

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

**Greater Toronto Airports Authority**

*March 31, 2003*

*(unaudited)*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2003**

The Financial Statements and Notes and Management's Discussion and Analysis for the Year ended December 31, 2002, provide details on the structure, mandate and performance of the Greater Toronto Airports Authority ("GTAA") and should be read in conjunction with this quarterly report. For a more comprehensive discussion of certain of the matters discussed in this quarterly report, see also the Annual Information Form of the GTAA for the year ended December 31, 2002. This discussion provides an update of significant activities in the first three months ended March 31, 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 overall strategy for the GTAA is to operate a safe and secure airport, and to ensure that the facilities will provide the necessary services, amenities and capacity for the future. The operations and development strategies are established and managed on a commercial basis with the overall objective of financial responsibility.

### **Operating Activity**

In the first quarter of 2003, approximately 6.0 million passengers moved through the Airport, as compared to 5.8 million for the same period in 2002, an increase of 3.4%. The largest increase was in the international sector which was up 9.2% as compared to transborder and domestic which were up 1.3% and 1.5% respectively. Within the quarter, traffic was up for each of the first three months of 2003 however lower than anticipated due to the impact of the war in Iraq and Sudden Acute Respiratory Syndrome ("SARS") on air travel since the middle of March. It is anticipated that there will be some continued weakness in travel for the next few months until the SARS situation has ended. Similar to passenger activity, in the first three months the Maximum Take-Off Weight ("MTOW") was up 2.7% over the same period in 2002, to 2.9 million tonnes.

The following table summarizes the passenger activity for the first quarter of 2003 and 2002:

(in thousands)	2003	2002	2003 vs. 2002
Domestic	2,445	2,409	1.49%
Transborder	1,956	1,930	1.34%
International	1,646	1,507	9.22%
Total	6,047	5,846	3.44%

## RESULTS OF OPERATIONS

The GTAA sets its annual aeronautical rates and charges to cover the projected operating costs on a breakeven basis for each year. The projected operating costs include the estimated interest and principal as the debt service component, for operating assets, but do not include amortization. If there is a shortfall between the receipt of revenue and actual disbursements for operating expenditures, including interest, the shortfall is funded by the bank facilities described later. The capital costs, including interest, for projects under development, such as the new Terminal 1, are funded through debt and are not included in the calculation of aeronautical charges.

### Revenue

The GTAA receives revenue from aeronautical charges, airport improvement fees (“AIF”) and non-aeronautical revenue. The primary drivers for all revenue are passenger activity and aircraft activity, as reflected by the number and type of aircraft. Aeronautical charges, which are the fees paid by the airlines for operations, include landing fees and general terminal charges. AIF revenue is collected by the airlines on behalf of the GTAA and 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 months ended March 31, 2003 and 2002:

(in thousands)	2003	2002
Landing fees	\$60,703	\$45,244
General terminal charges	29,257	23,777
Airport improvement fee, net	25,340	21,943
Car parking and ground transportation	17,380	16,960
Concessions	13,540	13,781
Rental	11,347	7,990
Other	612	1,014
	<u>\$158,179</u>	<u>\$130,709</u>

The GTAA’s aeronautical revenue increased from \$69.0 million to \$90.0 million as a result of increased traffic and higher rates. As noted, the GTAA establishes fees to cover projected expenses. As certain assets become operational, the associated debt payments are added to the landing fee. For example, the fifth runway was commissioned in October 2002 and the debt payments are now expensed and included in the calculation of the landing fee.

As detailed later, Air Canada filed 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 to the GTAA for February and March, totaling \$37.4 million, excluding GST.

In the first quarter of 2003 the GTAA earned \$25.3 million of AIF revenue, as compared to \$21.9 million in 2002. This increase is the direct result of increased passenger activity at Toronto Pearson. Since April 1, 2003, Air Canada has paid AIF revenue for February and has indicated that AIF revenue for March will be paid in accordance with the AIF agreement with the GTAA. Under the terms of the AIF agreement, 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).

The GTAA also collects fees or rental payments for car parking, ground transportation, concessions, retail and other rental properties. In the quarter ended March 31, 2003 these totaled \$42.3 million as compared to \$38.7 million for the same period in 2002, an increase of 9.3%. This increase is the result of improved passenger traffic over last year and includes the rent from Air Canada for the cargo facility that the GTAA purchased and is leasing to Air Canada, and new lease arrangements with various tenants.

Other revenue, which includes interest on reserve funds and investments decreased from \$1.0 million to \$0.6 million due to the timing of debt issues and changes in interest rates.

### **Operating Expenses**

The GTAA's operating expenses include the costs incurred to operate and maintain the Airport, some of which occur as a result of the GTAA being a Canadian Airport Authority, together with interest and financing costs and amortization. The following is a summary of total operating expenses for the three months ended March 31, 2003 and 2002:

(in thousands)	2003	2002
Ground rent	\$34,796	\$33,629
Goods and services	70,417	36,055
Salaries, wages and benefits	23,331	20,718
Real property taxes and payments-in-lieu of real property taxes	6,485	4,395
	135,029	94,797
Interest and financing costs	37,477	24,849
Amortization of capital assets	22,507	15,689
	\$195,013	\$135,335

Operating expenses, which include ground rent, goods and services, salaries, wages and benefits, real property taxes and payments-in-lieu of taxes ("PILT"), increased to \$135.0 million for the three months ended March 31, 2003 as compared to \$94.8 million for the same period in 2002. Increases in the ground rent are based on CPI adjustments as set out in the Ground Lease. Increases in goods and services include a provision of \$18.7 million for amounts owed to the GTAA from Air Canada prior to April 1, 2003. In addition, overall costs have increased such as snow removal costs due to the severe winter storms of early 2003, fuel and utility costs, expanded IT&T services, including the cost of leased equipment, policing and security costs and insurance premiums. Increases

in salaries, wages and benefits reflect previously agreed increases and some expansion in staffing associated with the overall transition into the new Terminal 1.

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 set out in regulation, based on passenger activity, as PILT. For the first quarter of 2003 the amount paid was \$6.5 million as compared to \$4.4 million in 2002. However, the GTAA received notification of the 2001 PILT payments in March 2002 and the recorded expected payment exceeded the actual payment required by \$2.3 million. This adjustment was recorded in the first quarter of 2002, resulting in a lower PILT payment being reported in that first quarter period.

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 the capitalized interest. The increase in interest and financing costs for the three months ended March 31, 2003 to \$37.5 million was anticipated as several projects were completed in 2002 such as the fifth runway, roadways, and certain communication equipment.

Similarly, the amortization of capital assets increased from \$15.7 million to \$22.5 million, reflecting the assets being transferred to operations.

## **AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS**

The Airport Development Program (“ADP”) continues on schedule with most components of the Infield, Airside and Utilities and Airport Support complete or near completion. The opening of the first phase of the new Terminal 1 is scheduled in late 2003. Work for the first quarter was focused on completing the roadways, parking garage and advancing the fit-up work inside the terminal building. The total program budget remains at \$4.415 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.
- Infield development – new facilities have been constructed in the infield to replace and expand certain facilities for freight, ancillary aviation functions, hangars and cargo, as well as an 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.
- Airside development – enhanced airside facilities include a fifth runway, dual taxiway system, new taxiways, and an extension to an existing runway to support additional capacity.
- Utilities and Airport support – support projects to improve the utilities and support facilities.

During the first three months of 2003, \$184.8 million had been spent on the ADP, compared to \$160.1 million for the same period in 2002. A gradual decline in capital spending is anticipated during the year as projects are completed and the focus moves to the fit-up of the new Terminal 1. Plans are in place to initiate system testing in the new Terminal 1 starting in June 2003. Certain building systems are already being tested as construction continues.

In addition to the ADP, the GTAA undertakes certain ongoing capital improvements and restoration projects each year. By the end of March 2003, \$2.7 million had been spent on ongoing capital projects. In addition, \$10.3 million was spent on the Terminal 3 redevelopment program during the first three months of 2003.

## **ASSETS AND LIABILITIES**

At March 31, 2003, total assets were \$5.1 billion, an increase of \$215.7 million since December 31, 2002. The increase is principally generated within work in progress relating to the ADP and other capital projects. There was also an increase in the reserve funds including the AIF fund of \$19.0 million and the regular deposits of interest totaling \$21.8 million with the Trustee. The GTAA did not issue any additional bonds or MTN's during the first three months of 2003. As at March 31, 2003 the GTAA had outstanding a total of \$259.1 million from its syndicated bank credit facility.

## **LIQUIDITY AND CAPITAL RESOURCES**

As has been noted, the GTAA is a non-share corporation and therefore its sources of funds are from operations, AIF, the debt capital markets, and a \$550 million syndicated bank credit facility. Since any revenue or cash generated by the GTAA remains within the airport system, the GTAA has established a residual approach for setting the annual rates.

During the first three months of 2003, the GTAA did not issue any additional debt financing. At March 31, 2003, \$259.1 million was drawn on the syndicated bank facility. When the GTAA accesses the capital markets to issue additional debt, the funds will be used to first repay the amount drawn on the credit facility and secondly will be invested to fund ongoing capital expenditures for the ADP and other capital programs.

As at March 31, 2003 the GTAA held reserves of \$585.7 million, an increase of \$38.2 million since December 31, 2002. The increase includes of regular payments of interest to the Trustee to be held in the Debt Service Fund and funds deposited to the AIF Reserve Fund.

The investment and cash management strategy for the GTAA is designed 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 debtholders. This plan will be maintained during 2003 with the objective of ensuring that the corporation maintains adequate liquidity.

## **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 industry. In the first quarter of 2003 several of these external factors have created some uncertainty on air traffic demand and subsequently the cash flow for the GTAA. The GTAA continues to monitor each of these influential events to ensure appropriate operational and financial responses.

The financial stability of the industry was again challenged on April 1, 2003 when Air Canada filed under CCAA. The matter is before the courts and at this time it is too soon to determine the final outcome. Air Canada will continue to operate at the Airport during its restructuring proceedings. As the industry responds to changes in demand, and other pressures, it is anticipated that there may be some schedule changes introduced by the air carriers. Although there is some risk for the Airport in the short term, any long-term risk is mitigated by the fact that approximately 75% of the passenger traffic at the Airport originates or terminates at Toronto Pearson.

On March 20, 2003, the Minister of Transport tabled before Parliament Bill C-27 entitled The Canada Airports Act. When enacted into law, this proposed legislation 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. While Bill C-27 must still be examined and debated by Parliament, it is anticipated that the GTAA will be able to comply with the provisions of the legislation without significant changes to the manner in which it currently operates.

The ADP continued to progress well through the first quarter of 2003. As individual components are completed the construction risks are reduced. However, the GTAA still recognizes the risks associated with such a complex program. The scheduled approach to the development ensures that overall operations are not placed at risk. Also, the staged development does provide specific opportunities to evaluate demand and respond appropriately.

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, particularly at times of uncertainty, with respect to the cost of funds and availability at any particular time. The GTAA monitors the capital markets, investor demand and its cash flow requirements to minimize any extreme market impacts.

## **CONCLUSION**

The first quarter of 2003 has introduced some new challenges to the GTAA with changes in air traffic demand and the financial uncertainty in the industry within the context of completing the ADP. Part of the success of the GTAA can be attributed to its ability to maintain a long-term vision while responding to immediate events. It is expected that this management approach will enable the GTAA to effectively manage through the new challenges and ensure that the new Terminal 1 opens successfully. The enhanced flexibility offered by the opening of the new Terminal 1 will set the stage for the future at Toronto Pearson Airport.

*Consolidated Financial Statements of*

**GREATER TORONTO AIRPORTS AUTHORITY**

*March 31, 2003*

*(unaudited)*

# GREATER TORONTO AIRPORTS AUTHORITY

## Consolidated Balance Sheets

(unaudited) (in thousands)	March 31 2003	December 31 2002
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ -	\$ 15,573
Accounts receivable	64,863	54,672
Prepaid expenses	5,657	3,595
Inventory	3,044	2,929
	73,564	76,769
Reserve and other funds (Note 1)	585,662	547,458
Deferred charges (Note 2)	47,101	47,237
Capital assets (Note 3)	2,024,736	2,029,223
Work in progress (Note 4)	2,333,620	2,148,250
Prepaid pension asset	3,378	3,378
	\$ 5,068,061	\$ 4,852,315
<b>Liabilities</b>		
Current		
Bank indebtedness	\$ 21,453	\$ -
Accounts payable and accrued liabilities	285,617	302,196
Security deposits and deferred credits	27,375	30,675
Current portion of long-term debt (Note 5)	2,121	1,887
	336,566	334,758
Long-term debt (Note 5)	4,700,385	4,449,613
	5,036,951	4,784,371
<b>Net Assets (Note 6)</b>		
Externally restricted	46,649	46,649
Internally restricted	129,266	110,280
Unrestricted	(144,805)	(88,985)
	31,110	67,944
	\$ 5,068,061	\$ 4,852,315

# GREATER TORONTO AIRPORTS AUTHORITY

## Consolidated Statements of Operations

For the three-month periods ended March 31  
(unaudited) (in thousands)

	2003	2002
<b>Revenues</b>		
Landing fees	\$ 60,703	\$ 45,244
General terminal charges	29,257	23,777
Airport improvement fee, net	25,340	21,943
Car parking and ground transportation	17,380	16,960
Concessions	13,540	13,781
Rental	11,347	7,990
Other	612	1,014
	<b>158,179</b>	<b>130,709</b>
<b>Operating Expenses</b>		
Ground rent	34,796	33,629
Goods and services	70,417	36,055
Salaries, wages and benefits	23,331	20,718
Real property taxes and payments in lieu of real property taxes (Note 8)	6,485	4,395
	<b>135,029</b>	<b>94,797</b>
Revenues over expenses before interest and financing costs and amortization	23,150	35,912
Interest and financing costs (Note 7)	37,477	24,849
Amortization of capital assets	22,507	15,689
Revenues under expenses	<b>\$ (36,834)</b>	<b>\$ (4,626)</b>

## GREATER TORONTO AIRPORTS AUTHORITY

### Consolidated Statements of Changes in Net Assets

Three-month period ended March 31, 2003 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers to Restricted Net Assets	Use of Funds	Balance, End of Period
<b>Externally Restricted</b>					
Operating and maintenance reserve	\$ 43,649	\$ -	\$ -	\$ -	\$ 43,649
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	-	-	-
	<b>46,649</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,649</b>
<b>Internally Restricted</b>					
Airport improvement fee collected, net	93,727	-	18,986	-	112,713
Notional principal of long-term debt	-	-	-	-	-
Debt service coverage requirement	16,553	-	-	-	16,553
	<b>110,280</b>	<b>-</b>	<b>18,986</b>	<b>-</b>	<b>129,266</b>
<b>Restricted net assets</b>	<b>156,929</b>	<b>-</b>	<b>18,986</b>	<b>-</b>	<b>175,915</b>
<b>Unrestricted net assets</b>	<b>(88,985)</b>	<b>(36,834)</b>	<b>(18,986)</b>	<b>-</b>	<b>(144,805)</b>
<b>Total net assets</b>	<b>\$ 67,944</b>	<b>\$ (36,834)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,110</b>
<b>Three-month period ended March 31, 2002 (unaudited) (in thousands)</b>					
	Balance, Beginning of Period	Revenues Under Expenses	Transfers to Restricted Net Assets	Use of Funds	Balance, End of Period
<b>Externally Restricted</b>					
Operating and maintenance reserve	\$ 36,324	\$ -	\$ -	\$ -	\$ 36,324
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	-	-	5,060	-	5,060
	39,324	-	5,060	-	44,384
<b>Internally Restricted</b>					
Airport improvement fee collected, net	34,993	-	20,617	-	55,610
Notional principal of long-term debt	58,710	-	3,070	(5,060)	56,720
Debt service coverage requirement	16,553	-	-	-	16,553
	110,256	-	23,687	(5,060)	128,883
<b>Restricted net assets</b>	149,580	-	28,747	(5,060)	173,267
<b>Unrestricted net assets</b>	(61,197)	(4,626)	(28,747)	5,060	(89,510)
<b>Total net assets</b>	<b>\$ 88,383</b>	<b>\$ (4,626)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 83,757</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## Consolidated Statements of Cash Flows

For the three-month periods ended March 31

(unaudited) (in thousands)

	2003	2002
<b>Cash Flows from Operating Activities</b>		
Revenues under expenses	\$ (36,834)	\$ (4,626)
Items not affecting cash		
Amortization of capital assets	22,507	15,689
Changes in non-cash working capital		
Increase in accounts receivable	(10,191)	(10,506)
Increase in prepaid expenses	(2,062)	(31)
Increase in inventory	(115)	(91)
Decrease in accounts payable and accrued liabilities	(16,579)	(22,296)
Decrease in security deposits and deferred credits	(3,300)	(1,975)
	<b>(46,574)</b>	<b>(23,836)</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of capital assets	(4,052)	(192)
Construction in progress	(197,796)	(170,789)
	<b>(201,848)</b>	<b>(170,981)</b>
<b>Cash Flows from Financing Activities</b>		
Issuance of medium term notes	-	500,000
Credit facility	250,000	(238,000)
Repayment of long-term debt	(536)	(320)
Bank indebtedness	21,453	-
Reserve and other funds	(38,204)	(71,700)
Deferred charges	136	(471)
	<b>232,849</b>	<b>189,509</b>
<b>Net cash outflow</b>	<b>(15,573)</b>	<b>(5,308)</b>
<b>Cash and cash equivalents, Beginning of Period</b>	<b>15,573</b>	<b>10,992</b>
<b>Cash and cash equivalents, End of Period</b>	<b>\$ -</b>	<b>\$ 5,684</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

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### 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)	March 31 2003	December 31 2002
Debt Service Fund		
Interest	\$ 77,560	\$ 55,807
Principal	-	-
	<b>77,560</b>	<b>55,807</b>
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	35,137	35,479
Series 1997-3 due December 3, 2027	37,037	37,303
Series 1999-1 due July 30, 2029	40,324	40,642
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,710	39,138
Series 2000-2 due July 19, 2010	39,825	40,129
Series 2001-1 due June 4, 2031	35,321	35,572
Series 2002-1 due January 30, 2012	31,222	31,530
Series 2002-2 due December 13, 2012	29,661	30,001
Series 2002-3 due October 15, 2032	38,502	38,418
	<b>325,739</b>	<b>328,212</b>
Bank indebtedness secured by Series 1997- A Bond	6,448	6,510
	<b>332,187</b>	<b>334,722</b>
Operating and Maintenance Reserve Fund	43,649	43,649
Renewal and Replacement Reserve Fund	3,000	3,000
Debt Service Coverage Fund	16,553	16,553
Airport Improvement Fee Reserve Fund	112,713	93,727
	<b>175,915</b>	<b>156,929</b>
	<b>\$ 585,662</b>	<b>\$ 547,458</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

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### 2. DEFERRED CHARGES

(in thousands)	March 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 34,560	\$ 8,430	\$ 26,130
Unrealized gain on interest rate swaps	(1,218)	-	(1,218)
Deferred interests	508	-	508
Deferred bond hedge loss	17,953	4,915	13,038
Bond discount costs	10,377	1,734	8,643
	<b>\$ 62,180</b>	<b>\$ 15,079</b>	<b>\$ 47,101</b>

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

The aggregate amortization expense in respect of deferred assets for the period ended March 31, 2003 was \$0.8 million (March 31, 2002 - \$0.8 million) and is included in interest and financing costs. Additions to deferred charges during the period totaled \$0.7 million (December 31, 2002 - \$10.0 million)

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

### 3. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	March 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
<b>Terminal assets</b>			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	\$ 1,435,371	\$ (101,487)	\$ 1,333,884
Baggage handling systems	49,474	(10,446)	39,028
	<b>1,484,845</b>	<b>(111,933)</b>	<b>1,372,912</b>
<b>Airside assets</b>			
Improvements to leased land	24,000	(2,533)	21,467
Runways and taxiways	266,035	(7,931)	258,104
Deicing facilities	29,377	(2,373)	27,004
	<b>319,412</b>	<b>(12,837)</b>	<b>306,575</b>
<b>Other assets</b>			
Utilities and stormwater management facilities	181,982	(7,805)	174,177
Operating assets	282,169	(111,097)	171,072
	<b>464,151</b>	<b>(118,902)</b>	<b>345,249</b>
	<b>\$ 2,268,408</b>	<b>\$ (243,672)</b>	<b>\$ 2,024,736</b>

(in thousands)	December 31, 2002		
	Cost	Accumulated Amortization	Net Book Value
<b>Terminal assets</b>			
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
	<b>1,484,356</b>	<b>(102,686)</b>	<b>1,381,670</b>
<b>Airside assets</b>			
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
	<b>315,300</b>	<b>(10,965)</b>	<b>304,335</b>
<b>Other assets</b>			
Utilities and stormwater management facilities	181,437	(6,713)	174,724
Operating assets	269,295	(100,801)	168,494
	<b>450,732</b>	<b>(107,514)</b>	<b>343,218</b>
	<b>\$ 2,250,388</b>	<b>\$ (221,165)</b>	<b>\$ 2,029,223</b>

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 three-month period ended March 31, 2003 (unaudited)

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### 4. WORK IN PROGRESS

(in thousands)	Beginning of Period	Additions	Transfers to Capital Assets	End of Period
Airside Development Project	\$ 2,181	\$ 1,811	\$ (3,614)	\$ 378
Terminal Development Project	1,769,153	184,029	-	1,953,182
Infield Development Project	94,791	(2,667)	-	92,124
Utilities and Area Support Facilities	1,858	996	(523)	2,331
South Development	-	192	-	192
Central Utilities Plant	1,800	400	(17)	2,183
	1,869,783	184,761	(4,154)	2,050,390
Restoration Projects	188,851	2,738	(8,084)	183,505
T3 Redevelopment	89,616	10,297	(188)	99,725
	\$ 2,148,250	\$ 197,796	\$ (12,426)	\$ 2,333,620

As at March 31, 2003, Work in Progress included capitalized interest and financing costs in the amount of \$211.5 million (December 31, 2002 – \$178.4 million).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

### 5. LONG-TERM DEBT

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

(in thousands)	Coupon Rate	Maturity Date	March 31 2003	December 31 2002
	(Note 11)			
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, <i>see below</i>				
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
			<b>4,425,000</b>	4,425,000
Credit facility, <i>see below</i>				
Secured by 1997-A Bond			250,000	-
Capital leases			3,506	2,500
Province of Ontario				
Interest-free, payable in five equal				
instalments commencing 2011			24,000	24,000
			<b>4,702,506</b>	4,451,500
Less current portion			2,121	1,887
			<b>\$ 4,700,385</b>	\$ 4,449,613

Interest arising from these debt instruments amounted to \$74.3 million (March 31, 2002 - \$57.3 million).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

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### 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

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

#### *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 operation 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 March 31, 2003 \$9.1 million was drawn on the revolving operation facility, which is included in the current bank indebtedness and \$250 million was drawn on the revolving term facility. Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rates, bankers' acceptance rates and LIBOR, as appropriate. Interest rates incurred during the three-month period ended March 31, 2003 ranged from 3.2% to 3.54% (December 31, 2002 – 2.24% to 4.5%).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

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### 5. LONG-TERM DEBT (continued)

#### *Principal repayments*

Principal payments scheduled for each of the next five years ending in March 31 are as follows:

(in thousands)	
2004	\$ 2,121
2005	8,844
2006	258,863
2007	8,959
2008	384,537
Thereafter	4,039,182
	<u>\$ 4,702,506</u>

During the period, the GTAA incurred interest costs, on a cash basis, of \$52.9 million (March 31, 2002 - \$37.1 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 three-month period ended March 31, 2003 (unaudited)

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### 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 three-month periods ended March 31, 2003 and 2002, are comprised of the following:

(in thousands)	2003	2002
Interest and financing costs incurred	\$ 74,794	\$ 57,899
Less:		
interest earned on externally restricted fund investment	(3,981)	(2,663)
interest capitalized	(33,336)	(30,387)
Interest and financing costs	\$ 37,477	\$ 24,849

### 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 three-month period ended March 31, 2003 were \$115,700 (March 31, 2002 - \$131,700).

### 10. COMMITMENTS AND CONTINGENCIES

#### *Capital Commitments*

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at March 31, 2003 of approximately \$397 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 the summer of 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.

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

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### 10. COMMITMENTS AND CONTINGENCIES (continued)

#### *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 24<sup>th</sup>, 2001. It has been extended several times since the original expiry date and currently expires April 30<sup>th</sup>, 2003. The GTAA has purchased a \$50 million primary layer of war and terrorist coverage which is available in the insurance markets.

#### **Litigation**

##### *Canada 3000*

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

##### *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 April 16, 2003 the GTAA is owed approximately \$37.4 million, excluding GST and AIF, for landing fees, general terminal charges and other agreements incurred prior to April 1, 2003. In addition, approximately \$5.8 million of AIF revenue, excluding GST, for March 2003 is due April 30, 2003. Given the preliminary status and the uncertainty of the outcome of Air Canada's filing the GTAA has decided to make a provision for 50% in these financial statements of the outstanding amounts, excluding AIF revenue and GST, being \$18.7 million.

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

### 11. FINANCIAL INSTRUMENTS

#### *Fair Value of Financial Instruments*

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

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

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

(in thousands)	March 31, 2003		December 31, 2002	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 4,702,506	\$ 4,610,817	\$ 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

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2003 (unaudited)

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### 11. FINANCIAL INSTRUMENTS (continued)

As at March 31, 2003, the interest rate swap contracts had a total unrealized gain of \$10.1 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 three-month period ended March 31, 2003 would have amounted to approximately \$0.3 million (March 31, 2002 - \$0.2 million). The Debt Service Reserve Fund for bank indebtedness (see Note 1, Reserve and Other Funds) is adjusted annually on December 2<sup>nd</sup> 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 \$1 million (March 31, 2002 - \$0.7 million). The GTAA reduces its interest rate risk through the use of derivative financial instruments.

#### *Credit Risk*

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

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

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 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 (see Note 10, Commitments and Contingencies).

### 13. COMPARATIVE FIGURES

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