

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

Greater Toronto Airports Authority

March 31, 2004

(unaudited)

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2004**

Dated April 28, 2004

This quarterly report of the Greater Toronto Airports Authority ("GTAA") should be read in conjunction with the Consolidated Financial Statements and Notes, Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2003. These documents provide a more comprehensive discussion of certain matters mentioned in this quarterly report. This quarterly report provides an update of significant activities during the three months ended March 31, 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 is available on SEDAR at www.sedar.com.

Corporate Profile

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 its ground lease with the federal government (the "Ground Lease"). The GTAA is authorized to operate airports within the region on a commercial basis, to set fees for their use and to develop and improve their facilities. 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.

Operating Activity

Passenger activity in the first quarter of 2004 increased over the same period for last year. In the first quarter, approximately 6.4 million passengers moved through the Airport as compared to 6.0 million in the first quarter of 2003, representing an increase of 6.1%. The recovery of transborder activity continues to lag the domestic and international sectors. The following table summarizes the passenger activity for the first quarter of 2004 and 2003:

(in thousands)	2004	2003	% increase
Domestic	2,567	2,445	5.0%
Transborder	2,017	1,956	3.2%
International	1,829	1,646	11.1%
Total	6,413	6,047	6.1%

A further component of operating activity is the actual air traffic or aircraft movements. There have been some changes in aircraft mix and flight activity, as illustrated by the Maximum Take-Off Weight (“MTOW”), which increased by 1.0% over the same period in 2003.

Although it did not affect the operating activity for the first quarter, the first day of operations in new Terminal 1 was April 6, 2004. Initially, the new Terminal 1 will provide passenger processing for Air Canada domestic passengers previously processed through Terminal 2 and all activities previously conducted in old Terminal 1. This transition in passenger processing and other activities is expected to increase operating expenses due to the nature and size of the terminal and the services provided by the GTAA. These were anticipated in setting the rates for 2004.

In early 2004 WestJet Airlines Inc. (“WestJet”) announced plans to expand its operations at Toronto commencing April 18, 2004. To accommodate their expanded operations, a portion of Terminal 2 was converted to a common use facility. The projected increase in passenger activity did not impact the operating statistics for the first quarter, but is expected to have a positive impact for the rest of the year.

RESULTS OF OPERATIONS

The GTAA sets its annual aeronautical rates and charges to cover projected operating costs on a breakeven basis for each year after taking into consideration projections for traffic levels, and non-aeronautical revenue. The projected operating costs include the estimated interest and principal, or debt service component, for operating assets, but do not include non-cash items such as 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 under “Liquidity and Capital Resources”. The capital costs, including interest, for projects under construction are funded through debt and are not included in the calculation of aeronautical rates and charges.

Revenue

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 some other sources as described below. Since the aeronautical rates are based on projected costs and activity projections, the primary drivers for all revenue categories are passenger activity and aircraft movements.

The following chart summarizes the revenues for the three months ended March 31, 2004 and 2003:

(in thousands)	2004	2003
Landing fees	\$ 79,700	\$ 60,703
General terminal charges	35,004	29,257
Airport improvement fees, net	30,682	25,340
Car parking and ground transportation	20,642	17,380
Concessions and rentals	24,539	24,887
Other	2,398	612
	\$ 192,965	\$ 158,179

In the first quarter of 2004, revenue from landing fees and general terminal charges totaled \$114.7 million as compared to \$89.9 million for the same period in 2003. The revenue reflects the rates set to cover projected costs including debt service for 2004. In the first quarter, air traffic volumes were slightly higher than expected, generating some additional revenue.

AIF revenue increased from \$25.3 million to \$30.7 million for the first quarters of 2003 and 2004, respectively. The change includes the increase in the AIF implemented on September 1, 2003 from \$10 and \$7 for originating and connecting passengers to \$12 and \$8, respectively, together with increased passenger activity. Under the terms of the AIF agreements, 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 may not be made in the same period in which the AIF is earned. AIF revenue earned and collected, but not utilized in any given period is set aside in the AIF reserve fund for future capital or debt service payments.

The GTAA also collects revenue from car parking, ground transportation, concessions, retail and other rental properties. In the quarter ended March 31, 2004, car parking and ground transportation revenue increased to \$20.6 million from \$17.4 million for the same period in 2003. This increase reflects improved passenger levels, increases to parking rates implemented in August 2003 and increases in car rental concession payments. For concessions and rentals, the results are fairly stable, being \$24.5 million and \$24.9 million for 2004 and 2003, respectively.

Other revenue includes the interest on reserve funds and investments. The GTAA issued Medium Term Notes (“MTNs”) in February and after repaying the syndicated bank credit facility, the remaining funds were invested. The increase in other revenue of approximately \$1.8 million to a total of \$2.4 million for the first quarter of 2004 as compared to 2003, results from the interest earned on these investments.

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. It is important to

note that the expenses reported here are on an accrual basis and are not entirely consistent with the expenses used in the calculation of aeronautical fees. The following is a summary of the total operating expenses for the three months ended March 31, 2004 and 2003:

(in thousands)	2004	2003
Ground rent	\$ 35,707	\$ 34,796
Goods and services	48,946	70,417
Salaries, wages and benefits	26,133	23,331
Real property taxes and PILT	6,045	6,485
	116,831	135,029
Interest and financing costs	42,698	37,477
Amortization of capital assets	27,301	22,507
	\$186,830	\$195,013

Operating expenses which include ground rent, goods and services, salaries, wages and benefits, real property taxes and payments-in-lieu of real property taxes (“PILT”) decreased to \$116.8 million for the three months ended March 31, 2004 as compared to \$135.0 million for the same period in 2003. Changes in the ground rent reflect the adjustments set out in the Ground Lease and include the impact of improved passenger levels and inflation. 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 for the first quarter of 2004. The ground rent of \$35.7 million recorded for the first quarter includes the ground rent deferral of \$5.3 million. Goods and services for the three months ended March 31, 2004 and 2003 are \$48.9 million and \$70.4 million, respectively. The principal reason for the decrease is that the results for 2003 included a provision for Air Canada receivables of \$18.7 million, and the results for 2004 included a reimbursement from Canadian Air Transport Security Authority for \$3.0 million, for costs which were incurred during the period of April 1, 2003 through to March 31, 2004.

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 in a prior year, as PILT. For the first quarter of 2004 PILT payments were \$6.0 million as compared to \$6.4 million for the same period in 2003. This reflects the reduced passenger levels for 2002, which is the year used to calculate the payments for 2004.

Interest and financing costs include interest for projects which are complete and operational, amortization of financing costs over the term of the debt and interest earned on the Debt Service Reserve Fund. Interest and financing costs for the three months ended March 31, 2004 and 2003 were \$42.7 million and \$37.5 million, respectively. In addition to more assets becoming operational, the first quarter of 2004 includes a gain of \$2.7 million on the sale of certain interest rate swaps. 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 provide 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 and will be 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 sections are as follows:

(in thousands)	2004	2003
Revenue	\$192,965	\$158,179
Operating expenses	116,831	135,029
Revenue over expenses ¹	76,134	23,150
Interest and financing costs and amortization of capital assets	69,999	59,984
Revenue over/(under) expenses	\$ 6,135	\$ (36,834)

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

The differences in the revenue and operating expenses for the respective years are set out in the previous sections, which, together with the liquidation of the interest rate swaps, provide an explanation for the shift from revenue under expenses of \$36.8 million to revenue over expenses of \$6.1 million. It is also important to note that the operating expenses in 2004 include \$5.3 million of deferred ground rent, and operating expenses for 2003 include the provision of \$18.7 million for Air Canada.

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

The Airport Development Program (“ADP”) was planned to permit construction while the Airport continued to operate. It consists of a series of projects covering a new terminal, infield development, airside improvements and utilities. In addition, the ADP was designed as a demand driven program that would provide the GTAA some flexibility on the timing of certain stages. The total program budget for construction costs was \$4.4 billion and as at March 31, 2004, the program remains within 2 percent of the total budget. During the three months ended March 31, 2004, approximately \$140.4 million, including capitalized interest, was spent on the ADP. This was primarily on the new Terminal 1 for interior finishing and fit-up in preparation for the first day of operations. All of the other components of the ADP, such as the infield, roadways, airside, utilities and support facilities, are essentially complete. Future capital spending will be primarily to fund the ongoing new Terminal 1 construction.

Subsequent to the end of the first quarter, the first phase of the new Terminal 1 was successfully opened for operations on April 6, 2004. This included piers D and E, enabling domestic and international passengers to be processed in the new Terminal 1,

with some passengers bussed to the Infield Terminal to board their respective flights. The ADP continues with the demolition of the old Terminal 1 and part of Terminal 2 and completion of apron areas. The installation of gates on the east side of pier E is expected to be completed in approximately 18 months and construction of pier F and the international hammerhead are expected to be complete in 2007. These next stages also include continued construction in the processing areas for transborder passenger processing.

In addition to the ADP, the GTAA undertakes certain ongoing capital improvements and restoration projects each year, including some ongoing improvements to Terminal 3. During the first quarter of 2004, \$23.4 million was spent on ongoing capital projects as well as \$4.5 million for Terminal 3.

ASSETS AND LIABILITIES

At March 31, 2004, total assets were \$6.4 billion as compared to \$5.9 billion at the end of December 31, 2003. The increase in the first quarter includes \$228.2 million in cash and cash equivalents, \$95.9 million for reserve funds and \$162.0 million for work in progress, which is primarily the new Terminal 1. The reserve funds include the monthly funding of interest payments, the increase to the Debt Service Reserve Fund for the MTNs issued in February and the principal fund for future debt maturities.

Total liabilities at March 31, 2004 were \$6.4 billion as compared to \$5.9 billion at December 31, 2003. In February, the GTAA issued \$600 million in two issues of MTNs, of which \$145 million was used to repay the syndicated bank credit facility, and \$33.7 million set aside in the Debt Service Reserve Fund. 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 and recorded the additional deferred ground rent as a liability. As noted previously, the GTAA liquidated certain interest rate swaps in March 2004 and received a payment of \$18.1 million. The remaining deferred gain on the interest rate swaps of \$15.4 million has been recorded as a liability as at March 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

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

In February 2004, the GTAA issued 30 year MTNs in the amount of \$350 million, with an interest rate of 6.47% and five year MTNs in the amount of \$250 million with an interest rate of 4.45%. Some of these funds were used to repay the outstanding amounts under the syndicated bank credit facility and the remainder was invested to fund future

capital requirements. As at March 31, 2004, approximately \$266.4 million was held as cash or cash equivalents. The five year MTN issue was the first retail issue for the GTAA and was very well received in the capital markets. This provides a further capital venue for the GTAA to utilize for the funding of its ongoing capital program. The GTAA used the proceeds of each debt issue, as disclosed in the relevant prospectus to fund the ADP, repay any bank indebtedness, make payments of principal, to fund certain reserve funds and for other capital projects related to the operation and maintenance of the Airport.

The GTAA has two bank credit facilities with a bank syndicate totaling \$550 million, which are used to fund ongoing operations where expenses may exceed revenue due to the timing of expenses and receipts, and to fund capital expenses on a periodic basis to provide flexibility in accessing the capital markets. At March 31, 2004, there were no amounts drawn on either facility.

As at March 31, 2004, the GTAA held reserve funds of \$728.3 million, an increase of \$96.0 million since December 31, 2003. All of the reserve funds are fully cash funded and may be held by the Trustee for specific purposes, or by the GTAA in accordance with its policies.

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. Given the current levels of cash, reserves and credit facilities, the GTAA does not anticipate any funding shortfall for the remainder of 2004 or into the future, however there may be events outside of the control of the GTAA which would 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 March 31, 2004. Policy changes taking effect in the first quarter include a change in the amortization of certain capital assets from the sinking fund method to the declining balance method. The impact of this change is that amortization for these capital assets will be higher in current periods and lower in future periods. For the first quarter of 2004, the amortization recorded was \$2.8 million higher than would have been recorded under the sinking fund method.

The GTAA has used interest rate swaps to reduce exposure to fluctuations in interest rates and these had been accounted for such that the book value was not adjusted to reflect current market value. As has been noted, these interest rate swaps were liquidated on March 30, 2004 and the appropriate gains and deferred gains on the interest rate swaps have been recorded in accordance with Note 1 to the unaudited Consolidated Financial Statements as at March 31, 2004.

Similarly, to reduce exposure to fluctuations in certain commodity prices, the GTAA may enter into commodity swap agreements and has established policies that are in compliance with the new standards for accounting for hedging relationships.

RISKS AND UNCERTAINTIES

For the first quarter of 2004 and into the future the GTAA continues to face certain risks beyond its control. The demand for air travel is subject to external influences such as general economic conditions, government regulation and financial uncertainty in the aviation industry each of which may impact the GTAA's financial results. The greatest uncertainty is the future of Air Canada, since Trinity Investments has publicly stated that it is withdrawing its equity proposal. 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 the industry adjusts. It is anticipated that over time new or existing air carriers would expand operations to meet passenger demand.

In addition, the GTAA faces risks associated with the construction of the ADP and access to the capital markets to fund capital expenses. The ADP has continued to progress well, and the construction and capital funding risks have been reduced, as demonstrated by the successful commissioning of the new Terminal 1.

CONCLUSION

The first quarter of 2004 has been relatively stable for the GTAA with positive trends in passenger activity. The announcement of WestJet's expanded operations at the Airport, and the successful testing and opening of the New Terminal 1 are further signs of an improving situation. The ADP moves to the next stage with the demolition of old Terminal 1 and the construction of pier F and the international hammerhead. Recent events and passenger growth set the framework for the future. With common use facilities appropriate to a sophisticated city of Toronto's stature, high standards for safety and security and an overall recognition of fiscal responsibility, the GTAA is cautiously optimistic about the future.

Consolidated Financial Statements of

**GREATER TORONTO AIRPORTS
AUTHORITY**

March 31, 2004

(unaudited)

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED BALANCE SHEETS

(unaudited) (in thousands)	March 31 2004	December 31 2003
ASSETS		
Current		
Cash and cash equivalents	\$ 266,366	\$ 38,125
Accounts receivable	92,100	75,356
Prepaid expenses	7,403	3,491
Inventory	3,365	3,021
	369,234	119,993
Reserve and other funds (Note 2)	728,335	632,391
Deferred charges (Note 3)	53,632	47,007
Capital assets (Note 4)	2,273,265	2,298,837
Work in progress (Note 5)	2,932,452	2,770,494
Prepaid pension asset	3,708	3,708
	\$ 6,360,626	\$ 5,872,430
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 274,802	\$ 265,263
Security deposits and deferred credits	21,633	24,346
Deferred gain on interest rate swaps (Note 12)	1,069	-
Current portion of long-term debt (Note 6)	9,319	9,536
	306,823	299,145
Deferred gain on interest rate swaps (Note 12)	14,308	-
Deferred ground rent (Note 13)	15,280	10,024
Long-term debt (Note 6)	6,016,906	5,562,087
	6,353,317	5,871,256
NET ASSETS (Note 7)		
Externally restricted	59,077	57,100
Internally restricted	168,508	143,378
Unrestricted	(220,276)	(199,304)
	7,309	1,174
	\$ 6,360,626	\$ 5,872,430

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF OPERATIONS

For the three-month periods ended March 31

(unaudited) (in thousands)

	2004	2003
REVENUES		
Landing fees	\$ 79,700	\$ 60,703
General terminal charges	35,004	29,257
Airport improvement fees, net	30,682	25,340
Car parking and ground transportation	20,642	17,380
Concessions	13,515	13,540
Rentals	11,024	11,347
Other	2,398	612
	192,965	158,179
OPERATING EXPENSES		
Ground rent	35,707	34,796
Goods and services	48,946	70,417
Salaries, wages and benefits	26,133	23,331
Real property taxes and payments-in-lieu of real property taxes (Note 9)	6,045	6,485
	116,831	135,029
Revenues over expenses before interest and financing costs and amortization	76,134	23,150
Interest and financing costs (Note 8)	42,698	37,477
Amortization of capital assets	27,301	22,507
Revenues over (under) expenses	\$ 6,135	\$ (36,834)

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Three-month period ended March 31, 2004 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Over 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	-	1,977	-	5,271
	57,100	-	1,977	-	59,077
Internally Restricted					
Airport improvement fees collected, net	104,475	-	26,905	(28,975)	102,405
Notional principal of long-term debt	22,350	-	23,327	(1,977)	43,700
Debt service coverage requirement	16,553	-	5,850	-	22,403
	143,378	-	56,082	(30,952)	168,508
Restricted net assets	200,478	-	58,059	(30,952)	227,585
Unrestricted net assets	(199,304)	6,135	(27,107)	-	(220,276)
Total net assets	\$ 1,174	\$ 6,135	\$ 30,952	\$ (30,952)	\$ 7,309

Three-month period ended March 31, 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	-	18,986	-	112,713
Notional principal of long-term debt	-	-	-	-	-
Debt service coverage requirement	16,553	-	-	-	16,553
	110,280	-	18,986	-	129,266
Restricted net assets	156,929	-	18,986	-	175,915
Unrestricted net assets	(88,985)	(36,834)	(18,986)	-	(144,805)
Total net assets	\$ 67,944	\$ (36,834)	\$ -	\$ -	\$ 31,110

GREATER TORONTO AIRPORTS AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ 6,135	\$ (36,834)
Items not affecting cash		
Amortization of capital assets	27,301	22,507
Amortization of deferred gain on interest rate swaps	(267)	-
Gain on disposal of capital asset	(310)	-
Realized gain on interest rate swaps	(2,437)	-
Changes in non-cash working capital		
Increase in accounts receivable	(16,744)	(10,191)
Increase in prepaid expenses	(3,912)	(2,062)
Increase in inventory	(344)	(115)
Increase in deferred ground rent	5,256	-
Increase (decrease) in accounts payable and accrued liabilities	9,539	(16,579)
Decrease in security deposits and deferred credits	(2,713)	(3,300)
	21,504	(46,574)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and disposal of capital assets	5,010	(4,052)
Work in progress	(168,284)	(197,796)
	(163,274)	(201,848)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of medium term notes (Note 6)	600,000	-
Credit facility (Note 6)	(145,000)	250,000
Repayment of long-term debt	(502)	(536)
Termination of interest rate swaps	18,082	-
Bank indebtedness	-	21,453
Reserve and other funds	(95,944)	(38,204)
Deferred charges, net (Note 3)	(6,625)	136
	370,011	232,849
NET CASH INFLOW (OUTFLOW)	228,241	(15,573)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	38,125	15,573
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 266,366	\$ -

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 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 Greater Toronto Airports Authority ("GTAA") 2003 annual report.

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 over 40 years, applied prospectively. The change in this policy resulted in an increase in amortization of \$2.78 million for the period ending March 31, 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 Terminals 1 and 2 improvements 2.5% to 20% declining balance for non-terminal facilities
Baggage handling systems	Straight-line over 25 years

Airside assets

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

Other assets

Utilities and stormwater management facilities	2.5% declining balance
Operating assets	10% to 30% declining balance
Capital leases	10% to 30% declining balance

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 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 three-month period ended March 31, 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)	March 31 2004	December 31 2003
Debt Service Fund		
Interest	\$ 92,163	\$ 59,603
Principal	5,271	3,294
	97,434	62,897
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	35,230	34,991
Series 1997-3 due December 3, 2027	37,052	36,820
Series 1999-1 due July 30, 2029	40,406	40,116
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,866	38,591
Series 2000-2 due July 19, 2010	39,896	39,660
Series 2001-1 due June 4, 2031	35,366	35,131
Series 2002-1 due January 30, 2012	31,261	31,073
Series 2002-2 due December 13, 2012	29,704	29,500
Series 2002-3 due October 15, 2032	38,523	38,303
Series 2003-1 due June 2, 2008	19,465	19,350
Series 2003-2 due May 20, 2005	22,507	22,358
Series 2004-1 due February 2, 2034	22,697	-
Series 2004-2 due February 4, 2009	11,160	-
	402,133	365,893
Bank indebtedness secured by Series 1997 - A Bond	6,454	6,417
	408,587	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	102,405	104,475
Notional Principal Fund	43,700	22,350
Debt Service Coverage Fund	22,403	16,553
	222,314	197,184
	\$ 728,335	\$ 632,391

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2004 (unaudited)

3. DEFERRED CHARGES

(in thousands)	March 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 42,665	\$ 11,286	\$ 31,379
Deferred loss on commodity swap	1,789	572	1,217
Deferred hedge loss on bond	17,953	5,837	12,116
Bond discount costs	11,226	2,306	8,920
	\$ 73,633	\$ 20,001	\$ 53,632

(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 March 31, 2004 was \$1.8 million (March 31, 2003 - \$0.8 million). Additions to deferred charges during the period totaled \$7.2 million (December 31, 2003 - \$3.7 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2004 (unaudited)

4. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	March 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	\$1,684,194	\$ (143,367)	\$1,540,827
Baggage handling systems	49,591	(12,469)	37,122
	1,733,785	(155,836)	1,577,949
Airside assets			
Improvements to leased land	24,000	(2,933)	21,067
Runways and taxiways	310,668	(14,014)	296,654
Deicing facilities	29,898	(3,415)	26,483
	364,566	(20,362)	344,204
Other assets			
Utilities and stormwater management facilities	189,592	(12,314)	177,278
Operating assets	319,950	(150,263)	169,687
Capital leases	9,782	(5,635)	4,147
	519,324	(168,212)	351,112
	\$2,617,675	\$ (344,410)	\$2,273,265

(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 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, 2004 (unaudited)

5. WORK IN PROGRESS

(in thousands)	Beginning of Period	Additions/ Adjustments	Transfers to Capital Assets	End of Period
Airside Development Project	\$ 2,193	\$ 161	\$ (309)	\$ 2,045
Terminal Development Project	2,531,422	139,788	(1,089)	2,670,121
Infield Development Project	2,082	82	-	2,164
Utilities and Area Support Facilities	553	374	-	927
	2,536,250	140,405	(1,398)	2,675,257
Restoration Projects	189,068	23,386	(4,928)	207,526
T3 Redevelopment	45,176	4,493	-	49,669
	\$ 2,770,494	\$ 168,284	\$ (6,326)	\$ 2,932,452

As at March 31, 2004, Work in progress included capitalized interest and financing costs in the amount of \$336.5 million (December 31, 2003 - \$297.0 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2004 (unaudited)

6. LONG-TERM DEBT

As at March 31, 2004 the long-term debt outstanding is comprised of:

(in thousands)	Coupon Rate	Maturity Date	March 31 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>			2,225	2,623
Province of Ontario				
Interest-free, payable in five equal annual instalments commencing 2011			24,000	24,000
			6,026,225	5,571,623
Less current portion			9,319	9,536
			\$ 6,016,906	\$ 5,562,087

Interest arising from these debt instruments amounted to \$88.5 million (March 31, 2003 - \$74.3 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.

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 instalments 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 three-month period ended March 31, 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 March 31, 2004, there was no drawing on the revolving term facility (December 31, 2003 - \$145 million). 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 three-month period ranged from 3.05% to 4.5% (March 2003 - 3.2% to 3.54%).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 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 March 31 are as follows:

<i>(in thousands)</i>	
2005	\$ 9,319
2006	609,158
2007	9,029
2008	384,537
2009	635,152
Thereafter	4,379,030
	<u>\$ 6,026,225</u>

During the period, the GTAA incurred interest costs, on a cash basis, of \$57.5 million (March 31, 2003 - \$52.9 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 three-month period ended March 31, 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-month periods ended March 31, 2004 and 2003, are comprised of the following:

(in thousands)	2004	2003
Interest and financing costs incurred	\$ 86,974	\$ 74,794
Less:		
Interest earned on the Debt Service Reserve Fund	(4,587)	(3,981)
Capitalized Interest	(39,689)	(33,336)
	<u>\$ 42,698</u>	<u>\$ 37,477</u>

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 incurred for the three-month period ended March 31, 2004 were \$120,950 (March 31, 2003 - \$115,700).

11. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at March 31, 2004 of approximately \$384.9 million (December 31, 2003 - \$384 million).

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 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.

Air Canada

On April 1, 2003 Air Canada filed for protection under the Companies’ Creditors Arrangement Act (“CCAA”). Air Canada’s plan of arrangement is not yet known, so the financial impact of the CCAA filing on the GTAA is uncertain at this time. The GTAA has filed a claim in the CCAA proceedings for \$41.8 million, including G.S.T., for landing fees, general terminal charges and other agreement charges. A total provision of \$32.2 million was made in fiscal 2003.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

For the three-month period ended March 31, 2004 (unaudited)

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)	March 31, 2004		December 31, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 6,026,225	\$ 6,379,731	\$ 5,571,623	\$ 5,795,857

Derivative Financial Instruments

The GTAA entered into interest rate swap contracts, described below, 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 2, Reserve and Other Funds). The GTAA received the following fixed interest rates and paid variable interest rates semi-annually based on bankers' acceptance rates. Recent issues of floating rate debt provide an effective mechanism to mitigate the risk of investing Reserve Funds in short-term floating rate investments.

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, 2004 (unaudited)

12. FINANCIAL INSTRUMENTS (continued)

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 were 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 three-month period would have amounted to approximately \$1.6 million (March 2003 - \$0.3 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 \$2.2 million (March 31, 2003 - \$1.0 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.

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.

GREATER TORONTO AIRPORTS AUTHORITY

Notes to the Consolidated Financial Statements

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14. SUBSEQUENT EVENT

On April 6, 2004 the GTAA commenced operations at the new Terminal 1 following the closure of old Terminal 1. 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 will be capitalized as of April 6, 2004. The remainder of the Airport Development Program will remain in Work in progress until the respective components are substantially complete and in productive use.