

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

**Greater Toronto Airports Authority**

*September 30, 2004*

*(unaudited)*

**GREATER TORONTO AIRPORTS AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2004**  
**Dated November 5, 2004**

This quarterly report should be read in conjunction with the Consolidated Financial Statements of the Greater Toronto Airports Authority ("GTAA") for the quarter ended September 30, 2004. This report should also be read in conjunction with the Consolidated Financial Statements and Notes and Management's Discussion and Analysis for the year ended December 31, 2003, and for each of the previous two quarterly reports for 2004, together with the Annual Information Form for the year ended December 31, 2003. These documents provide additional information on certain matters discussed in this report. This 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.

Financial information for the GTAA is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the GTAA website at [www.gtaa.com](http://www.gtaa.com).

### **Corporate Profile**

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

### **Operating Activity**

During the first nine months of 2004, approximately 21.7 million passengers moved through the Airport as compared to 18.7 million for the same period in 2003, a 15.9% increase. The most substantial year over year increase was noted in the second quarter where passenger activity levels in 2003 were severely impacted by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Toronto, the related travel advisory issued by the World Health Organization and to a lesser extent, continued geopolitical unrest. The pattern of significantly increased passenger activity continued in the third quarter of 2004 where passenger activity was 16.4% greater than the same period for 2003. For the first nine months of 2004, actual passenger volumes exceeded projections and it is anticipated that passenger activity will exceed the projections for the full year.

The following table summarizes the passenger activity for the three and nine month periods ended September 30, 2004 and 2003:

(in thousands)	<u>Three months</u>			<u>Nine months</u>		
	2004	2003	%change	2004	2003	%change
Domestic	3,727	3,284	13.5	9,432	8,324	13.3
Transborder	2,201	1,870	17.7	6,279	5,403	16.2
International	2,270	1,891	20.0	5,947	4,962	19.9
Total	8,198	7,045	16.4	21,658	18,689	15.9

In addition to passenger activity, another component of operating activity which affects revenue is the number of aircraft movements and the type of aircraft which together generate total Maximum Take-off Weight (“MTOW”). For the three months ended September 30, 2004, total MTOW was 7.4% higher than the same period in 2003, and for the nine months ended September 30, 2004, the total MTOW was 6.6% higher than the same period in 2003.

### **Operating Events**

As noted in previous reports, on April 6, 2004 the first stage of operations commenced in the new Terminal 1, with all of the activities conducted in old Terminal 1 as well as the domestic passenger processing activities of Air Canada previously carried out in Terminal 2 being transferred into new Terminal 1. As part of this transition phase in the construction program, international passengers processed in new Terminal 1 are bussed to and from the Infield Terminal for enplaning and deplaning. This is part of a planned staging program that will continue until such time as the completion of Pier F provides additional gates. Pier F is scheduled for completion in 2007. International passengers processed in Terminal 3 do not use the Infield Terminal.

Also prior to the third quarter of 2004, WestJet Airlines Ltd. (“WestJet”) expanded its operations at Toronto Pearson by relocating much of its operations from Hamilton Airport. At the time of this move, all of WestJet’s operations were domestic and the GTAA modified certain areas of Terminal 2 to accommodate this activity. In the third quarter, WestJet commenced transborder flights and these are now operating from Terminal 2 as well.

On September 30, 2004, Air Canada emerged from protection under the Companies’ Creditors Arrangement Act (“CCA”), removing an element of operational risk that had been noted in previous reports.

On August 26, 2004, the GTAA announced that Mr. Louis Turpen was retiring as President and CEO effective September 30, 2004. At the same time, the GTAA announced the appointment of Mr. John Kaldeway as President and CEO effective October 1, 2004. Mr. Kaldeway has been with the GTAA in various capacities since the transfer of Toronto Pearson to the GTAA in 1996.

## RESULTS OF OPERATIONS

Aeronautical rates and charges are set by the GTAA annually to cover the projected operating costs on a break-even cash basis for each year. To calculate the rates and charges for the subsequent year, certain projections are developed for passenger activity, air traffic, non-aeronautical revenue and operating costs, which include debt service (interest and principal) for those assets which are operational, but do not include non-cash items such as amortization. Capital costs, including interest for projects under construction, are funded through debt and are not included in the calculation of aeronautical rates and charges until the new assets become operational.

### Revenue

The GTAA receives revenue from aeronautical charges (landing fees and general terminal charges), airport improvement fees (“AIF”) and non-aeronautical sources such as car parking and ground transportation, concessions, rentals and other sources described below. The revenue earned is directly influenced by passenger and aircraft activity as aeronautical fees are charged on the basis of MTOW and seats for arriving aircraft. The following chart summarizes the revenue for the three and nine month periods ended September 30, 2004 and 2003:

(in thousands)	Three months		Nine months	
	2004	2003	2004	2003
Landing fees	\$ 93,223	\$ 68,264	\$ 255,042	\$ 187,523
General terminal charges	39,288	30,481	109,683	85,908
AIF, net	40,391	30,538	104,626	77,685
Car parking & ground transportation	23,523	20,806	66,157	56,059
Concessions & rentals	31,827	24,670	81,826	74,659
Other	1,729	1,418	6,228	3,990
	<u>\$ 229,981</u>	<u>\$ 176,177</u>	<u>\$ 623,562</u>	<u>\$ 485,824</u>

For the first nine months of 2004, the GTAA’s aeronautical revenue was \$364.7 million, as compared to \$273.4 million for the same period in 2003. This significant year over year increase of 33.4% reflects the direct impact that SARS and other events had on passenger and aircraft activity, and therefore indirectly on revenue in 2003, and confirms the strong underlying demand for air travel in the GTA. Similarly, for the three month periods ended September 2004 and 2003, aeronautical revenue was \$132.5 million and \$98.7 million respectively, a 34.2% increase.

AIF revenue, which is net of the commission paid to the airlines, increased from \$77.7 million to \$104.6 million for the nine month periods ended September 30, 2003 and 2004, respectively. AIF revenue for the three month periods ended September 30 was \$30.5 million for 2003 as compared to \$40.4 million for 2004. For both the nine months and the three months ended September 30, 2004, the increased AIF revenue was primarily driven by the recovery in passenger levels. The GTAA has executed AIF agreements with each of the airlines operating at the Airport, in which the GTAA committed that primarily all of the AIF revenue would be used for capital programs, including the associated debt service (principal and interest). Recognizing that capital

expenditures and the receipt of AIF revenue may not occur in the same period, AIF revenue earned and collected, but not utilized in any given period, is invested in the AIF Reserve Fund for future capital or debt service payments. The GTAA has announced an increase in the AIF from \$12 to \$15 for originating passengers effective November 1, 2004; the fee for connecting passengers will remain at \$8.

The GTAA also receives revenue from car parking, ground transportation, concessions and space and property rental. In the nine months ended September 30, 2004, revenue from these sources was \$148.0 million as compared to \$130.7 million for the same period in 2003. For the third quarter of 2004, these non-aeronautical revenues were \$55.4 million as compared to \$45.5 million for the same period in 2003. This increase was due to increased parking revenues, reflecting passenger volumes, some concession rate increases and additional tenant rentals in Terminal 1.

Other revenue includes interest on reserve funds and investments. The GTAA issued \$600 million in Medium Term Notes (“MTNs”) in February 2004 and \$250 million in September 2004. After making contributions to reserve funds and repaying the syndicated bank credit facility, the GTAA invested the remaining funds in short-term investment grade corporate debt instruments. As at September 30, 2004, the full amount of the proceeds from the February issues had been utilized and approximately \$212.0 million of the proceeds from the September issue remains invested. The increase in other revenue for the three months and nine months ended September 30, 2004 as compared to 2003 reflects additional interest earned on invested proceeds.

### Operating Expenses

The GTAA’s expenses include the cost to operate and maintain the Airport, together with interest and financing costs and amortization. It is important to note that the expenses that are reported in the financial statements are on an accrual basis and are not entirely consistent with the expenses used in the calculation of aeronautical fees. Specifically, amortization is not included in the calculation of the landing fee, while the principal component of debt service is included in the landing fee but is not recorded as an operating expense. The following chart summarizes the total operating expenses for the three and nine month periods ended September 30, 2004 and 2003:

(in thousands)	<u>Three months</u>		<u>Nine months</u>	
	2004	2003	2004	2003
Ground rent	\$ 35,707	\$ 28,180	\$ 107,122	\$ 92,812
Goods and services	68,456	49,507	169,964	167,930
Salaries, wages and benefits	22,433	21,115	72,150	64,768
Real property taxes and PILT	6,045	6,468	18,136	19,438
	132,641	105,270	367,372	344,948
Interest and financing costs	79,653	39,750	189,183	116,565
Amortization of capital assets	46,550	26,410	126,414	72,922
	\$258,844	\$ 171,430	\$ 682,969	\$ 534,435

Ground rent payments are calculated according to the Ground Lease with annual changes reflecting inflation adjustments and changes in passenger levels. In July 2003, the Minister of Transport announced a 24 month rent deferral program for a total of \$41.6 million for Pearson Airport. This has had the effect of reducing the ground rent paid to the federal government by approximately \$5.3 million in each of the third and fourth quarters of 2003 and the first three quarters of 2004. However, the ground rent recorded for the three months ended September 30, 2003 is the reduced amount of \$28.2 million. Whereas in each of the quarters of 2004, the full amount due, before the deferral, is recorded. This difference in treatment explains approximately \$5.3 million of the variance for the three months ended September 30, 2003. The ground rent reduction recorded at September 30, 2003 was reclassified as a deferral for the financial statements for the year ended December 31, 2003. These deferred amounts will be repaid over 10 years commencing in 2006 and therefore the deferred amount remains a liability of the GTAA. The deferral of ground rent reduced the cash requirements in the first nine months of 2004 by \$15.8 million.

Goods and services which include the general operating expenses for the Airport, were relatively flat for the first nine months of 2004 and 2003, at \$170.0 million and \$167.9 million, respectively. However, a provision for Air Canada receivables of \$26.2 million was included in the first nine months of 2003, with subsequent provisions being taken in 2003. For the three month periods ended September 30, 2004 and 2003, the goods and services were \$68.5 million as compared to \$49.5 million, respectively. This change in the third quarter reflects, in part, the operating cost of new Terminal 1, and in particular increases in the costs associated with the parking garage, building cleaning services, alarm and security systems and the baggage system. In addition, a final provision of \$1.3 million has been included in the third quarter of 2004 for Air Canada receivables. The GTAA received shares in the new company that emerged from CCAA protection, ACE Aviation Holdings, Inc. ("ACE Aviation") in settlement of its unsecured claim against Air Canada on September 30, 2004 and these shares were valued at \$20 per share to determine the final provision. Any gain or loss on a sale of the shares in the future, will be recorded in the period earned.

The GTAA pays to each of the Cities of Toronto and Mississauga an amount prescribed by an Ontario provincial government regulation, based on passenger activity, as payments-in-lieu of taxes ("PILT"). The base years for calculating PILT are 2001 for the 2003 payments, and 2002 for the 2004 payments. Consequently, the reduced payments for the three and nine-month periods in 2004 of \$6.0 million and \$18.1 million, respectively, reflect the reduced passenger activity experienced in 2002.

Interest and financing costs for the nine months ended September 30, 2004 and 2003 were \$189.2 million and \$116.6 million, respectively, an increase of \$72.6 million which reflects the impact on interest expense of the first phase of the new Terminal 1 becoming operational in April 2004. The year-over-year increase for the three months ended September 30, 2004 was \$39.9 million. Interest and financing costs include interest expense and amortized financing costs for projects which are complete and operational, offset by interest earned on the Debt Service Reserve Fund and the gain on the sale of

certain interest rate swaps in the first quarter of 2004. As an unsecured creditor of Air Canada, the GTAA was granted the option to purchase additional shares in ACE Aviation. The GTAA exercised its option and sold the shares for a net gain of \$0.7 million. This was recorded as an offset in interest and financing costs in the third quarter. The ACE Aviation shares received in settlement of the GTAA claim, which the GTAA continues to hold, are discussed in the Assets and Liabilities section.

## Net Operating Results

The GTAA's net operating results for the three and nine month periods ended September 30, 2004 and 2003, based on the revenue and expenses outlined in the previous section are as follows:

(in thousands)	<u>Three months</u>		<u>Nine months</u>	
	2004	2003	2004	2003
Revenue	\$229,981	\$ 176,177	\$ 623,562	\$ 485,824
Operating Expenses	132,641	105,270	367,372	344,948
Revenue over expenses <sup>1</sup>	97,340	70,907	256,190	140,876
Interest and financing costs	79,653	39,750	189,183	116,565
Amortization of capital assets	46,550	26,410	126,414	72,922
Revenue over/(under) expenses	\$ (28,863)	\$ 4,747	\$ (59,407)	\$ (48,611)

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

The differences in the revenue, operating expenses, interest and financing costs and amortization for the respective three and nine month periods have been summarized previously. Revenue over expenses before interest and financing costs and amortization has increased from \$140.9 million for the first nine months of 2003 to \$256.2 million for the same period in 2004, demonstrating that the revenues in each period were more than adequate to cover operating expenses and interest and financing costs. When including amortization, the net revenue under expenses is \$59.4 million for the first nine months of 2004 as compared to \$48.6 million for the same period in 2003.

The GTAA's operating results reflect certain non-cash items recorded in the financial statements which are not included in the rate setting base for establishing landing fees and general terminal charges. The objective of the GTAA's rate setting is to break-even on a modified cash basis after making allowances for requirements set out in the Trust Indenture which secures the GTAA's outstanding debt, the creation of certain reserve funds and the amortization of certain principal obligations. The net effect of the differences is a positive variance to the financial results between GAAP and the rate setting process. In accordance with the rate setting approach, management expects that revenues and reserve funds applied will continue to be sufficient to cover operating expenses and interest and financing costs, including notional principal. In common with many major infrastructure developments, the GTAA's revenues over expenses may not exceed the non-cash amortization of capital assets for a period of several years.

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

The Airport Development Program (“ADP”), initiated to redevelop the Airport includes the construction of a new terminal, infield development, airside improvements and utilities infrastructure. The concept was for a staged program that would enable construction to be undertaken while the Airport continued to operate. The ADP is demand driven, which provides the GTAA some flexibility on the timing of certain stages. The total program budget for construction costs is \$4.4 billion and as at September 30, 2004, the program was approximately three quarters complete.

On April 6, 2004 the first phase, being the central processor and Piers D and E of the new Terminal 1, was successfully completed and opened for operations. This entailed moving the domestic activity of Air Canada from Terminal 2 and all activity from old Terminal 1 into new Terminal 1. By the end of the third quarter of 2004, the demolition of old Terminal 1 was approximately three quarters complete with the removal of the bridges, the apron control tower and partial demolition of the parking garage. It is anticipated that the entire demolition will be complete by the end of November 2004. In addition, construction has commenced on some of the additional apron areas for new Terminal 1 on the east side of Pier E, as well as Pier F and the automated people mover system which will link new Terminal 1, Terminal 3 and the remote parking areas operated by the GTAA. During the third quarter, \$73.2 million was spent on the ADP, including capitalized interest.

In addition to the ADP, the GTAA has an ongoing capital program for the maintenance and improvement of the Airport. The two largest projects underway include improvements to Terminal 3 and a co-generation plant. During the period of July 1, 2004 to September 30, 2004, \$67.0 million was spent on all of the capital programs outside of the ADP.

## **ASSETS AND LIABILITIES**

Total assets at September 30, 2004 were \$6.5 billion, as compared to \$5.9 billion at the end of December 31, 2003. Since the end of 2003, there have been changes in the asset classification with the transfer of an operational component of the new Terminal 1 to capital assets from work in progress and increases in cash and cash equivalents and reserve funds with the MTN issues in February and September 2004.

Effective September 30, 2004, the GTAA was issued shares in ACE Aviation in settlement of its claim of \$40.1 million against Air Canada as an unsecured creditor. Additional shares may be issued in the future once the total amount of claims against Air Canada have been finalized. As at September 30, 2004, the GTAA estimated the share value at \$20 per share and included approximately \$4.3 million of share value as an asset. The value of the shares will be applied to the claim and any gain or loss on a future sale will be recorded at the time of sale.

At September 30, 2004 total liabilities were \$6.6 billion, as compared to \$5.9 billion at December 31, 2003. The primary component of the liabilities is the long term debt which totalled \$6.3 billion at September 30, 2004. As noted in the first quarter report, the GTAA issued \$600 million in two issues of MTNs in February 2004. In September 2004, the GTAA issued an additional \$250 million with the reopening of its 30-year MTNs, originally issued in February 2004. As noted previously, in accordance with the ground rent relief program, the GTAA reduced the amount of ground rent paid to the federal government by \$15.8 million in the first nine months of 2004 which has been recorded as an increase in deferred ground rent.

The net assets are a combination of reserve funds that have been funded through operating revenue, and the accumulated revenue over or under expenses. To the extent that net revenue after operating expenses and interest and financing costs has not been sufficient to cover amortization in recent periods, the GTAA has recorded revenues under expenses. This has resulted in negative total net assets of \$58.2 million at September 30, 2004. However, the underlying financial stability and security for the debt relies on the long-term economic potential of the Airport and on specific reserve funds, which total \$749.1 million at the same date. There are two liabilities recorded on the balance sheet from previous periods which will provide future benefits, being the ground rent deferral and the gain on the interest rate swaps. In future years, when the ground rent deferral is to be repaid, the GTAA will be collecting the additional cash from the airlines in the landing fee and offsetting the liability, thereby improving its net asset position. Similarly, the gain on the interest rate swaps will be amortized over the term of the respective swaps, providing a future benefit. Amortization of assets is based on a declining balance and is therefore larger in the early years. The principal component in the landing fee is similar to a mortgage, smaller in early years and increasing over time. Therefore it is anticipated that when the principal component in the landing fee increases to a level where it is equal to or exceeds the reducing amount of the amortization of assets, revenue will exceed expenses providing the potential to improve the net asset position.

## **LIQUIDITY AND CAPITAL RESOURCES**

As a non-share corporation, the sources of funds for the GTAA are from operations, AIF revenue or reserve funds, the debt capital markets and a \$550 million syndicated bank credit facility. Consistent with its mandate, the GTAA uses any revenue or cash generated through debt financing or draws on the bank credit facility within the Airport to cover operating expenses, debt payments, capital, reserve funds and other activities within its mandate.

The GTAA has completed three issues of MTNs since the beginning of the year, including two MTN issuances in February 2004 for a total of \$600 million and a reopening in September 2004 of one of the MTN issues for an additional \$250 million. The funds received were used to fund the reserve requirements and to repay the syndicated bank facility, with the excess funds invested in short-term investment grade

corporate debt instruments. During the year, the investments from the February issues were used to fund the ongoing capital programs. At September 30, 2004, approximately \$212.0 million of the September 2004 issue was invested and will be used to fund the ADP and other capital projects during the remainder of 2004 and into the early part of 2005.

The GTAA has two bank credit facilities, a 364-day revolving facility and a 3-year revolving term facility with a syndicate of banks totalling \$550 million, which are used to fund ongoing operations when expenses may exceed revenue due to timing, and to fund capital expenses on a periodic basis. This provides the GTAA with flexibility with respect to accessing the capital markets. At September 30, 2004 there were no amounts drawn on either credit facility. The maturity of the \$250 million 364-day facility has been extended to November 22, 2005.

Reserve funds at the end of September 2004 were \$749.1 million, an increase of \$116.8 million as compared to December 31, 2003. Since June 30, 2004, the Debt Service Fund – Interest has increased with the monthly deposits for future interest payments. This has been offset partially by a reduction in the Debt Service Fund – Principal for the first amortization payment in July for MTN Series 1999-1. There was an increase in the Debt Service Reserve Fund for the reopening of the Series 2004-1 MTNs. This fluctuation is consistent with expected patterns and will continue into the future.

The objective of the GTAA's investment and cash management strategy is to maintain funding flexibility and to ensure that future cash requirements for the capital programs and other demands are met. Given the current levels of cash, reserves and credit facilities, the GTAA does not anticipate any funding shortfall for the remainder of 2004. Although the GTAA actively manages its cash flow, there may be events outside the control of the GTAA that could affect its liquidity.

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

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

## **RISKS AND UNCERTAINTIES**

As an airport authority, the GTAA has and will continue to face certain risks which are beyond its control. As demonstrated in recent years, the demand for air travel is subject to external influences such as general economic conditions, geopolitical events, government regulation and financial uncertainty in the aviation industry. Any of these factors would impact the GTAA's financial results. Although there has been significant

improvement in passenger volumes noted in the first nine months of 2004, and these have exceeded projections, there is no certainty that this will continue.

Some of the earlier concern about the success of Air Canada's restructuring plan has been eliminated. On September 30, 2004 Air Canada emerged from its protection under the CCAA. The details of the plan and Air Canada's new structure have been disclosed in other public documents. This experience emphasizes the ongoing risk that air carrier financial instability could have on the GTAA.

There is ongoing risk associated with a capital program of the size and magnitude of the ADP. The events of the past year reduce some of the construction and early operational risk. However, there continues to be some risk associated with future phases. The GTAA continues to fund the program through the debt capital markets and there is some risk associated with the timing and pricing of any future issues.

Other risks and uncertainties are discussed in Management's Discussion and Analysis for the year ended December 31, 2003.

## **CONCLUSION**

The first nine months of 2004 have shown a significant recovery of passenger activity which has had a positive impact on the financial results of the GTAA. The successful opening of new Terminal 1, the expansion of WestJet's operations in Toronto, Air Canada's emergence from CCAA protection and the reduced future construction spending and capital requirements are signs of potential improvements in the GTAA's financial position in the future. The strategy of constructing common use facilities, high standards for safety and security and fiscal responsibility, together with the recent growth in passenger volumes sets a positive framework for the future.

*Consolidated Financial Statements of*

**GREATER TORONTO AIRPORTS  
AUTHORITY**

*September 30, 2004*

*(unaudited)*

# GREATER TORONTO AIRPORTS AUTHORITY

## CONSOLIDATED BALANCE SHEETS

(unaudited) (in thousands)	September 30 2004	December 31 2003
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 216,344	\$ 38,125
Accounts receivable	84,201	75,356
Prepaid expenses	5,340	3,491
Inventory	4,382	3,021
	310,267	119,993
Reserve and other funds (Note 2)	749,146	632,391
Deferred charges (Note 3)	54,969	47,007
Capital assets (Note 4)	4,684,529	2,298,837
Work in progress (Note 5)	732,636	2,770,494
Prepaid pension asset	3,708	3,708
	\$ 6,535,255	\$ 5,872,430
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 263,390	\$ 265,263
Security deposits and deferred credits	21,861	24,346
Deferred gain on interest rate swaps (Note 12)	1,069	-
Current portion of long-term debt (Note 6)	609,110	9,536
	895,430	299,145
Deferred gain on interest rate swaps (Note 12)	13,774	-
Deferred ground rent (Note 13)	25,794	10,024
Long-term debt (Note 6)	5,658,490	5,562,087
	6,593,488	5,871,256
<b>NET ASSETS (Note 7)</b>		
Externally restricted	55,209	57,100
Internally restricted	179,562	143,378
Unrestricted	(293,004)	(199,304)
	(58,233)	1,174
	\$ 6,535,255	\$ 5,872,430

# GREATER TORONTO AIRPORTS AUTHORITY

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>REVENUES</b>				
Landing fees	\$ 93,223	\$ 68,264	\$ 255,042	\$ 187,523
General terminal charges	39,288	30,481	109,683	85,908
Airport improvement fees, net	40,391	30,538	104,626	77,685
Car parking and ground transportation	23,523	20,806	66,157	56,059
Concessions	16,040	13,907	43,976	41,503
Rentals	15,787	10,763	37,850	33,156
Other	1,729	1,418	6,228	3,990
	<b>229,981</b>	<b>176,177</b>	<b>623,562</b>	<b>485,824</b>
<b>OPERATING EXPENSES</b>				
Ground rent	35,707	28,180	107,122	92,812
Goods and services	68,456	49,507	169,964	167,930
Salaries, wages and benefits	22,433	21,115	72,150	64,768
Real property taxes and payments-in-lieu of real property taxes (Note 9)	6,045	6,468	18,136	19,438
	<b>132,641</b>	<b>105,270</b>	<b>367,372</b>	<b>344,948</b>
Revenues over expenses before interest and financing costs and amortization	97,340	70,907	256,190	140,876
Interest and financing costs (Note 8)	79,653	39,750	189,183	116,565
Amortization of capital assets	46,550	26,410	126,414	72,922
Revenues (under) over expenses	<b>\$ (28,863)</b>	<b>\$ 4,747</b>	<b>\$ (59,407)</b>	<b>\$ (48,611)</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Nine-month period ended September 30, 2004 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers / Allocations	Use of Funds	Balance, End of Period
<b>Externally Restricted</b>					
Operating and maintenance reserve	\$ 50,806	\$ -	\$ -	\$ -	\$ 50,806
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	3,294	-	6,015	(7,906)	1,403
	<b>57,100</b>	<b>-</b>	<b>6,015</b>	<b>(7,906)</b>	<b>55,209</b>
<b>Internally Restricted</b>					
Airport improvement fees collected, net	104,475	-	100,009	(120,625)	83,859
Notional principal of long-term debt	22,350	-	56,965	(6,015)	73,300
Debt service coverage requirement	16,553	-	5,850	-	22,403
	<b>143,378</b>	<b>-</b>	<b>162,824</b>	<b>(126,640)</b>	<b>179,562</b>
<b>Restricted net assets</b>	<b>200,478</b>	<b>-</b>	<b>168,839</b>	<b>(134,546)</b>	<b>234,771</b>
<b>Unrestricted net assets</b>	<b>(199,304)</b>	<b>(59,407)</b>	<b>(34,293)</b>	<b>-</b>	<b>(293,004)</b>
<b>Total net assets</b>	<b>\$ 1,174</b>	<b>\$ (59,407)</b>	<b>\$ 134,546</b>	<b>\$ (134,546)</b>	<b>\$ (58,233)</b>

Nine-month period ended September 30, 2003 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers / Allocations	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	-	-	1,318	-	1,318
	<b>46,649</b>	<b>-</b>	<b>1,318</b>	<b>-</b>	<b>47,967</b>
<b>Internally Restricted</b>					
Airport improvement fees collected, net	93,727	-	76,237	(60,000)	109,964
Notional principal of long-term debt	-	-	25,500	(1,318)	24,182
Debt service coverage requirement	16,553	-	-	-	16,553
	<b>110,280</b>	<b>-</b>	<b>101,737</b>	<b>(61,318)</b>	<b>150,699</b>
<b>Restricted net assets</b>	<b>156,929</b>	<b>-</b>	<b>103,055</b>	<b>(61,318)</b>	<b>198,666</b>
<b>Unrestricted net assets</b>	<b>(88,985)</b>	<b>(48,611)</b>	<b>(41,737)</b>	<b>-</b>	<b>(179,333)</b>
<b>Total net assets</b>	<b>\$ 67,944</b>	<b>\$ (48,611)</b>	<b>\$ 61,318</b>	<b>\$ (61,318)</b>	<b>\$ 19,333</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Revenues under expenses	\$ (28,863)	\$ 4,747	\$ (59,407)	\$ (48,611)
Items not affecting cash				
Amortization of capital assets	46,550	26,410	126,414	72,922
Amortization of deferred gain on interest rate swaps	(267)	-	(802)	-
Loss on disposal of capital assets	1,750	-	1,440	-
Realized gain on interest rate swaps	-	-	(2,437)	-
Amortization of deferred charges (Note 3)	1,594	1,002	5,053	2,734
Changes in non-cash working capital				
(Increase) decrease in accounts receivable	(4,993)	592	(8,845)	(21,597)
(Increase) decrease in prepaid expenses	1,409	688	(1,849)	35
(Increase) decrease in inventory	(144)	(150)	(1,361)	(78)
Increase in deferred ground rent	5,257	-	15,770	-
Increase (decrease) in accounts payable and accrued liabilities	27,819	18,565	(1,873)	(7,924)
Increase (decrease) in security deposits and deferred credits	1,947	(2,294)	(2,485)	(5,300)
	<b>52,059</b>	<b>49,560</b>	<b>69,618</b>	<b>(7,819)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of capital assets	-	(6,982)	(1,860)	(18,511)
Proceeds on disposal of capital assets	-	-	6,648	-
Work in progress	(141,210)	(272,643)	(480,476)	(740,135)
	<b>(141,210)</b>	<b>(279,625)</b>	<b>(475,688)</b>	<b>(758,646)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of medium term notes (Note 6)	250,000	-	850,000	775,000
Credit facility (Note 6)	-	20,000	(145,000)	20,000
Repayment of long-term debt	(8,196)	(569)	(9,023)	(1,545)
Termination of interest rate swaps	-	-	18,082	-
Bank indebtedness	-	63,604	-	63,604
Reserve and other funds	(35,901)	(41,853)	(116,755)	(103,133)
Deferred charges (Note 3)	(4,597)	(26)	(13,015)	(3,034)
	<b>201,306</b>	<b>41,156</b>	<b>584,289</b>	<b>750,892</b>
<b>NET CASH INFLOW (OUTFLOW)</b>	<b>112,155</b>	<b>(188,909)</b>	<b>178,219</b>	<b>(15,573)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>104,189</b>	<b>188,909</b>	<b>38,125</b>	<b>15,573</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 216,344</b>	<b>\$ -</b>	<b>\$ 216,344</b>	<b>\$ -</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as the statements in the 2003 annual report, except as set out below. As these interim consolidated financial statements do not include all information required for annual consolidated financial statements, these notes should be read in conjunction with the notes to the 2003 consolidated financial statements published in the 2003 annual report of the Greater Toronto Airports Authority ("GTAA").

#### Significant Changes in Accounting Policies

##### *Capital Assets*

The costs of capital assets (less estimated residual values) are amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. As of January 1, 2004 all terminal facilities previously amortized at 5% sinking fund over 35 years will be amortized at a rate of 2.5% declining balance, applied prospectively. The change in this policy resulted in an increase in amortization of \$8.2 million for the nine-months ending September 30, 2004. Capital assets are amortized at the following annual rates:

##### **Terminal assets**

Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	2.5% declining balance for terminal facilities 1 to 4 years straight-line for Terminal 2 improvements 2.5% to 20% declining balance for non-terminal facilities
Baggage handling systems	Straight-line over 25 years

##### **Airside assets**

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

##### **Other assets**

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

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 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 expense 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 expense.

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 nine-month period ended September 30, 2004 (unaudited)

### 2. RESERVE AND OTHER FUNDS

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

(in thousands)	September 30 2004	December 31 2003
Debt Service Fund		
Interest	\$ 92,599	\$ 59,603
Principal	1,403	3,294
	<b>94,002</b>	<b>62,897</b>
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	34,967	34,991
Series 1997-3 due December 3, 2027	36,776	36,820
Series 1999-1 due July 30, 2029	40,082	40,116
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,574	38,591
Series 2000-2 due July 19, 2010	39,582	39,660
Series 2001-1 due June 4, 2031	35,079	35,131
Series 2002-1 due January 30, 2012	31,058	31,073
Series 2002-2 due December 13, 2012	29,555	29,500
Series 2002-3 due October 15, 2032	38,292	38,303
Series 2003-1 due June 2, 2008	19,334	19,350
Series 2003-2 due May 20, 2005	22,347	22,358
Series 2004-1 due February 2, 2034	22,928	-
Series 2004-2 due February 4, 2009	26,869	-
	<b>415,443</b>	<b>365,893</b>
Bank indebtedness secured by Series 1997 - A Bond	6,333	6,417
	<b>421,776</b>	<b>372,310</b>
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	83,859	104,475
Notional Principal Fund	73,300	22,350
Debt Service Coverage Fund	22,403	16,553
	<b>233,368</b>	<b>197,184</b>
	<b>\$ 749,146</b>	<b>\$ 632,391</b>

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

### 3. DEFERRED CHARGES

(in thousands)	September 30, 2004		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	\$ 44,044	\$ 13,062	\$ 30,982
Deferred loss on commodity swap	1,789	1,275	514
Deferred hedge loss on bond	17,953	6,298	11,655
Bond discount costs	14,449	2,631	11,818
	<b>\$ 78,235</b>	<b>\$ 23,266</b>	<b>\$ 54,969</b>

(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
	<b>\$ 65,220</b>	<b>\$ 18,213</b>	<b>\$ 47,007</b>

The aggregate amortization expense in respect of deferred charges for the nine-month period ended September 30, 2004 was \$5.1 million (September 30, 2003 - \$2.7 million). For the three months ending September 30, 2004 the aggregate amortization expense in respect of deferred charges was \$1.6 million (September 30, 2003 - \$1.0 million). Additions to deferred charges during the nine-month period ending September 30, 2004 totaled \$13.0 million (September 30, 2003 - \$3.0 million).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

### 4. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	September 30, 2004		
	Cost	Accumulated Amortization	Net Book Value
<b>Terminal assets</b>			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	\$ 3,902,658	\$ (198,367)	\$ 3,704,291
Baggage handling systems	162,711	(15,548)	147,163
	<b>4,065,369</b>	<b>(213,915)</b>	<b>3,851,454</b>
<b>Airside assets</b>			
Improvements to leased land	24,000	(3,133)	20,867
Runways and taxiways	311,013	(17,738)	293,275
Deicing facilities	29,900	(3,748)	26,152
	<b>364,913</b>	<b>(24,619)</b>	<b>340,294</b>
<b>Other assets</b>			
Utilities and stormwater management facilities	205,157	(15,367)	189,790
Operating assets	472,151	(172,576)	299,575
Capital leases	9,782	(6,366)	3,416
	<b>687,090</b>	<b>(194,309)</b>	<b>492,781</b>
	<b>\$ 5,117,372</b>	<b>\$ (432,843)</b>	<b>\$ 4,684,529</b>

(in thousands)	December 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	\$ 1,690,155	\$ (131,088)	\$ 1,559,067
Baggage handling systems	49,591	(11,974)	37,617
	<b>1,739,746</b>	<b>(143,062)</b>	<b>1,596,684</b>
<b>Airside assets</b>			
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
	<b>363,964</b>	<b>(18,197)</b>	<b>345,767</b>
<b>Other assets</b>			
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
	<b>512,771</b>	<b>(156,385)</b>	<b>356,386</b>
	<b>\$ 2,616,481</b>	<b>\$ (317,644)</b>	<b>\$ 2,298,837</b>

Rent credits of \$189.2 million, received prior to December 31, 2000, have been applied to the costs of airside assets.

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 4. CAPITAL ASSETS (continued)

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

### 5. WORK IN PROGRESS

(in thousands)	Beginning of Period	Additions/ Adjustments	Transfers to Capital Assets	End of Period
Airside Development Project	\$ 2,193	\$ 1,495	\$ (307)	\$ 3,381
Terminal Development Project	2,539,519	344,902	(2,322,451)	561,970
Infield Development Project	2,082	72	-	2,154
Utilities and Area Support Facilities	553	723	(503)	773
	2,544,347	347,192	(2,323,261)	568,278
Restoration Projects	179,191	55,310	(162,800)	71,701
Cogeneration Plant	1,780	64,601	-	66,381
T3 Redevelopment	45,176	13,373	(32,273)	26,276
	\$2,770,494	\$ 480,476	\$(2,518,334)	\$ 732,636

As at September 30, 2004 Work in progress included capitalized interest and financing costs in the amount of \$98.3 million (December 31, 2003 - \$297.0 million).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

### 6. LONG-TERM DEBT

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

(in thousands)	Coupon Rate	Maturity Date	September 30 2004	December 31 2003
	(Note 12)			
Revenue Bonds, <i>See below</i>				
Series 1997-2	5.95%	December 3, 2007	\$ 375,000	\$ 375,000
Series 1997-3	6.45%	December 3, 2027	375,000	375,000
Series 1999-1	6.45%	July 30, 2029	492,094	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	600,000	-
Series 2004-2	4.45%	February 4, 2009	250,000	-
			<b>6,242,094</b>	5,400,000
Credit facility, <i>See below</i>				
Secured by 1997-A Bond			-	145,000
Capital leases, <i>See below</i>			1,506	2,623
Province of Ontario				
Interest-free, payable in five equal annual instalments commencing 2011			24,000	24,000
			<b>6,267,600</b>	5,571,623
Less current portion			609,110	9,536
			<b>\$ 5,658,490</b>	<b>\$ 5,562,087</b>

Interest arising from these debt instruments amounted to \$272.8 million (September 30, 2003 - \$262.9 million).

For Series 2003-2 the interest rate is adjusted quarterly at the 3-month Bankers' Acceptance rate plus 55 basis points. The rate for the initial period commencing May 20, 2003 was 3.90%. The rate was adjusted to 2.86% effective February 20, 2004, to 2.64% on May 20, 2004 and to 2.69% on August 20, 2004.

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

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 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	\$ 492,094	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
2004-1 reopen	September 2, 2004	\$ 250,000	August 2, 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 22, 2005 and a revolving term facility in an amount up to \$300 million due November 28, 2005. At September 30, 2004, there was no drawing on either Credit Facility (December 31, 2003 - \$145 million, on revolving term facility). Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates incurred during the nine-month period ranged from 3.0% to 4.3% (September 2003 - 3.2% to 5.0%).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 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 September 30 are as follows:

<i>(in thousands)</i>	
2005	\$ 609,110
2006	9,701
2007	384,607
2008	385,152
2009	260,807
Thereafter	4,618,223
	<u>\$ 6,267,600</u>

During the period, the GTAA incurred interest costs, on a cash basis, of \$237.4 million (September 30, 2003 - \$205 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 nine-month period ended September 30, 2004 (unaudited)

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### 7. NET ASSETS (continued)

#### *Unrestricted Net Assets*

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

### 8. INTEREST AND FINANCING COSTS

Interest and financing costs for long-term debt and bank facilities, net of interest earned on the Debt Service Reserve Fund and capitalized interest for the three and nine-month periods ended September 30, 2004 and 2003, are comprised of the following:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30 2004	2003	September 30 2004	2003
Interest and financing costs incurred	\$ 93,240	\$ 82,541	\$ 272,511	\$ 237,429
Less:				
Interest earned on the Debt Service Reserve Fund	(2,568)	(4,438)	(9,549)	(13,111)
Capitalized Interest	(11,019)	(38,353)	(73,779)	(107,753)
	<u>\$ 79,653</u>	<u>\$ 39,750</u>	<u>\$ 189,183</u>	<u>\$ 116,565</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 for the nine-month period ended September 30, 2004 were \$367,650 (September 30, 2003 - \$380,350). For the three-month period ended September 30, 2004 Director's fees were \$131,200 (September 30, 2003 - \$118,950).

### 11. COMMITMENTS AND CONTINGENT LIABILITIES

#### *Capital Commitments*

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at September 30, 2004 of approximately \$308.1 million (December 31, 2003 - \$384.0 million).

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 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 an application for leave to appeal the Court of Appeal decision to the Supreme Court of Canada. The GTAA is awaiting the decision of the Supreme Court on the application for leave of appeal.

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2004 (unaudited)

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### 11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### *Air Canada*

On April 1, 2003 Air Canada filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). The GTAA filed a claim in the CCAA proceedings for \$41.8 million (\$37.8 million, net of G.S.T.), for landing fees, general terminal charges and other charges. The GTAA made a total provision in fiscal 2003 of \$32.2 million and an additional \$1.3 million in September 2004. On June 23, 2004 the Monitor for Air Canada and the GTAA settled on a final Claim amount of \$40.1 million (\$37.5 million, net of G.S.T.). On September 30, 2004, Air Canada implemented the Consolidated Plan of Reorganization, Compromise and Arrangement ("Plan") which had previously obtained the approval of Creditors. In accordance with the terms of the Plan, on September 30, 2004 the GTAA was issued 213,951 Class A Variable Voting Shares in Air Canada's parent company, ACE Aviation Holdings Inc. ("ACE"), as a settlement of a final Claim of \$40.1 million (\$37.5 million, net of G.S.T.) (See Note 12, Financial Instruments).

In accordance with the terms of the Plan, the GTAA subscribed for additional shares in ACE, the maximum amount permitted under the terms of the Plan. On September 30, 2004 and in accordance with the terms of the Plan, the GTAA was issued ACE shares (the "Rights Shares"). In accordance with the terms of an agreement with a third party purchaser, the GTAA sold the Rights Shares upon issuance for proceeds of \$4.6 million, resulting in a net gain of \$0.7 million, which was recorded as an offset in interest and financing costs in September 2004. The proceeds, received on October 4, 2004, were recorded as a receivable as at September 30, 2004.

### 12. FINANCIAL INSTRUMENTS

#### *Fair Value of Financial Instruments*

Reserve funds, short-term investments, 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 short-term investments and long-term debts were reported at fair values:

(in thousands)	September 30, 2004		December 31, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Short-term investments	\$ 4,279	\$ 4,279	\$ -	\$ -
Long-term debt	\$ 6,267,600	\$ 6,525,686	\$ 5,571,623	\$ 5,795,857

# GREATER TORONTO AIRPORTS AUTHORITY

## Notes to the Consolidated Financial Statements

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### 12. FINANCIAL INSTRUMENTS (continued)

#### *Derivative Financial Instruments*

As of March 30, 2004, the GTAA liquidated all interest rate swap contracts resulting in a payment to the GTAA of \$18.1 million. The unrealized deferred gain of \$15.6 million as of December 31, 2003 was recorded as a deferred gain on interest rate swaps on January 1, 2004 when the interest rate swaps were dedesignated from their original hedging relationship. For the period from January 1, 2004 to the date the swap contracts were liquidated, the GTAA recognized a fair value gain of \$2.5 million which was recorded in interest and financing costs. The unrealized deferred gain of \$15.6 million is being 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 expense over the remaining term of the swap as the underlying electricity consumption is recognized. Changes in fair value subsequent to January 2004 are recorded directly to goods and services expense.

#### *Interest Rate Risk*

The GTAA's exposure to interest rate risk relates to its floating rate 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 nine-month period would have amounted to approximately \$4.1 million (September 2003 - \$2.1 million). The Debt Service Reserve Fund for bank indebtedness (see Note 2, Reserve and Other Funds) is adjusted annually on December 2 based on the prevailing bankers' acceptance rate.

The impact of a 1% change in the interest rate on the Reserve Funds would amount to approximately \$6.1 million (September 30, 2003 - \$3.8 million).

#### *Credit Risk*

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

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

# **GREATER TORONTO AIRPORTS AUTHORITY**

## **Notes to the Consolidated Financial Statements**

**For the nine-month period ended September 30, 2004 (unaudited)**

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### **13. GROUND RENT AGREEMENT**

In July 2003 the Government of Canada announced a program to allow for a reduction in the ground rent payments, for a two-year period commencing July 1, 2003. The deferral during this period is \$41.6 million. For the nine-months ended September 30, 2004, \$15.8 million was expensed as part of this program (December 2003 - \$10 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.