

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

Greater Toronto Airports Authority

June 30, 2004

(unaudited)

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 2004
Dated July 29, 2004**

This quarterly report of the Greater Toronto Airports Authority ("GTAA") should be read in conjunction with the Consolidated Financial Statements of the GTAA for the quarter ended June 30, 2004. This report should also be read in conjunction with the Consolidated Financial Statements and Notes and Management's Discussion and Analysis for the year ended December 31, 2003 and the quarter ended March 31, 2004 together with the Annual Information Form for the year ended December 31, 2003. These documents provide additional information on certain matters discussed in this report. This quarterly report is intended to provide an update of significant activities during the three months ended June 30, 2004. 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 may be substantially different than the outcomes discussed.

All financial information for the GTAA is available on SEDAR at www.sedar.com and on the GTAA website at www.gtaa.com.

Corporate Profile

The GTAA was incorporated in March 1993 as a corporation without share capital, and recognized as a Canadian Airport Authority by the federal government in November 1994. 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 GTAA is authorized to operate airports within the Greater Toronto Area ("GTA") region on a commercial basis, to set fees for their use and to develop and improve the airport facilities. The overall strategy for the GTAA is to operate safe and secure airports, and to ensure that the facilities will provide the necessary services, amenities and capacity for the region's current and future requirements for air travel.

Operating Activity

During the first six months of 2004, approximately 13.5 million passengers moved through the Airport as compared to 11.6 million for the same period in 2003, a 15.6% increase. In the first quarter of 2004 passenger activity increased 6.1% over the same period of the previous year, and for the second quarter of 2004 passenger activity increased 25.9% over the second quarter of 2003. During the second quarter of 2003, the GTA was severely impacted by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Toronto, the related travel advisory issued by the World Health Organization and to a lesser extent, continued geopolitical unrest. The significant increase in passenger activity in 2004 demonstrates a rate of recovery that has exceeded projections for the current year.

The following table summarizes the passenger activity for the three months and six months ended June 30, 2004 and 2003:

(in thousands)	<u>Three months ended</u>			<u>Six months ended</u>		
	2004	2003	%change	2004	2003	%change
Domestic	3,137	2,595	20.9	5,704	5,040	13.2
Transborder	2,061	1,577	30.7	4,078	3,533	15.4
International	1,848	1,425	29.7	3,677	3,071	19.7
Total	7,046	5,597	25.9	13,459	11,644	15.6

A further component of operating activity is the number of aircraft movements and the type of aircraft which together generate the total Maximum Take-off Weight (“MTOW”). For the three months ended June 30, 2004, MTOW was 13.0% higher than the same period in 2003, and for the six months ended June 30, 2004, the MTOW was 6.1% higher than the same period for 2003.

Operating Events

During the second quarter of 2004, there were certain significant changes to the operations for the Airport which will have ongoing impacts. On April 6, 2004 the first stage of operations commenced in the new Terminal 1, with all of the activities conducted in old Terminal 1 as well as the domestic passenger processing activities of Air Canada previously carried on from Terminal 2 being transferred into new Terminal 1. As part of this transition phase in the construction, international passengers are being processed in new Terminal 1 and bussed to and from the Infield Terminal for enplaning and de-planing. This is part of a planned staging program that will continue until such time as additional gates can be added on the east side of Pier E, and the construction of Pier F is completed in 2007.

In addition, on April 18, 2004, WestJet Airlines Ltd. (“WestJet”) expanded its operations at Toronto Pearson by relocating much of its operations from Hamilton Airport to Toronto Pearson. The expanded operations, which were all domestic at the time of relocation, could not be accommodated in Terminal 3, where WestJet had been operating. Consequently, to accommodate this change, the GTAA modified certain areas of Terminal 2 which included installing common use computer systems for use at the check-in counters and the gates. The expanded operations are expected to have a positive financial impact for the GTAA.

RESULTS OF OPERATIONS

The GTAA sets its annual aeronautical rates and charges to cover projected operating costs on a break-even basis for each year after taking into consideration projected air traffic and non-aeronautical revenue. The projected operating costs include the estimated interest and principal or debt service for assets which are operational, but do not include non-cash items such as amortization. Capital costs, including interest for projects under

construction, are funded through debt and are not included in the calculation of aeronautical rates and charges until the new assets become operational.

Revenue

The underlying drivers for all revenue earned by the GTAA are passengers and aircraft activity, as measured by MTOW and arrived seats. The GTAA receives revenue from aeronautical charges (landing fees and general terminal charges), airport improvement fees (“AIF”) and non-aeronautical sources such as car parking and ground transportation, concessions, rentals and other sources described below. The following chart summarizes the revenue for the three month and six month periods ended June 30, 2004 and 2003:

(in thousands)	<u>Three months ended</u>		<u>Six months ended</u>	
	2004	2003	2004	2003
Landing fees	\$ 82,120	\$ 58,556	\$ 161,819	\$ 119,259
General terminal charges	35,390	26,170	70,395	55,427
AIF, net	33,553	21,807	64,236	47,147
Car parking & ground transportation	21,993	17,873	42,635	35,253
Concessions & rentals	25,458	25,102	49,997	49,989
Other	2,102	1,960	4,499	2,572
	<u>\$ 200,616</u>	<u>\$ 151,468</u>	<u>\$ 393,581</u>	<u>\$ 309,647</u>

For the first six months of 2004 the GTAA’s aeronautical revenue increased by \$57.5 million to \$232.2 million from \$174.7 million over the same period in 2003. The increase in aeronautical revenue in the three-month period ended June 30, 2004 was \$32.8 million as compared to the same period in 2003, demonstrating the impact of the dramatic traffic increases over the comparative periods. The comparatively low revenue in 2003 reflects the impact of SARS in that year. In addition, increases in the aeronautical rates implemented for 2004 as compared to 2003 contributed approximately 20% of the increased aeronautical revenues.

AIF revenue, which is net of the commission paid to the airlines, increased from \$47.1 million to \$64.2 million for the six-month periods in 2003 and 2004, respectively. The AIF revenue for the three month periods ended June 30 was \$21.8 million for 2003 as compared to \$33.6 million for 2004. These increases are the result of the revised rates implemented in September 2003 from \$10 to \$12 for an originating passenger and \$7 to \$8 for a connecting passenger, together with the significant increase in passenger activity as noted previously. 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 the associated debt service (principal and interest). However, capital expenditures and the receipt of AIF revenue may not occur in the same period. AIF revenue earned and collected, but not utilized in any given period, is invested in the AIF Reserve Fund for future capital or debt service payments.

The GTAA also receives revenue from non-aeronautical sources, which include car parking, ground transportation, concessions and rental properties. In the six months

ended June 30, 2004, these totaled \$92.6 million as compared to \$85.2 million for the same period in 2003. The improvement in non-aeronautical revenue is particularly noticeable in the second quarter of 2004, where non-aeronautical revenues totaled \$47.5 million as compared to \$42.9 million for the same period in 2003. This increase is due primarily to increases in car parking and ground transportation revenue, which reflect improved passenger levels and increases to the parking rates implemented in August 2003. For concessions and rentals, income is relatively stable due to the contractual arrangements in place.

Since the opening of new Terminal 1 in April 2004, gross sales generated by the concessions have improved. Some of the contributing factors are the location of shops, with approximately 90% of the retail being located beyond passenger screening, and the greater number, variety, and quality of retail outlets. Due to the nature of these contracts, the benefit to the GTAA will be in future years when concession minimum guaranteed rents are expected to be exceeded.

When the GTAA designed the parking garage in new Terminal 1, a portion of the two central floors were dedicated to short-term parking (less than four hours). The goal of this design was to have these spaces in close proximity to the terminal which would make the walk from the parking garage more convenient for individuals dropping off or picking up passengers. During the first few months, approximately 74% of the exits from the parking garage have been for the short-term area, but this has generated only 31% of the parking revenue. Essentially, there are more short-term stays, which do not create as much revenue, but the improved passenger convenience is significant.

Other revenue includes interest on reserve funds and investments. The GTAA issued \$600 million in Medium Term Notes (“MTNs”) in February 2004. After contributions to reserve funds and repaying the syndicated bank credit facility, the remaining funds were invested in short-term investment grade corporate debt instruments. As at June 30, 2004, approximately \$104 million remains invested. The increase in other revenue for the three months and six months ended June 30, 2004 as compared to 2003 reflects this additional interest earned.

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 expenses that are reported in the financial statements are on an accrual basis and are not entirely consistent with the expenses used in the calculation of aeronautical fees. Specifically, amortization is not included in the calculation of the landing fee, while the principal component of debt service is included in the landing fee but is not recorded as an operating expense. The following chart summarizes the total operating expenses for the three month and six month periods ended June 30, 2004 and 2003:

(in thousands)	Three months ended		Six months ended	
	2004	2003	2004	2003
Ground rent	\$ 35,707	\$ 29,836	\$ 71,415	\$ 64,632
Goods and services	52,562	48,006	101,507	118,423
Salaries, wages and benefits	23,584	20,322	49,717	43,653
Real property taxes and PILT	6,046	6,485	12,091	12,970
	117,899	104,649	234,730	239,678
Interest and financing costs	66,832	39,338	109,530	76,815
Amortization of capital assets	52,563	24,005	79,864	46,512
	\$237,294	\$167,992	\$ 424,124	\$ 363,005

The Ground Lease sets out the calculation for the ground rent payments for the GTAA. Changes in the ground rent reflect the adjustments set out in the Ground Lease and the impact of changes in passenger levels. In July 2003, the Minister of Transport announced a rent deferral program which has the effect of reducing the ground rent paid to the federal government by \$5.3 million in each of the first two quarters of 2004. However, the ground rent recorded of \$35.7 million and \$71.4 million for the three months and six months ended June 30, 2004 includes these deferrals. The deferral amount remains a liability of the GTAA, but does have the impact of reducing the cash requirements in the first six months of 2004 by \$10.5 million.

Goods and services include the general operating expenses incurred at the Airport. For the first six months ended June 30, 2004 and 2003, goods and services were \$101.5 million and \$118.4 million, respectively. The reason for the higher goods and services cost in 2003 is mainly due to the initial provision of \$18.7 million for Air Canada receivables. For the three month periods ended June 30, 2004 and 2003, the goods and services were \$52.6 million as compared to \$48.0 million, respectively. This change in the second quarter reflects, in part, the operating cost of new Terminal 1, and in particular increases in the costs associated with building cleaning services, alarm and security systems and the baggage system.

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 base years for calculating PILT are 2001 for the 2003 payments, and 2002 for the 2004 payments. Consequently, the reduced payments for the three and six-month periods in 2004 to \$6.0 million and \$12.1 million, respectively, reflect the reduced passenger activity experienced in 2002.

Interest and financing costs include interest expense for projects which are complete and operational and amortization of financing costs over the term of the debt, offset by interest earned on the Debt Service Reserve Fund and the gain on the sale of certain interest rate swaps in the first quarter of 2004. Interest and financing costs for the six months ended June 30, 2004 and 2003 were \$109.5 million and \$76.8 million respectively, an increase of \$32.7 million. The largest part of this increase was recorded in the three months ended June 30, 2004, where interest and financing costs were \$66.8 million as compared to \$39.3 million for the same period in 2003. This increase reflects

the impact on interest expense with the first phase of the new Terminal 1 becoming operational in April 2004.

The fair value gain on the sale of interest rate swaps noted above of \$2.7 million was recorded in the first quarter of 2004. These interest rate swaps were undertaken at points in time from 1997 through 1999 to fix the interest earned on certain Debt Service Reserve Funds. Recently the GTAA issued floating rate MTNs totaling \$600 million, which provides an effective mechanism for the GTAA to mitigate the interest rate risk of investing Reserve Funds in short-term floating rate investments. Consequently, the GTAA elected to liquidate all of the interest rate swaps in March 2004. A deferred gain of \$15.6 million was recorded as of January 1, 2004 which is being amortized over the remaining terms of the liquidated swaps.

Net Operating Results

The net operating results, based on the revenue and expenses outlined in the previous section are as follows:

(in thousands)	<u>Three months ended</u>		<u>Six months ended</u>	
	2004	2003	2004	2003
Revenue	\$200,616	\$ 151,468	\$ 393,581	\$ 309,647
Operating Expenses	117,899	104,649	234,730	239,678
Revenue over expenses ¹	82,717	46,819	158,851	69,969
Interest and financing costs	66,832	39,338	109,530	76,815
Amortization of capital assets	52,563	24,005	79,864	46,512
Revenue (under) expenses	\$ (36,678)	\$ (16,524)	\$ (30,543)	\$ (53,358)

Note 1: Revenue over expense before interest and financing costs and amortization of capital assets.

The differences in the revenue and operating expenses for the respective three and six month periods are set out in the previous sections. These provide an overall explanation of the shift of revenue under expenses for the six months from \$53.4 million to \$30.5 million for 2004 and 2003, respectively. It is important to note that the six-month period ended June 30, 2003 included a provision for Air Canada receivables of \$18.7 million. Revenues in each period were more than adequate to cover operating expenses and interest expense.

As noted previously, the rate setting approach of the GTAA does not match the presentation of the financial statements. The objective of the GTAA is to generate cash for operations and capital expenditures through airport operations, use of certain reserve funds in accordance with respective policies and the capital markets program. In accordance with the rate setting approach, management expects that revenues and reserve funds applied will continue to be sufficient to cover operating expenses and interest and financing costs, including notional principal. In common with many major infrastructure developments, the GTAA's revenues over expenses may not exceed the non-cash amortization of capital assets for a period of several years.

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

The Airport Development Program (“ADP”) consists of a series of projects, including a new terminal, infield development, airside improvements and utilities. Overall, it is a staged program that enables construction to occur while the Airport continues to operate. It is also demand driven, which provides the GTAA some flexibility on the timing of certain stages. The total program budget for construction costs is \$4.4 billion and as at June 30, 2004 approximately 73% of the total program is complete.

The first phase, being the central processor and Piers D and E of the new Terminal 1, was successfully completed and opened for operations on April 6, 2004. As of that date, the domestic activity of Air Canada in Terminal 2 and all activity from old Terminal 1 have been moved to new Terminal 1. During the second quarter, the demolition of old Terminal 1 commenced with the removal of the bridges, the apron control tower and partial demolition of the parking garage. In addition, construction has commenced on some of the additional apron areas for new Terminal 1 on the east side of Pier E, Pier F and the automated people mover system which will link new Terminal 1, Terminal 3 and the remote parking areas operated by the GTAA. During the second quarter, \$133.6 million was spent on the ADP, including capitalized interest.

In addition to the ADP, the GTAA has an ongoing capital program, including improvements to Terminal 3 and a future co-generation plant. During the period from April 1, 2004 to June 30, 2004, \$38.4 million was spent on these programs.

ASSETS AND LIABILITIES

At June 30, 2004, total assets were \$6.3 billion, as compared to \$5.9 billion at the end of December 31, 2003. During the period from April 1, 2004 to June 30, 2004, there were several important changes in the asset classifications. Capital assets increased from \$2.3 billion at March 31, 2004 to \$4.7 billion at June 30, 2004, representing the transfer of an operational component of the new Terminal 1 to capital assets from work in progress as a result of the operational start up on April 6, 2004. Other changes include the reduction in cash and cash equivalents as these funds were used to fund the capital program.

Total liabilities at June 30, 2004 were \$6.3 billion, as compared to \$5.9 billion at December 31, 2003. Although there is some variation in the categories, the total liabilities are virtually unchanged from March 31, 2004. As noted in the first quarter report, the GTAA issued \$600 million in two issues of MTNs in February 2004. In addition, in accordance with the ground rent relief program, the GTAA reduced the amount of ground rent paid to the federal government by \$5.3 million a quarter and has recorded the deferred ground rent as a liability.

The net assets are a combination of reserve funds that have been funded through operating revenue and not through debt issues, together with the accumulated revenue over or under expenses. In recent periods the GTAA has recorded revenues under

expenses. However, the underlying financial stability and security for the debt relies on the long-term economic potential of the Airport and on specific reserve funds, which total \$713.2 million. In addition, at June 30, 2004, the negative net asset position was more than offset by the ground rent deferral and the deferred gain on the sale of interest rate swaps discussed previously. In future years, when the ground rent deferral is to be repaid, the GTAA will be collecting the additional cash from the airlines in the landing fee and offsetting the liability, thereby improving its net asset position. Similarly, the gain on the interest rate swaps will be amortized over the respective time periods, providing a future benefit.

LIQUIDITY AND CAPITAL RESOURCES

As a non-share corporation, the sources of funds for the GTAA are from operations, AIF revenue or reserve funds, the debt capital markets and a \$550 million syndicated bank credit facility. Consistent with its mandate, any revenue or cash generated by the GTAA is used within the Airport to cover operating expenses, requirements for debt, capital, reserve funds and other activities within its mandate. This would include the funding of the planning studies for a potential airport in Pickering.

The GTAA issued two series of MTNs in February 2004 for a total of \$600 million. The funds received were used to fund the reserve requirements and to repay the syndicated bank facility, with the excess funds invested in short-term investment grade corporate debt instruments in accordance with the Trust Indenture. At June 30, 2004, approximately \$104.2 million was still invested and will be used to fund the ADP and other capital projects.

The GTAA has two bank credit facilities with a bank syndicate totalling \$550 million, which are used to fund ongoing operations when expenses may exceed revenue due to timing, and to fund capital expenses on a periodic basis. This provides the GTAA with flexibility on when to access the capital markets. At June 30, 2004 there were no amounts drawn on either facility.

As at June 30, 2004, the GTAA held reserve funds of \$713.2 million, an increase of \$80.9 million as compared to December 31, 2003. There has been a decrease in reserve funds since March 31, 2004 with the payment of certain interest payments from the Debt Service Fund, transfers out of the AIF Reserve Fund and transfers into the Notional Principal Fund. The Debt Service Reserve Funds have remained stable. This fluctuation is consistent with expected patterns and will continue into the future.

The objective of the investment and cash management strategy for the GTAA is to maintain maximum flexibility for funding and to ensure that future cash requirements for the ADP and other demands can be met. Given the current levels of cash, reserves and credit facilities, the GTAA does not anticipate any funding shortfall for the remainder of 2004, however, there may be events outside the control of the GTAA that could affect its liquidity.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The GTAA's accounting policies are set out in Note 4 of the Consolidated Financial Statements and Notes as at December 31, 2003 and 2002, and Note 1 of the unaudited Consolidated Financial Statements as at June 30, 2004. There have been no changes in accounting policies since March 31, 2004.

RISKS AND UNCERTAINTIES

The GTAA has and will continue to face certain risks which are beyond its control. As demonstrated in recent years, the demand for air travel is subject to external influences such as general economic conditions, geopolitical events, government regulation and financial uncertainty in the aviation industry. Any of these factors would impact the GTAA's financial results. Although there has been significant improvement in passenger volumes noted in the first six months of 2004, there is no certainty that this will continue. The current status of the Air Canada restructuring plans, including the extension of its protection under the *Companies' Creditors Arrangement Act* to September 30, 2004, has been disclosed in various public documents. If Air Canada is not successful with its restructuring plans, there would be significant financial and operational impacts on the GTAA during the time that it would take the industry to adjust. It is anticipated that over time new or existing air carriers would expand operations to meet passenger demand.

In addition, although the risks associated with the ADP are reduced with the successful opening of the first phase of new Terminal 1, there is some risk associated with the ongoing construction. The GTAA continues to fund the program through the debt capital markets and there is some risk associated with the timing and pricing of any future issues.

CONCLUSION

The first six months of 2004 have been relatively stable for the GTAA. The successful opening of new Terminal 1, the expansion of WestJet's operations in Toronto, and the reduced future construction spending are signs of potential improvements in the GTAA's financial position in the future. The strategy of constructing common use facilities, high standards for safety and security and fiscal responsibility, together with the recent growth in passenger volumes sets a positive framework for the future.

Consolidated Financial Statements of

**GREATER TORONTO AIRPORTS
AUTHORITY**

June 30, 2004

(unaudited)

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED BALANCE SHEETS

(unaudited) (in thousands)	June 30 2004	December 31 2003
ASSETS		
Current		
Cash and cash equivalents	\$ 104,189	\$ 38,125
Accounts receivable	79,208	75,356
Prepaid expenses	6,749	3,491
Inventory	4,238	3,021
	194,384	119,993
Reserve and other funds (Note 2)	713,245	632,391
Deferred charges (Note 3)	51,966	47,007
Capital assets (Note 4)	4,723,980	2,298,837
Work in progress (Note 5)	600,276	2,770,494
Prepaid pension asset	3,708	3,708
	\$ 6,287,559	\$ 5,872,430
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 235,571	\$ 265,263
Security deposits and deferred credits	19,914	24,346
Deferred gain on interest rate swaps (Note 12)	1,069	-
Current portion of long-term debt (Note 6)	8,891	9,536
	265,445	299,145
Deferred gain on interest rate swaps (Note 12)	14,041	-
Deferred ground rent (Note 13)	20,536	10,024
Long-term debt (Note 6)	6,016,906	5,562,087
	6,316,928	5,871,256
NET ASSETS (Note 7)		
Externally restricted	61,053	57,100
Internally restricted	166,676	143,378
Unrestricted	(257,098)	(199,304)
	(29,369)	1,174
	\$ 6,287,559	\$ 5,872,430

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
REVENUES				
Landing fees	\$ 82,120	\$ 58,556	\$ 161,819	\$ 119,259
General terminal charges	35,390	26,170	70,395	55,427
Airport improvement fees, net	33,553	21,807	64,236	47,147
Car parking and ground transportation	21,993	17,873	42,635	35,253
Concessions	14,420	14,056	27,935	27,596
Rentals	11,038	11,046	22,062	22,393
Other	2,102	1,960	4,499	2,572
	200,616	151,468	393,581	309,647
OPERATING EXPENSES				
Ground rent	35,707	29,836	71,415	64,632
Goods and services	52,562	48,006	101,507	118,423
Salaries, wages and benefits	23,584	20,322	49,717	43,653
Real property taxes and payments-in-lieu of real property taxes (Note 9)	6,046	6,485	12,091	12,970
	117,899	104,649	234,730	239,678
Revenues over expenses before interest and financing costs and amortization	82,717	46,819	158,851	69,969
Interest and financing costs (Note 8)	66,832	39,338	109,530	76,815
Amortization of capital assets	52,563	24,005	79,864	46,512
Revenues (under) expenses	\$ (36,678)	\$ (16,524)	\$ (30,543)	\$ (53,358)

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Six-month period ended June 30, 2004 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers / Allocations	Use of Funds	Balance, End of Period
Externally Restricted					
Operating and maintenance reserve	\$ 50,806	\$ -	\$ -	\$ -	\$ 50,806
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	3,294	-	3,953	-	7,247
	57,100	-	3,953	-	61,053
Internally Restricted					
Airport improvement fees collected, net	104,475	-	67,548	(86,250)	85,773
Notional principal of long-term debt	22,350	-	40,103	(3,953)	58,500
Debt service coverage requirement	16,553	-	5,850	-	22,403
	143,378	-	113,501	(90,203)	166,676
Restricted net assets	200,478	-	117,454	(90,203)	227,729
Unrestricted net assets	(199,304)	(30,543)	(27,251)	-	(257,098)
Total net assets	\$ 1,174	\$ (30,543)	\$ 90,203	\$ (90,203)	\$ (29,369)

Six-month period ended June 30, 2003 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers / Allocations	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 fees 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

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six-month periods ended June 30 (unaudited) (in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Revenues under expenses	\$ (36,678)	\$ (16,524)	\$ (30,543)	\$ (53,358)
Items not affecting cash				
Amortization of capital assets	52,563	24,005	79,864	46,512
Amortization of deferred gain on interest rate swaps	(267)	-	(535)	-
Gain on disposal of capital asset	-	-	(310)	-
Realized gain on interest rate swaps	-	-	(2,437)	-
Amortization of deferred charges (Note 3)	1,671	906	3,459	1,734
Changes in non-cash working capital				
(Increase) decrease in accounts receivable	12,892	(11,998)	(3,852)	(22,189)
(Increase) decrease in prepaid expenses	654	1,409	(3,258)	(653)
Increase (decrease) in inventory	(873)	187	(1,217)	72
Increase in deferred ground rent	5,256	-	10,513	-
Decrease in accounts payable and accrued liabilities	(39,231)	(9,910)	(29,692)	(26,489)
Increase (decrease) in security deposits and deferred credits	(1,719)	294	(4,432)	(3,006)
	(5,732)	(11,631)	17,560	(57,377)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of capital assets	(157)	(7,477)	(824)	(11,529)
Proceeds on disposal of capital assets	-	-	6,646	-
Work in progress	(170,945)	(269,696)	(340,301)	(467,492)
	(171,102)	(277,173)	(334,479)	(479,021)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of medium term notes (Note 6)	-	775,000	600,000	775,000
Credit facility (Note 6)	-	(250,000)	(145,000)	-
Repayment of long-term debt	(428)	(440)	(827)	(976)
Termination of interest rate swaps	-	-	18,082	-
Bank indebtedness	-	(21,453)	-	-
Reserve and other funds	15,090	(23,076)	(80,854)	(61,280)
Deferred charges (Note 3)	(5)	(2,318)	(8,418)	(3,010)
	14,657	477,713	382,983	709,734
NET CASH INFLOW (OUTFLOW)	(162,177)	188,909	66,064	173,336
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	266,366	-	38,125	15,573
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 104,189	\$ 188,909	\$ 104,189	\$ 188,909

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

1. 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 2003 annual report, except as set out below. 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 2003 consolidated financial statements published in the 2003 annual report of the Greater Toronto Airports Authority ("GTAA").

Significant Changes in Accounting Policies

Capital Assets

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. As of January 1, 2004 all terminal facilities previously amortized at 5% sinking fund over 35 years will be amortized at a rate of 2.5% declining balance, applied prospectively. The change in this policy resulted in an increase in amortization of \$5.54 million for the period ending June 30, 2004. 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	2.5% declining balance for terminal facilities 1 to 4 years straight-line for Terminal 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

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

1. BASIS OF PRESENTATION (continued)

Derivative Financial Instruments

On January 1, 2004, the GTAA adopted a new accounting standard which requires additional documentation, designation and effectiveness assessments to be completed for all existing and new derivative financial instruments in order to be able to apply hedge accounting subsequent to the adoption date. This standard is to be applied prospectively and a retroactive application is not permitted. The GTAA assessed all existing derivative financial instruments against the requirements and elected not to apply hedge accounting to certain derivative financial instruments that were effective economic hedges of identified risk exposures.

Derivative financial instruments, including interest rate swaps, may be 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 interest rate swaps will be accounted for under the accrual method if the GTAA meets the requirements set out in existing accounting pronouncements and the GTAA chooses to designate these financial instruments as hedges. Accordingly, the book value will not be adjusted to reflect the current market values. Payments and receipts under interest rate swap agreements will be 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. Derivative financial instruments that are not designated by the GTAA to be in an effective hedging relationship will be carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs.

Commodity swap agreements are used from time to time to reduce exposure to fluctuations in commodity prices. Commodity swaps in an effective hedging relationship as defined in existing accounting pronouncements may be accounted for under the deferral method where the unrealized gains and losses are deferred and recognized in goods and services in the period in which the underlying commodity purchases are recognized. Commodity swaps that are not designated in an effective hedging relationship as defined in existing accounting pronouncements will be carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in goods and services.

Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated, dedesignated from a hedging relationship or cease to be effective prior to maturity, will be deferred and recognized 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 will be recognized in the Consolidated Statement of Operations.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

2. 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)	June 30 2004	December 31 2003
Debt Service Fund		
Interest	\$ 74,891	\$ 59,603
Principal	7,247	3,294
	82,138	62,897
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	35,416	34,991
Series 1997-3 due December 3, 2027	37,243	36,820
Series 1999-1 due July 30, 2029	40,583	40,116
Medium Term Notes		
Series 2000-1 due June 12, 2030	39,050	38,591
Series 2000-2 due July 19, 2010	40,110	39,660
Series 2001-1 due June 4, 2031	35,544	35,131
Series 2002-1 due January 30, 2012	31,419	31,073
Series 2002-2 due December 13, 2012	29,854	29,500
Series 2002-3 due October 15, 2032	38,715	38,303
Series 2003-1 due June 2, 2008	19,570	19,350
Series 2003-2 due May 20, 2005	22,603	22,358
Series 2004-1 due February 2, 2034	22,815	-
Series 2004-2 due February 4, 2009	11,213	-
	404,135	365,893
Bank indebtedness secured by Series 1997 - A Bond	6,490	6,417
	410,625	372,310
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	50,806	50,806
Renewal and Replacement Reserve Fund	3,000	3,000
Airport Improvement Fee Reserve Fund	85,773	104,475
Notional Principal Fund	58,500	22,350
Debt Service Coverage Fund	22,403	16,553
	220,482	197,184
	\$ 713,245	\$ 632,391

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

3. DEFERRED CHARGES

(in thousands)	June 30, 2004		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 42,670	\$ 12,174	\$ 30,496
Deferred loss on commodity swap	1,789	968	821
Deferred hedge loss on bond	17,953	6,067	11,886
Bond discount costs	11,226	2,463	8,763
	\$ 73,638	\$ 21,672	\$ 51,966

(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 hedge loss on bond	17,953	5,606	12,347
Bond discount costs	10,685	2,154	8,531
	\$ 65,220	\$ 18,213	\$ 47,007

The aggregate amortization expense in respect of deferred charges for the period ended June 30, 2004 was \$3.6 million (June 30, 2003 - \$1.7 million). For the three months ending June 30, 2004 the aggregate amortization expense in respect of deferred assets was \$1.7 million (June 30, 2003 - \$0.9 million). Additions to deferred charges during the period totaled \$8.4 million (December 31, 2003 - \$3.7 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

4. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	June 30, 2004		
	Cost	Accumulated Amortization	Net Book Value
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	\$ 3,897,791	\$ (168,762)	\$ 3,729,029
Baggage handling systems	162,432	(13,906)	148,526
	4,060,223	(182,668)	3,877,555
Airside assets			
Improvements to leased land	24,000	(3,033)	20,967
Runways and taxiways	310,668	(15,875)	294,793
Deicing facilities	29,898	(3,582)	26,316
	364,566	(22,490)	342,076
Other assets			
Utilities and stormwater management facilities	195,332	(13,481)	181,851
Operating assets	488,297	(169,205)	319,092
Capital leases	9,782	(6,376)	3,406
	693,411	(189,062)	504,349
	\$ 5,118,200	\$ (394,220)	\$ 4,723,980

(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

Rent credits of \$189.2 million, received prior to December 31, 2000, 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, 2004 (unaudited)

4. CAPITAL ASSETS (continued)

On April 6, 2004 the GTAA commenced operations at the new Terminal 1 following the closure of old Terminal 1, which has been fully depreciated as of June 30, 2004. Approximately \$2.4 billion of costs incurred for the first phase of the Airport Development Program, including portions of the central processing area, Pier D, portions of Pier E and the parking garage were transferred from Work in progress to capital assets as of April 6, 2004. Amortization of these costs commenced concurrently. The remainder of the Airport Development Program will remain in Work in progress until the respective components are substantially complete and operational.

5. WORK IN PROGRESS

(in thousands)	Beginning of Period	Additions/ Adjustments	Transfers to Capital Assets	End of Period
Airside Development Project	\$ 2,193	\$ 14,996	\$ (309)	\$ 16,880
Terminal Development Project	2,531,422	257,893	(2,306,115)	483,200
Infield Development Project	2,082	654	-	2,736
Utilities and Area Support Facilities	553	449	(298)	704
	2,536,250	273,992	(2,306,722)	503,520
Restoration Projects	189,068	54,235	(171,968)	71,335
T3 Redevelopment	45,176	12,074	(31,829)	25,421
	\$ 2,770,494	\$ 340,301	\$ (2,510,519)	\$ 600,276

As at June 30, 2004, Work in progress included capitalized interest and financing costs in the amount of \$85.5 million (December 31, 2003 - \$297.0 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

6. LONG-TERM DEBT

As at June 30, 2004 the long-term debt outstanding is comprised of:

(in thousands)	Coupon Rate	Maturity Date	June 30 2004	December 31 2003
	(Note 12)			
Revenue Bonds, <i>See below</i>				
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	375,000
Series 2003-2, <i>See below</i>	floating	May 20, 2005	600,000	600,000
Series 2004-1	6.47%	February 2, 2034	350,000	-
Series 2004-2	4.45%	February 4, 2009	250,000	-
			6,000,000	5,400,000
Credit facility, <i>See below</i>				
Secured by 1997-A Bond			-	145,000
Capital leases, <i>See below</i>			1,797	2,623
Province of Ontario				
Interest-free, payable in five equal annual instalments commencing 2011			24,000	24,000
			6,025,797	5,571,623
Less current portion			8,891	9,536
			\$ 6,016,906	\$ 5,562,087

Interest arising from these debt instruments amounted to \$180.4 million (June 30, 2003 - \$153.7 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 2.86% effective February 20, 2004 and to 2.64% on May 20, 2004.

With the exception of Series 1999-1 revenue bonds, principal on each series of revenue bonds and medium term notes is payable on the maturity date. Series 1999-1 are amortizing revenue bonds repayable in scheduled annual installments of principal, payable on July 30 of each year, commencing July 30, 2004 until the maturity date.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

6. LONG-TERM DEBT (continued)

Revenue Bonds and Medium Term Notes

The GTAA has the following Revenue Bonds and Medium Term Notes outstanding:

Series	Settlement Date	Principal Amount (in thousands)	Interest Payable Commencement Date
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 9, 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
2004-1	February 2, 2004	\$ 350,000	August 2, 2004
2004-2	February 4, 2004	\$ 250,000	August 4, 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.

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 June 30, 2004, there was no drawing on either Credit Facility (December 31, 2003 - \$145 million, on revolving term facility). 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 six-month period ranged from 2.6% to 4.5% (June 2003 - 3.2% to 5.0%).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

6. LONG-TERM DEBT (continued)

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 12-month periods ending June 30 are as follows:

(in thousands)	
2005	\$ 608,891
2006	9,158
2007	384,029
2008	384,537
2009	260,152
Thereafter	4,379,030
	<u>\$ 6,025,797</u>

During the period, the GTAA incurred interest costs, on a cash basis, of \$166.1 million (June 30, 2003 - \$149.1 million).

7. 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 2, 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 2, 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.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

7. NET ASSETS (continued)

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.

8. 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 for the three and six-month periods ended June 30, 2004 and 2003, are comprised of the following:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2004	2003	2004	2003
Interest and financing costs incurred	\$ 92,832	\$ 80,094	\$ 179,806	\$ 154,888
Less:				
Interest earned on the Debt Service Reserve Fund	(2,929)	(4,692)	(7,516)	(8,673)
Capitalized Interest	(23,071)	(36,064)	(62,760)	(69,400)
	\$ 66,832	\$ 39,338	\$ 109,530	\$ 76,815

9. 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.

10. RELATED PARTY TRANSACTIONS

Directors' fees for the six-month period ended June 30, 2004 were \$236,450 (June 30, 2003 - \$261,400). For the three-month period ended June 30, 2004 Director's fees were \$115,500 (June 30, 2003 - \$145,700).

11. 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, 2004 of approximately \$434.3 million (December 31, 2003 - \$384.0 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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 late 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.

Litigation

Canada 3000

In 2001 the GTAA, together with other Canadian Airport Authorities ("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 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.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Air Canada

On April 1, 2003 Air Canada filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). The GTAA filed a claim in the CCAA proceedings for \$41.8 million (\$37.8 million, net of G.S.T.), for landing fees, general terminal charges and other agreement charges. On June 23, 2004 the Monitor for Air Canada and Certain of its Subsidiaries and the GTAA settled on a final Claim amount of \$40.1 million (\$37.5 million, net of G.S.T). Air Canada's plan of arrangement has been filed. However the amount of recovery for unsecured creditors is still uncertain. Under the plan creditors will receive shares in a restructured Air Canada. The GTAA made a total provision in fiscal 2003 of \$32.2 million. It is expected that further information on the amount of recovery will be available in the near future and, accordingly, a final adjustment will be made prior to year-end.

12. 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)	June 30, 2004		December 31, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 6,025,797	\$ 6,143,881	\$ 5,571,623	\$ 5,795,857

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

12. FINANCIAL INSTRUMENTS (continued)

Derivative Financial Instruments

As of March 30, 2004, the GTAA liquidated all interest rate swap contracts resulting in a payment to the GTAA of \$18.1 million. The unrealized deferred gain of \$15.6 million as of December 31, 2003 was recorded as a deferred gain on interest rate swaps on January 1, 2004 when the interest rate swaps were dedesignated from their original hedging relationship. For the period from January 1, 2004 to the date the swap contracts were liquidated, the GTAA recognized a fair value gain of \$2.5 million which was recorded in interest and financing costs. The unrealized deferred gain of \$15.6 million will be amortized into interest and financing costs over the remaining term of the various interest rate swap contracts.

In addition, the GTAA entered into a multi-interval commodity swap in July 2002 to fix the price on a portion of its electricity consumption. From November 2002 to February 2005 the GTAA pays a fixed price per MWh and receives a floating price based on the Hourly Ontario Energy Price ("HOEP"). As of January 2004 a deferred charge of \$1.8 million has been recorded and will be amortized to goods and services over the remaining term of the swap as the underlying electricity consumption is recognized. Changes in fair value subsequent to January 2004 are recorded directly to goods and services.

Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its floating rate current and long-term indebtedness (see Note 6, Long-Term Debt). The impact of a 1% change in interest rates applied to the average floating rate indebtedness outstanding during the six-month period would have amounted to approximately \$2.6 million (June 2003 - \$1.1 million). The Debt Service Reserve Fund for bank indebtedness (see Note 2, Reserve and Other Funds) is adjusted annually on December 2 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 \$4.1 million (June 30, 2003 - \$3.4 million).

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 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.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the six-month period ended June 30, 2004 (unaudited)

13. 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. As of June 30, 2004 the total Ground Rent expensed as part of this program is \$20.5 million of which \$10.5 million is recorded in 2004.