312)	(47,548)	-	(114,057)
Total net assets	\$ 88,383	\$ (5,312)	\$ 8,856	\$ (8,856)	\$ 83,071

GREATER TORONTO AIRPORTS AUTHORITY

Consolidated Statements of Cash Flows

(unaudited) (in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Cash Flows from Operating Activities				
Revenues under expenses	\$ (16,524)	\$ (686)	\$ (53,358)	\$ (5,312)
Items not affecting cash				
Amortization of capital assets	24,005	21,663	46,512	37,352
Changes in non-cash working capital				
Increase in accounts receivable	(11,998)	(4,405)	(22,189)	(14,911)
(Increase) decrease in prepaid expenses	1,409	(182)	(653)	(213)
(Increase) decrease in inventory	187	(68)	72	(159)
Decrease in accounts payable and accrued liabilities	(9,910)	(23,012)	(26,489)	(45,308)
Increase (decrease) in security deposits and deferred credits	294	265	(3,006)	(1,710)
	(12,537)	(6,425)	(59,111)	(30,261)
Cash Flows from Investing Activities				
Acquisition of capital assets	(7,477)	(11,845)	(11,529)	(12,037)
Construction in progress	(269,696)	(239,555)	(467,492)	(410,344)
	(277,173)	(251,400)	(479,021)	(422,381)
Cash Flows from Financing Activities				
Issuance of medium term notes (Note 5)	775,000	475,000	775,000	975,000
Credit facility (Note 5)	(250,000)	(32,000)	-	(270,000)
Repayment of long-term debt	(440)	(218)	(976)	(538)
Bank indebtedness	(21,453)	-	-	-
Reserve and other funds	(23,076)	(40,225)	(61,280)	(111,925)
Deferred charges	(1,412)	(3,472)	(1,276)	(3,943)
	478,619	399,085	711,468	588,594
Net cash inflow	188,909	141,260	173,336	135,952
Cash and cash equivalents, Beginning of Period	-	5,684	15,573	10,992
Cash and cash equivalents, End of Period	\$ 188,909	\$ 146,944	\$ 188,909	\$ 146,944

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as the statements in the 2002 annual report. As these interim consolidated financial statements do not include all information required for annual consolidated financial statements, these notes should be read in conjunction with the notes to the 2002 consolidated financial statements published in the Greater Toronto Airports Authority ("GTAA") 2002 annual report.

1. RESERVE AND OTHER FUNDS

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

(in thousands)	June 30 2003	December 31 2002
Debt Service Fund		
Interest	\$ 59,872	\$ 55,807
Principal	-	-
	59,872	55,807
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	35,452	35,479
Series 1997-3 due December 3, 2027	37,350	37,303
Series 1999-1 due July 30, 2029	40,662	40,642
Medium Term Notes		
Series 2000-1 due June 12, 2030	39,072	39,138
Series 2000-2 due July 19, 2010	40,119	40,129
Series 2001-1 due June 4, 2031	35,589	35,572
Series 2002-1 due January 30, 2012	31,477	31,530
Series 2002-2 due December 13, 2012	29,938	30,001
Series 2002-3 due October 15, 2032	38,789	38,418
Series 2003-1 due June 2, 2008	19,406	-
Series 2003-2 due May 20, 2005	16,098	-
	363,952	328,212
Bank indebtedness secured by Series 1997- A Bond	6,504	6,510
	370,456	334,722
Operating and Maintenance Reserve Fund	43,649	43,649
Renewal and Replacement Reserve Fund	3,000	3,000
Airport Improvement Fee Reserve Fund	98,208	93,727
Notional Principal Fund	17,000	-
Debt Service Coverage Fund	16,553	16,553
	178,410	156,929
	\$ 608,738	\$ 547,458

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

2. DEFERRED CHARGES

(in thousands)	June 30, 2003		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 36,976	\$ 8,970	\$ 28,006
Unrealized gain on interest rate swaps	(1,116)	-	(1,116)
Deferred bond hedge loss	17,953	5,145	12,808
Bond discount costs	10,685	1,870	8,815
	\$ 64,498	\$ 15,985	\$ 48,513

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

The aggregate amortization expense in respect of deferred assets for the period ended June 30, 2003 was \$1.7 million (June 30, 2002 - \$1.8 million) and is included in interest and financing costs. For the three months ending June 30, 2003 the aggregate amortization expense in respect of deferred assets was \$0.9 million (June 30, 2002 - \$1.0 million). Additions to deferred charges during the period totaled \$3 million (December 31, 2002 - \$10.0 million)

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

3. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	June 30, 2003		
	Cost	Accumulated Amortization	Net Book Value
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	\$ 1,530,313	\$ (111,109)	\$ 1,419,204
Baggage handling systems	49,474	(10,938)	38,536
	1,579,787	(122,047)	1,457,740
Airside assets			
Improvements to leased land	24,000	(2,633)	21,367
Runways and taxiways	298,640	(9,589)	289,051
Deicing facilities	29,576	(2,543)	27,033
	352,216	(14,765)	337,451
Other assets			
Utilities and stormwater management facilities	181,982	(8,900)	173,082
Operating assets	293,058	(121,963)	171,095
	475,040	(130,863)	344,177
	\$ 2,407,043	\$ (267,675)	\$ 2,139,368

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

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

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

4. WORK IN PROGRESS

(in thousands)	Beginning of Period	Additions	Transfers to Capital Assets	End of Period
Airside Development Project	\$ 2,181	\$ 4,515	\$ (6,696)	\$ -
Terminal Development Project	1,769,153	415,918	-	2,185,071
Infield Development Project	94,791	(4,612)	(89,353)	826
Utilities and Area Support Facilities	1,858	2,249	(523)	3,584
South Development	-	-	-	-
Central Utilities Plant	1,800	(1,782)	(18)	-
	1,869,783	416,288	(96,590)	2,189,481
Other Projects	188,851	32,702	(46,299)	175,254
T3 Redevelopment	89,616	18,502	(323)	107,795
	\$ 2,148,250	\$ 467,492	\$ (143,212)	\$ 2,472,530

As at June 30, 2003, Work in Progress included capitalized interest and financing costs in the amount of \$231.2 million (December 31, 2002 – \$178.4 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

5. LONG-TERM DEBT

As at June 30, 2003 the long-term debt outstanding is comprised of:

(in thousands)	Coupon Rate	Maturity Date	June 30 2003	December 31 2002
	(Note 11)			
Revenue Bonds				
Series 1997-2	5.95%	December 3, 2007	\$ 375,000	\$ 375,000
Series 1997-3	6.45%	December 3, 2027	375,000	375,000
Series 1999-1	6.45%	July 30, 2029	500,000	500,000
Medium Term Notes				
Series 2000-1	7.05%	June 12, 2030	550,000	550,000
Series 2000-2	6.70%	July 19, 2010	600,000	600,000
Series 2001-1	7.10%	June 4, 2031	500,000	500,000
Series 2002-1	6.25%	January 30, 2012	500,000	500,000
Series 2002-2	6.25%	December 13, 2012	475,000	475,000
Series 2002-3	6.98%	October 15, 2032	550,000	550,000
Series 2003-1	5.17%	June 2, 2008	375,000	-
Series 2003-2, <i>see below</i>	floating	May 20, 2005	400,000	-
			5,200,000	4,425,000
Credit facility				
Secured by 1997-A Bond			-	-
Capital leases			3,440	2,500
Province of Ontario				
Interest-free, payable in five equal installments commencing 2011			24,000	24,000
			5,227,440	4,451,500
Less current portion			2,105	1,887
			\$ 5,225,335	\$ 4,449,613

Interest arising from these debt instruments amounted to \$153.7 million (June 30, 2002 - \$118.2 million).

For Series 2003-2 the 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%.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

5. LONG-TERM DEBT (Continued)

Revenue Bonds and Medium Term Notes

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

<u>Series</u>	<u>Settlement Date</u>	<u>Principal Amount (in thousands)</u>	<u>Interest Payable Commencement Date</u>
Revenue Bonds			
1997-2	December 2, 1997	\$ 375,000	June 3, 1998
1997-3	December 2, 1997	\$ 375,000	June 3, 1998
1999-1	July 20, 1999	\$ 500,000	January 30, 2000
Medium Term Notes			
2000-1	June 12, 2000	\$ 250,000	December 12, 2000
2000-1 reopen	January 16, 2001	\$ 300,000	December 12, 2000
2000-2	July 17, 2000	\$ 325,000	January 19, 2001
2000-2 reopen	January 09, 2001	\$ 275,000	January 19, 2001
2001-1	June 4, 2001	\$ 500,000	December 4, 2001
2002-1	January 28, 2002	\$ 500,000	July 30, 2002
2002-2	June 13, 2002	\$ 475,000	December 13, 2002
2002-3	October 15, 2002	\$ 285,000	April 15, 2003
2002-3 reopen	November 22, 2002	\$ 265,000	April 15, 2003
2003-1	May 13, 2003	\$ 375,000	December 2, 2003
2003-2	May 20, 2003	\$ 400,000	August 20, 2003

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 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.

Credit Facility

The GTAA maintains a Credit Facility with a syndicate of six Canadian banks and one international chartered bank. Under this Credit Facility, the GTAA is provided with a 364 day revolving operating facility in an amount up to \$250 million due November 27, 2003 and a revolving term facility in an amount of up to \$300 million due November 28, 2005. At June 30, 2003 there was no amount drawn on the revolving operating facility. Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rates, bankers' acceptance rates and LIBOR, as appropriate.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

5. LONG-TERM DEBT (Continued)

Principal repayments

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

(in thousands)	
2004	\$ 2,105
2005	408,858
2006	8,800
2007	8,959
2008	759,537
Thereafter	4,039,181
	<u>\$ 5,227,440</u>

During the period, the GTAA incurred interest payments, on a cash basis, of \$149.1 million (June 30, 2002 - \$103.5 million).

6. 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 1, Reserve and Other Funds) set out in the Master Trust Indenture.

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 1, Reserve and Other Funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in separate investment accounts by the GTAA and will be dispersed in accordance with its policies or commitments for these funds.

Unrestricted Net Assets

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

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

7. INTEREST AND FINANCING COSTS

Interest and financing costs for long-term debt and bank facilities, net of interest earned from the debt service reserve fund and capitalized interest for the six-month periods ended June 30, 2003 and 2002, are comprised of the following:

(in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Interest and financing costs incurred	\$ 80,094	\$ 61,737	\$ 154,888	\$ 119,636
Less:				
interest earned on externally restricted fund investment	(4,692)	(5,279)	(8,673)	(7,942)
interest capitalized	(36,064)	(23,095)	(69,400)	(53,482)
Interest and financing costs	\$ 39,338	\$ 33,363	\$ 76,815	\$ 58,212

8. TAXATION

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

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

9. RELATED PARTY TRANSACTIONS

Directors' Fees

Directors' fees for the six-month period ended June 30, 2003 were \$261,400 (June 30, 2002 - \$243,650). For the three-month period ended June 30, 2003 Directors' fees were \$145,700 (June 30, 2002 - \$111,950).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

10. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2003 of approximately \$436 million (December 31, 2002 - \$677 million).

Boeing Lands

In July 2001, the GTAA and Boeing signed an agreement, as 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 Boeing will convey the first parcel of land in late 2003 and the remaining lands from time to time thereafter over a maximum period of 20 years. Deposits totaling \$8 million have been paid, of which \$3.3 million will be credited to the purchase price for the 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. This indemnity was originally in place for 90 days ending December 24th, 2001. It has been extended several times since the original expiry date and currently expires August 28th, 2003. The GTAA has purchased a \$50 million primary layer of war and terrorist coverage which is available in the insurance markets.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

10. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Litigation

Canada 3000

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

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. As of June 30, 2003 the GTAA is owed approximately \$37.4 million, excluding G.S.T., for landing fees, general terminal charges and other agreements incurred prior to April 1, 2003. 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 approximately 50% of the outstanding amounts, being \$18.7 million. No further provision has been made in the second quarter.

11. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

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

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

11. FINANCIAL INSTRUMENTS (continued)

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

(in thousands)	June 30, 2003		December 31, 2002	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 5,227,440	\$ 5,349,162	\$ 4,451,500	\$ 4,597,899

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 1, 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 June 30, 2003, the interest rate swap contracts had a total unrealized gain of \$19.7 million (December 31, 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 5, Long-Term Debt). The impact of a 1% change in interest rates applied to the average bank indebtedness outstanding during the six-month period ended June 30, 2003 would have amounted to approximately \$1.1 million (June 30, 2002 - \$0.42 million). The Debt Service Reserve Fund for bank indebtedness (see Note 1, Reserve and Other Funds) is adjusted annually on December 2nd based on the prevailing bankers' acceptance rate.

The impact of a 1% change in the interest rate on the Reserve Funds would amount to approximately \$3.4 million (June 30, 2002 - \$1.43 million). The GTAA reduces its interest rate risk through the use of derivative financial instruments.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2003 (unaudited)

11. FINANCIAL INSTRUMENTS (continued)

Credit Risk

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

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

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

12. SUBSEQUENT EVENTS

On July 16, 2003 the Government of Canada announced a program to provide for ground rent deferral commencing July 1, 2003, for a two-year period. During this period it is estimated that ground rent payments will be reduced by approximately \$41.0 million. For 10 years commencing January 1, 2006, the ground rent otherwise payable by the GTAA annually will be increased by approximately \$4.1 million each year. The GTAA and Transport Canada are negotiating the details and structure of the amendment to the Ground Lease.

13. COMPARATIVE FIGURES

Certain of the 2002 comparative figures have been reclassified to conform to the 2003 basis of presentation.