GREATER TORONTO
AIRPORTS AUTHORITY

2004
ANNUAL REPORT

SIGNS FOR SUCCESS

GTAA: SIGNS FOR SUCCESS

2004 FINANCIAL REVIEW

Read the signs.

Passenger numbers at Toronto Pearson International Airport are surging ahead. Travellers and airlines alike are enjoying some of the most advanced airport facilities in North America. In 2004, the Greater Toronto Airports Authority continued its journey establishing the signs for success.

2004 HIGHLIGHTS

→ April 5

Last flight departs from the old Terminal 1.

→ April 6

Successful overnight transfer of flight operations and the movement of personnel from the old Terminal 1 to the new Terminal 1. After several months of testing and trials, the first flight gated at the new Terminal 1 at 6:05 a.m.

→ April

Airport Customer Assistance Program (ACAP) introduced at Toronto Pearson for passengers with disabilities. This program is being seen as a model by other airports for providing consistent and seamless assistance from vehicle to aircraft and return.

Domestic gates in Terminal 2 are successfully decommissioned to allow continued work on Phase 2 of the new terminal.

→ May

The GTAA is recommended for continued registration to ISO 14001 for the sixth consecutive year.

→ September

Louis A. Turpen retires as President and CEO of the GTAA after serving since 1995.

→ October

John Kaldeway, former COO, takes over as President and CEO.

→ November

Following several months of deconstruction work after its closing, the old Terminal 1 is substantially demolished.

Pickering Airport Draft Plan Report released detailing the concept for an airport that could be developed incrementally on the Pickering lands over the next 30 years. A series of public open houses begin.

MESSAGE FROM THE CHAIRMAN

"The GTAA has shown itself as a solid and mature organization, capable of handling any challenges that may arise."

In a positive change from the pattern of the last three years, 2004 came to a close with the aviation industry experiencing vigorous growth. This significant return to air travel bodes well for the GTAA's continued operational success. While the GTAA faced numerous challenges, these were managed with energy and professionalism, and in 2004, the impressive opening of Terminal 1 stood at the top of the list of noteworthy achievements.

Many factors contributed to the sense of achievement felt at Toronto Pearson over the past year. I must first commend Mr. Louis A. Turpen, who retired from his post as President and CEO of the GTAA in late 2004, for his forethought, guidance and relentless enthusiasm in shaping the airport into what it is today. As the Authority's first President, Mr. Turpen led the GTAA through the transfer negotiations for Toronto Pearson from the federal government and then successfully implemented the first and major phase of the $4.4 billion Airport Development Program.

The Board now extends a warm welcome to Mr. Turpen's successor, Mr. John Kaldeway. He brings a wealth of industry knowledge to the position through his many years at Transport Canada and subsequently the GTAA. That we were able to find within our Senior Management someone with the ability to assume the important role of President is a true testament to the breadth of skill at the GTAA.

Also to be especially acknowledged is Mr. Michael Butt, Chairman of the GTAA Board of Directors since 1997. Mr. Butt, whose term as Chairman concluded in 2004, provided strong leadership through a period of major construction and development. His contribution has been immeasurable and as I take on the position of Chairman, I am privileged to have such an accomplished record upon which to build.

In 2004, the Board entered its second year under a new structure of Corporate Governance. The changes approved by the federal government in 2003 provide flexibility for the nomination and appointment process to the Board and give the assurance that we have among the Directors the necessary mix of skills and experience. The four committees of the Board are to be commended for their diligence in overseeing the conduct of the business of the GTAA, and I want to recognize in particular the efforts of each of the committee Chairs.

The GTAA has sought an efficient collaboration with the Minister of Transport on a number of issues and will continue its efforts to foster constructive relationships with all levels of government.

Of particular importance this last year has been the issue of ground rent that airports pay to the federal government. The GTAA continues as an active participant with the Canadian Airports Council's ongoing efforts to petition the federal government to eliminate or reduce airport rent. As we have experienced, the aviation industry can be deeply affected by external

"The vision set out by the GTAA Board of Directors several years ago remains unchanged. We are firmly committed to providing passengers and airlines with the best facilities."

factors arising from global, geopolitical and economic sources. Airport authorities must search for methods to be able to pay for the services and facilities we bring to the travelling public and a reduction in ground rent would greatly assist our efforts to manage costs and bring savings to the airline community.

There has been considerable debate comparing costs between airports. Such comparisons can be misleading as the services provided by airport authorities around the world vary greatly. Toronto Pearson has been singled out as having high costs for airlines, however, this is more a reflection of the development program than any inefficiencies. Both the GTAA Board and management remain fully committed to working toward increasing non-aeronautical revenues and containing costs. The GTAA will continue to ensure a fair and open process in setting fees and working with all stakeholders to facilitate their business.

The GTAA has had from the start a mandate to operate Toronto Pearson within an airport system that contributes aggressively to economic development. The Board recognizes that even with the extensive development program, Toronto Pearson will still have a capacity limit and that secondary airports will be required in the future to meet the aviation demands in the Greater Toronto Area. In 2004, we continued the planning work for the federally owned Pickering lands that the Minister of Transport had asked the GTAA to undertake and completed the Pickering Airport Draft Plan Report. This report provides an overview of a potential regional reliever airport on the Pickering lands and serves as a starting point to move the project into the environmental assessment process. The importance of community consultation was never more apparent than in 2004 as interested members of the public were invited to share their views at a series of local open house meetings.

The GTAA is in sound financial health, with our bonds remaining a highly respected investment instrument and confirming the good standing of the Authority in the financial community.

The results of the GTAA's labours over the last eight years are now more apparent than ever. Toronto Pearson is emerging as a significant major airport for North America with the capacity and facilities to accommodate the anticipated future growth of the industry. Our numerous achievements are a direct result of the diligence by every employee of the GTAA and, on behalf of the Board, I extend our appreciation to every member of the GTAA team. I would especially like to thank the senior executives who have demonstrated prudence under the leadership of the former President and CEO Mr. Louis Turpen, and latterly, Mr. John Kaldeway. The GTAA is on track financially, operationally and strategically and I am grateful to my fellow Directors for the opportunity to serve as Chairman of the Board.

Warren C. Hurren

Warren C. Hurren
Chairman

CORPORATE GOVERNANCE

FROM LEFT TO RIGHT, STANDING:
Thomas W. McCormack, Jeffery S. Lyons, Marilynne E. Day-Linton, Richard M. Soberman, Catherine J. Knipe, Michael A. Butt, B. Mac Cosburn, Christine E. Hart, Lawrence D. Worrall, Dale E. Richmond

SEATED:
Louis H. Parsons, Patrick S. Brigham, Warren C. Hurren (Chairman), Benjamin J. Hutzel, Gregg Badger

The Board ensures that the necessary systems are in place to manage the risks associated with the GTAA's business and to monitor and measure management's performance in carrying out the corporation's objectives.

The GTAA was incorporated in 1993 as a non-share capital corporation pursuant to Part II of the Canada Corporations Act.

The GTAA is governed by a 15-member Board. Effective in 2003, and with the prior approval of the Minister of Transport, the GTAA implemented changes to the nomination and appointment process for Directors. Five Directors are appointed from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates, and the Board will appoint the most suitable or qualified candidate for each available position as a Director. In addition, four Directors are appointed by the Board on a cyclical basis from candidates nominated by a pool of nominators comprised of the Law Society of Upper Canada, the Association of Professional Engineers of Ontario, the Institute of Chartered Accountants of Ontario, the Toronto Board of Trade and the Boards of Trade and Chambers of Commerce in the Regional Municipality of York, the Regional Municipality of Halton, the Regional Municipality of Durham and the Regional Municipality of Peel. Three Directors are appointed by the Board on a cyclical basis from candidates solicited by the Board itself. Finally, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively. No current Director is a member of the management of the Corporation.

The GTAA's By-laws provide that nominees are to be appointed by the Board for a three-year term. When the transition to the new nomination process is complete, no Director may serve in such a capacity for more than nine years.

The GTAA's Board meets on a monthly basis and views its principal responsibility as overseeing the conduct of the business of the GTAA and supervising management. The Board ensures that long-term goals and the strategies necessary to achieve them are established and are consistent with the GTAA's objective of developing a regional network of airports that are operated in a safe, efficient and cost-effective manner. The Board also ensures that the necessary systems are in place to manage the risks associated with the GTAA's business and to monitor and measure management's performance in carrying out the Corporation's objectives.

There are four committees of the Board: the Audit Committee, the Corporate Governance and Compensation Committee, the Environment, Health and Safety Committee and, the Planning and Development Committee. The mandates of each committee of the Board are as follows:

AUDIT COMMITTEE

The Audit Committee's mandate includes meeting with the GTAA's auditors and reviewing the consolidated financial statements prior to the submission of these financial statements to the Board of Directors. In so doing, the Committee reviews all aspects of the GTAA's financial and accounting management procedures, including the reporting requirements of the GTAA pursuant to the Ground Lease. In addition, the Committee reviews the risk management and insurance programs to minimize risk and exposure and ensure compliance with the insurance requirements under the Ground Lease and the Trust Indenture. Finally, the Committee monitors and assesses the performance of pension fund asset managers.

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

The Corporate Governance and Compensation Committee is charged with monitoring the relationship between management and the Board, overseeing the nominating process, recommending candidates for appointment as Directors, reviewing management succession policies and ensuring compliance with corporate governance requirements. In addition, the Committee is responsible for reviewing executive compensation arrangements.

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE

The Environment, Health and Safety Committee oversees the GTAA's environment, health and safety policies to ensure compliance with legislative and regulatory requirements and industry standards. The Committee also ensures that the GTAA maintains management systems to implement such policies.

PLANNING AND DEVELOPMENT COMMITTEE

The Planning and Development Committee generally oversees that the GTAA has appropriate facility development plans, including an accurate, up-to-date and approved master plan, and that the GTAA has in place the management systems necessary to deliver needed facilities efficiently and economically.

COMMUNITY CONSULTATION

The GTAA regularly confers with the communities surrounding the Airport on matters of mutual interest. This is achieved primarily through two consultation committees established consistent with the Ground Lease requirements. Committee members include elected officials, residents appointed by the municipalities and others as required.

The GTAA Consultative Committee, which has broad representation from the various municipalities in the Greater Toronto Area, provides a forum for the discussion of many airport related issues, including airport development, regional transportation systems to the airport, land use planning and zoning and economic impacts.

The Noise Management Committee provides a more specific focus for discussion on issues relating to aircraft noise and environment matters that may impact on the residential communities in the vicinity of the Airport.

MESSAGE FROM THE PRESIDENT

"The Authority is confident that tenants and airlines will benefit from the quality and convenience of the new Terminal 1. In customer service, the GTAA is leading the industry. The new Terminal 1 will demonstrate this most forcefully."

The past year was a memorable one for the GTAA. On April 6, 2004, the Authority opened the doors of the new Terminal 1 to regular operations, a significant milestone in the multi-year redevelopment program at the airport.

The overhaul of Toronto Pearson International Airport began eight short years ago, under the leadership of President and CEO Louis A. Turpen, when the GTAA embarked on a $4.4 billion Airport Development Program (ADP). This program has been the most ambitious airport construction project in Canadian history. With the ADP well on the way to completion, the announcement in August of Mr. Turpen's retirement was received with mixed emotions. We are all grateful for his guidance during such a critical period in Toronto Pearson's history, but we were saddened by his departure. The GTAA is committed to work steadily over the coming years and build upon the legacy he has established.

Having successfully opened the first phase of the new Terminal 1, it is now time to begin shifting our priorities. For much of its existence, the GTAA has focused on construction. And while the airport will continue to grow as we complete further stages of the ADP, the GTAA now enters a new era and is refocusing its attention to the most efficient operation of Canada's busiest airport. The GTAA has initiated new systems and processes to streamline operations based on a common use platform. Although we have gone through some inevitable growing pains, we are convinced we have the foundation in place to provide the most cost-effective facilities and services to our airlines and passengers.

As we embark on the second phase of the construction activity, we are in an interim period where we process international passengers at Terminal 1 and bus them to the Infield Terminal for boarding. Over the next two years while we construct the international pier, known as Pier F, more gates will become available at Terminal 1 to accommodate the continually increasing international travel sector. As originally planned, the operations currently taking place at the Infield Terminal will be phased out as Pier F becomes functional.

Other components of the airport's redevelopment were not left idle in 2004. A major construction program was completed in Terminal 3 expanding the international pier. This improved passenger flow and capacity and upgraded services to customers using that facility. Further expansion of the Terminal 3 central processor will continue throughout 2005.

To link passengers from the airport's Reduced Rate Parking Lot to Terminals 1 and 3, the construction of the Airport People Mover (APM) continued, "It is our objective to make Toronto Pearson International Airport the airport of choice for North America. To this end, we will develop the facilities and services needed to meet the growing passenger base of the region."

with the aim of having it operational early in 2006. Testing of the APM cars throughout the latter half of 2005 is eagerly anticipated.

With the new terminal, the GTAA has had the opportunity to initiate certain programs in support of quality customer service. The Airport Customer Assistance Program (ACAP) serves the needs of persons with disabilities and others requiring special assistance. Curbside intercoms, wheelchair assist staff and surreys ease movement through the terminal building. For our tenants and concessions, we have expedited deliveries of goods through the logistics programs in Terminals 1 and 3. Reducing the number of delivery vehicles at the curbs eases groundside congestion and frees space for passenger needs.

The Authority is dedicated to providing a high level of customer service for all users of Toronto Pearson. Whether it's the travelling public or industry partners, all stakeholders will reap the benefits of a recently introduced Quality Management System (QMS). The three key processes (Airport Customer Assistance Program, baggage and bussing) addressed in the first phase of the QMS introduced in 2004 will be expanded in 2005 to ensure exceptional service in every facet of our operation.

Financial responsibility is the key to every organization's success. The GTAA is well aware of the need to manage costs, and in 2004, we initiated a major review of all aspects of operations and management with the objective of reducing expenditures where appropriate as well as exploring opportunities for additional non-aeronautical revenue generation. This effort, together with a significant recovery in passenger activity at Toronto Pearson, had a positive impact on the financial results for 2004. This trend is expected to continue in 2005.

Thinking ahead to 2005, the coming months promise to bring new challenges to the GTAA. As we embark on fulfilling our vision of being the airport of choice for Canada and North America, Toronto Pearson is expected to handle a record number of passengers. In preparation, the GTAA has moved into the next phase of the airport's redevelopment program and, by the winter of 2005, a number of new gates are scheduled to open at Terminal 1. Construction also continues on Pier F, which, once completed in 2007, will accommodate international operations in one of the most advanced, efficient and attractive terminals in North America.

As well, the GTAA maintains a close working relationship with federal officials to promote liberalization of Canada's air policy and improved passenger facilitation measures. We must ensure that Toronto Pearson remains competitive within the marketplace.

The success of the past year, highlighted by the opening of the new terminal, is a direct result of the hard work and dedication of everyone at the Authority. As always, employees and management went above and beyond in their daily work, especially ensuring a smooth transition during opening day. I would be remiss if I did not also recognize the major efforts by Air Canada and the other airlines and agencies in their support toward this very important opening event. The GTAA faced an enormous challenge of building a new airport on top of an old one,

SENIOR STAFF FROM LEFT TO RIGHT:
Vito Lotito, James J. Burke, Douglas A. Love, Judy A. Fountain, John Kaldeway (President and CEO), Stephen A. Shaw, Lloyd A. McCoomb, Brian R. Lackey, Gordon D. Grant

while keeping operations running smoothly. It is a credit to all our staff that we were successful in achieving this without losing operational continuity.

I would like to recognize the Board of Directors for their vision and unwavering support during a year of such significant accomplishment. I would especially like to congratulate Mr. Michael Butt, who concluded his eight-year term as Chair in 2004. His extraordinary commitment and direction has been much appreciated by GTAA management. At the same time, I would like to welcome Mr. Warren Hurren as the new Chairman of the Board. As we move into our next era, the GTAA will remain committed to our vision in an always rapidly changing industry. His experience and knowledge will be essential to the organization as we continue to build for Toronto the airport it deserves.

John Kaldeway
President and Chief Executive Officer

The GTAA's mission is to build upon the cornerstones of its business to create an airport system which contributes aggressively to economic development.

4 Cornerstones

SAFETY AND SECURITY

The GTAA has developed and operates a safe and secure airport, with all necessary precautions in place and emergency teams kept in a state of appropriate readiness. These teams work in conjunction with outside agencies to ensure that the safety of airport users, employees and communities is paramount in all airport activities.

CUSTOMER SERVICE

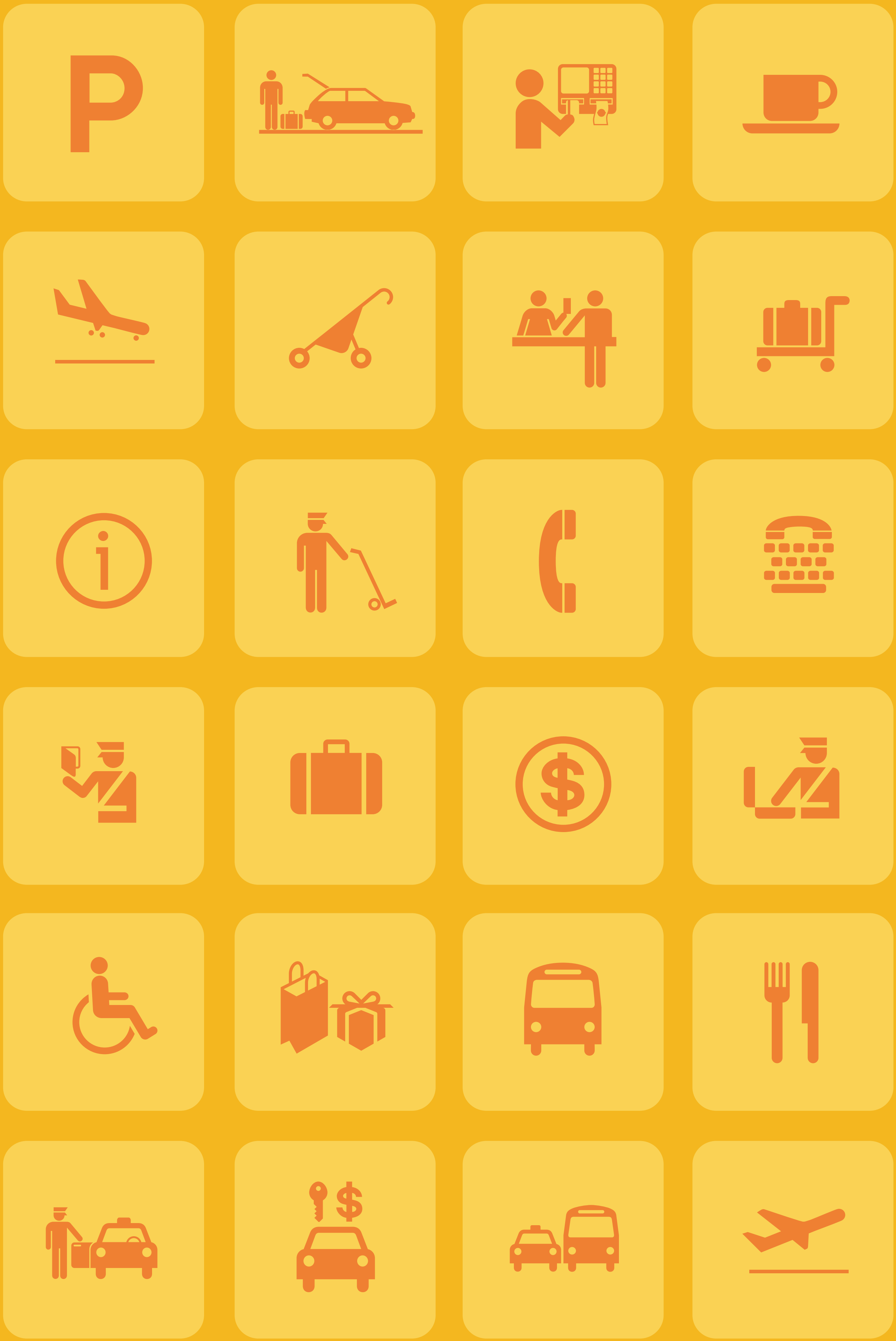
Developing Toronto Pearson International Airport into a global standard for airports to meet the travel and cargo needs of the flying public, the business community, the Greater Toronto Area and the country will always be at the heart of the GTAA's decision-making.

FINANCIAL RESPONSIBILITY

The GTAA is committed to financial responsibility and building its revenue base. Every reasonable and appropriate business opportunity will be pursued, and revenues will be reinvested into the further development of the regional system of airports.

ENVIRONMENTAL SENSITIVITY

As the first North American airport authority to earn certification under the ISO 14001 international environmental standard, the GTAA is committed to prevention of pollution, continual improvement and compliance with legislation.



In a year of strong recovery for the aviation industry, operations at Terminal 1 set new standards of service excellence – we are on the journey to success.

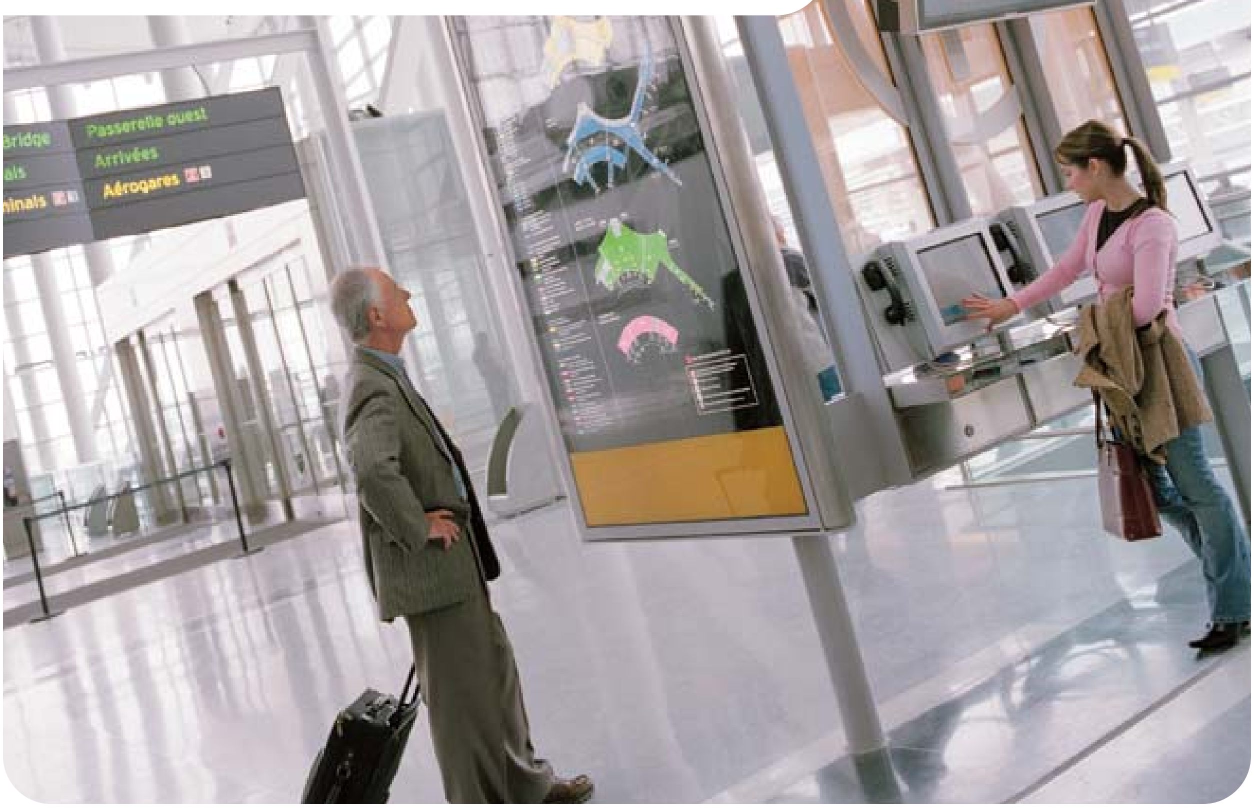
Passenger numbers at Toronto Pearson have increased by more than 15 per cent to 28.6 million in 2004.

The biggest jump was in international travellers where numbers increased to almost 7,576,000 from 6,401,000 in 2003.

Arriving: For some, the first step of air travel is getting to the airport. The GTAA has made this process easier. • Purchasing one kilometre of Highway 409 from the Province of Ontario, the Authority has been able to streamline the flow of traffic accessing the airport infrastructure. • Parking and exiting for garages at Terminals 1 and 3 has been simplified with the AUTOPAY system. • Passengers can comfortably and safely access Terminal 1 from the garage through the covered pedestrian bridges.

Processing: Facilitating a quick and efficient start to a trip goes a long way to ensuring a pleasant journey. • Large displays at each entranceway guide departing passengers to the appropriate check-in positions. • Thirty check-in kiosks on multiple levels await travellers. • Eleven kiosks were added to Terminal 2 in 2004 and kiosks are also slated to be installed in Terminal 3.

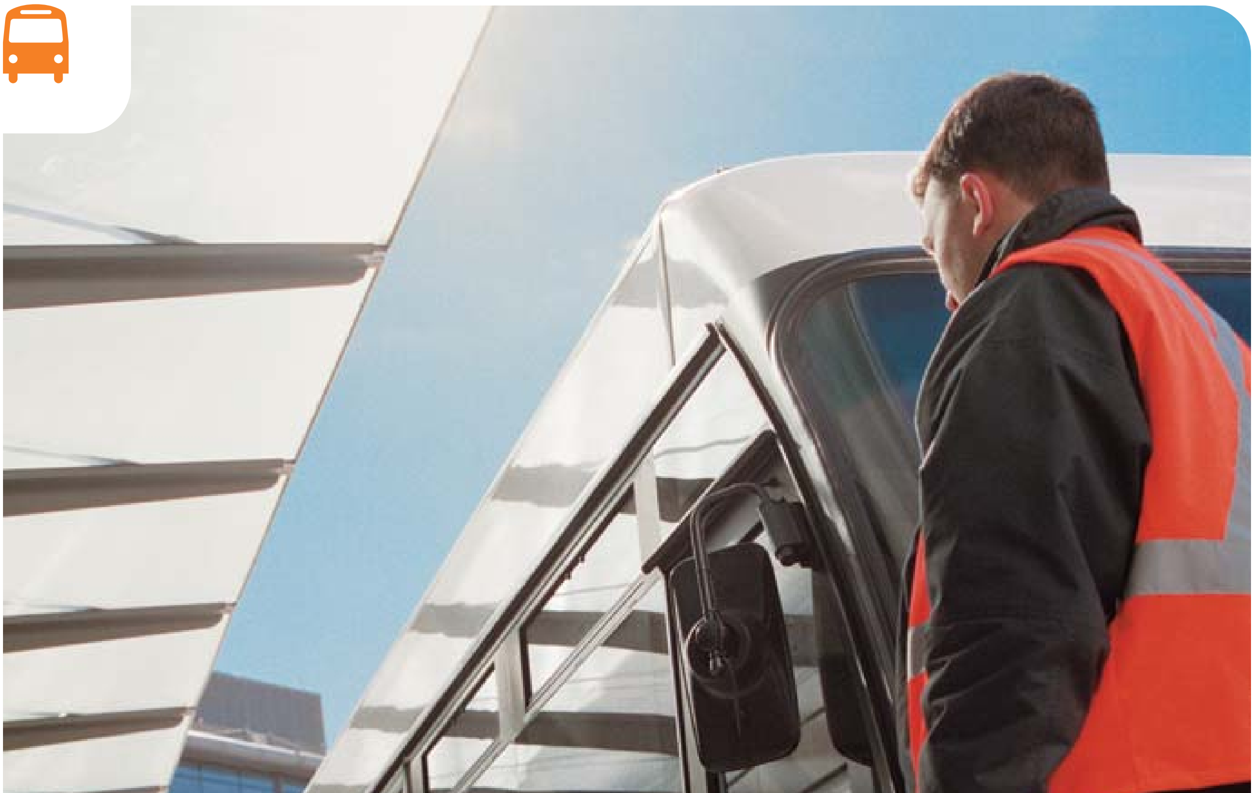
Passenger Assistance: Assistance is always close by at Toronto Pearson. The GTAA's customer service program has expanded and we have introduced a Customer Service Quality system to continually improve passenger facilities and services. • Terminal Specialists at Terminals 1 and 2 and Passenger Information Representatives at Terminal 3 are strategically positioned to lend a hand when needed. • More than 15 Information Centres can be found throughout Terminal 1, with long-term plans calling for centres in Terminal 3.



Safety and Security: Paramount in all decision-making are the elements of safety and security. • The GTAA's non-passenger screening program was coordinated and integrated with the Canadian Air Transport Security Authority's (CATSA) new initiatives in this area. • Collaboratively, the Airport Authority and CATSA implemented 100 per cent checked luggage screening capability in Terminal 1. • The GTAA is well on its way to meeting Transport Canada's 2005 deadline of having a similar system in operation at Terminals 2 and 3.

Shopping and Dining: The GTAA successfully unveiled a new concessions program at Terminals 1 and 3. • Exciting retail outlets and world famous concessions are available at both pre- and post-security locations in all terminals. • Terminal 1 offers an eclectic dining experience in the Passport to Yorkville food court. • The expanded Pier C in Terminal 3 features a variety of recognizable outlets and enhanced duty free locations that offer a wide selection of upscale merchandise at competitive prices.

Services and Amenities: The whole family has many options to pass the time while waiting for a flight at Toronto Pearson, among these are vibrant art and museum exhibitions. • The Airport Customer Assistance Program (ACAP) is a new service that provides passengers with disabilities and special needs seamless assistance from vehicle to aircraft and return. • This is a unique program in North American airports and is being held up as a model for passenger convenience.



Airport LINK: The GTAA continues with the airport's redevelopment, and while we await the completion of the second phase of Terminal 1, international passengers travelling with Air Canada and some of their Star Alliance partners will board their flights at the Infield Terminal. • In the interim, the *LINK* service has adapted to quickly transport passengers after check-in at Terminal 1 to the Infield Terminal.

Information Technology: Once the moment has come to depart, rest assured that technology will do its part to facilitate your journey. • Featured in all three terminals is a sophisticated common use IT infrastructure that essentially allows any airline to “plug-in” to the GTAA owned system and have their required functionality. • From checking in to handing over the boarding pass prior to departure, IT is at work at Toronto Pearson.

AIRPORT DEVELOPMENT

After six years and literally millions of man hours of construction, 2004 was the year that saw the completion of a significant part of the Airport Development Program (ADP) with the opening of the first phase of the new Terminal 1.

On April 5, 2004, late in the evening, former employees, aviation enthusiasts and media alike gathered at the old Terminal 1 to bid farewell and pay homage to the "old grey lady" and watch the last flight depart. The terminal had served as the main gateway into Canada since 1964 for countless visitors and immigrants. For many, it was the first contact with their new chosen country. It is estimated some 218 million passengers passed through Terminal 1's gates during its lifetime.

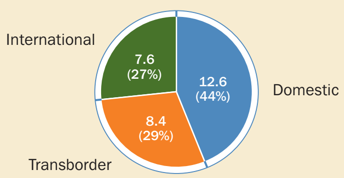
In a well planned and efficiently coordinated operation, the GTAA, in concert with Air Canada and other airlines and agencies, executed the overnight transfer of equipment and personnel to the new Terminal 1 for the first flight into the brand new facility on April 6. Hundreds were in attendance to watch as an Air Canada flight from Vancouver arrived on schedule at 6:05 a.m. marking a milestone for the GTAA and the culmination of many years of planning and development.

Phase 1 includes a spacious main processor area for efficient check-in operations, 14 bridged gates and nine commuter aircraft parking positions at Terminal 1. The terminal processes all domestic and international flights for Air Canada and some of its Star Alliance partners, as well as Air Jamaica, Alitalia and Mexicana. Piers D and E, two of an ultimate five piers, were opened in 2004. Until the next stages of the ADP are completed, some international passengers will continue to be bussed to the 11-gate Infield Terminal to board their aircraft. Extensive redesign of the roads and bridges infrastructure, also completed in Phase 1, has made for an easier commute to the airport and parking spots are plentiful in the new garage adjacent to Terminal 1.

The opening of the new terminal was just one of several activities relating to the ADP that took place in 2004. As Phase 2 got underway, the foundations for Pier F and Hammerhead F were completed and the erection of structural steel and the installation of mechanical and electrical elements in the service level were started. With completion targeted for early 2007, the Pier at 84,566 square metres and the Hammerhead have been designed with a high level of flexibility to handle both U.S. pre-cleared and international flights. Of the 23 new gates, 10 have the ability to operate as swing gates. This will give the flexibility to accommodate multiple traffic sectors. Further, in preparation for future aircraft designs, two gates in Hammerhead F were designed to accommodate the Airbus A380 super-jumbo aircraft currently under development by Airbus Industries.

With the old Terminal 1 no longer hindering development, preparations also got underway to construct the apron area that will serve the east side of Pier E, as well as Pier F and the gates situated between the two piers. With a surface area of approximately 229,000 square metres, this apron area is 35 per cent larger than the size of the apron constructed as part of Phase 1. As of December 31, 2004, 85 per

PASSENGER BREAKDOWN BY SECTOR, 2004
(in millions)



Toronto Pearson serves three traffic sectors. Domestic flights are those within Canada, transborder are flights between Canada and the U.S. and International flights serve all other points. With new and expanded facilities in Terminals 1 and 3, the GTAA is set to accommodate the expected increases in International and transborder travel.

“Air travel is an essential service in today’s global economy, and Toronto Pearson is an integral part of that system,” says Steve Shaw, Vice President of Corporate Affairs.

cent of the tendered work for the Phase 2 projects had been awarded.

The westernmost gates at Terminal 2 were closed and demolished with additional sections to be demolished in stages as the new Terminal 1 is expanded eastward. The GTAA is currently in the process of evaluating whether portions of Terminal 2 will be used in conjunction with the completed Terminal 1. The total estimated cost of the Terminal Development Project is $3.4 billion.

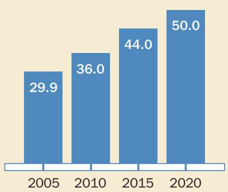
Although completed prior to 2004, the Infield Terminal has proven its value as Air Canada and its Star Alliance partners gated flights here in 2004 for all international passengers. Departing passengers first check in at Terminal 1 and are expedited to the Infield Terminal via airside busses for boarding with the process reversed for arrivals. This interim bus operation will be phased out over the coming years once the gates on Pier F become available in late 2005 and 2007.

Terminal 3 is also being redeveloped to meet the increasing number of travellers seen since 2001. The expansion of the terminal’s international Pier C, which included major modifications to the outbound baggage system and the addition of eight new passenger boarding gates, was completed in April of 2004. Currently underway is a project on the east processing area which started in June and will include the addition of increased passenger outbound and inbound capacity to serve both international and domestic passengers. This project will also provide a facility for checked baggage screening for domestic and international passengers, a requirement of the federal government. On the terminal’s west side, a project was initiated late in 2004 to provide for future expanded inbound and outbound passenger processing capacity serving the transborder segment. This project also includes a checked baggage screening facility for all transborder baggage.

With the aim to improve connections between the terminals and off-site parking locations, an Airport People Mover (APM) system is in development. The entire guideway substructure for this system has been completed extending from the GTAA’s Reduced Rate Parking lot on Airport Road to Terminals 1 and 3. The structural steel roofing work for the Terminals 1 and 3 and Viscount Road stations was completed in 2004. A milestone in this project was achieved when, in December, the GTAA received delivery of the APM vehicles. Testing will take place throughout 2005 and the start of operations is projected for early 2006.

To provide self-sufficiency and redundancy in electrical power supply for the GTAA independent of the provincial power grid, the GTAA began, in July, the construction of a 117 megawatt co-generation plant. The co-generation plant is a complement to the

PASSENGER ACTIVITY AND DEMAND PROJECTIONS
(in millions)



With access to an ever increasing number of destinations, Toronto Pearson handled 28.6 million passengers in 2004, an increase of 15.8 per cent over 2003. Based on projections of a three per cent annual increase, 50 million passengers are expected to travel through the airport by the year 2020. The Airport Development Program will ensure our facilities can serve those needs.

"Customer Service and Public Safety at Toronto Pearson are our number one priority," says Brian Lackey, Vice President of Operations and Chief Engineer.

physical assets since the steam generation can also be applied to the heating and cooling of the terminals and other support buildings. Furthermore, the potential exists for the sale of surplus electricity to the provincial grid. The Central Utilities Plant (CUP), which opened in 2001, was originally designed to be expanded as the development of the airport continued. Accordingly, the cooling capacity of the CUP was increased in 2004 following the opening of Stage 1 of the new Terminal 1.

The GTAA has protected lands on the airport for the air-rail link connection between the airport and Union Station in downtown Toronto, proposed by the federal government, through a purchase and lease-back agreement under the Ground Lease the Authority holds with the federal government.

OPERATIONS AND SERVICES

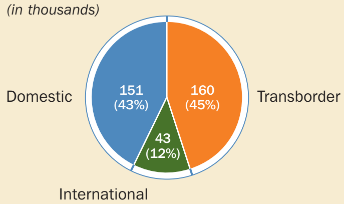
With the opening of Terminal 1, the GTAA introduced the Airport Customer Assistance Program (ACAP) which provides passengers with disabilities and others with special needs, a reliable level of assistance in moving through the garage and terminal facilities. A modified level of ACAP service is also provided in Terminals 2 and 3 through agreements with specific individual airlines. The program is viewed as a model for other airports in providing seamless assistance to passengers with disabilities through wheelchair and surrey services.

To provide quality assurance for managing GTAA customer service and monitoring the passenger experience throughout the airport, the GTAA established a Quality Management System (QMS) which closely follows the ISO 9001 standard. The initial phase of this system will review and develop improved service levels and efficiencies in three specific areas of operations: bussing, logistics and baggage.

The GTAA was successful in the implementation of a new policy and regime to oversee the activities and number of ground handlers at all terminals. This policy was developed in consultation with the air carriers and handlers. This project will create an airside with less congestion which will, in turn, provide for a safer environment for all.

The GTAA's existing non-passenger screening program was expanded and coordinated with the Canadian Air Transport Security Authority's (CATSA) new initiatives in this area. Non-passengers include airport employees and all others not travelling as a ticketed passenger who need to access the secure areas of the airport. This program will continue to be expanded in an integrated manner to ensure a secure environment for all airport users. As well, the GTAA and CATSA cooperatively implemented a hold baggage screening program in all terminals to satisfy Transport Canada requirements.

AIRCRAFT MOVEMENT BY SECTOR, 2004
(in thousands)



Aircraft movements by sector have changed over recent years partly as a result of airlines moving to smaller aircraft in the interest of fuel efficiency and economies of scale. The 2004 numbers reflect this trend. International markets are being served by larger aircraft whereas smaller aircraft offering more frequent service are used for domestic and transborder points.

ENVIRONMENT

The GTAA continued to maintain its ISO 14001 certification following an external audit in April on its Environmental Management System (EMS). The GTAA's EMS was the first of its kind to receive the internationally recognized standard ISO 14001 certification for a North American airport.

As part of fulfilling ISO 14001 commitments, the GTAA establishes specific targets and in 2004, a number of notable targets were achieved. Among these was the conversion of 25 per cent of diesel fuel use to bio-diesel, a 50 per cent reduction over 2003 in the number of glycol exceedances from the Central Deicing Facility (CDF) and, under the auspices of the Noise Management Committee, the completion of a comprehensive major Air Quality Study in conjunction with the local boards of health and provincial and federal environmental agencies.

The GTAA established several new targets in 2004 to be carried out in subsequent years. These include completion of aquatic and riparian habitat improvements on Etobicoke and Spring Creeks, the audit and enforcement of the storage of Hazardous Materials by GTAA tenants, and the monitoring of waste streams in Terminal 1 to set a baseline for 2006 diversion rates.

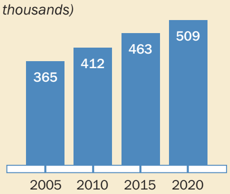
INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

Along with the construction of the new terminal and other elements of the ADP came the requirement for the development of a sophisticated IT system to keep up with new technologies and in support of the GTAA's common use strategy. Included in this program are 30 common use express check-in kiosks throughout Terminal 1, as well as 11 kiosks in Terminal 2 and the Airport Terminal Information System which manages (among other functions) gate and counter allocations. These systems came on-stream on opening day and have performed as required.

To allow multiple airlines access to the same infrastructure, the GTAA introduced a common use strategy in 2001. Terminal 1 has been the first full implementation of this program. In addition to the check-in kiosks, the airline counters and baggage systems all operate under this philosophy, permitting an easy transition as carriers change operational requirements and locations. In 2005, deployment of check-in kiosks in Terminal 3 will allow more airlines to take advantage of the system and provide a superior level of customer service to their passengers.

The GTAA facilitated the successful move-in of WestJet to Terminal 2 from Terminal 3 in response to their expanded operations at Toronto Pearson. A portion of the IT&T infrastructure in operation at Terminal 2 was upgraded to the same system in place at Terminal 1 giving WestJet the benefits of an enhanced system.

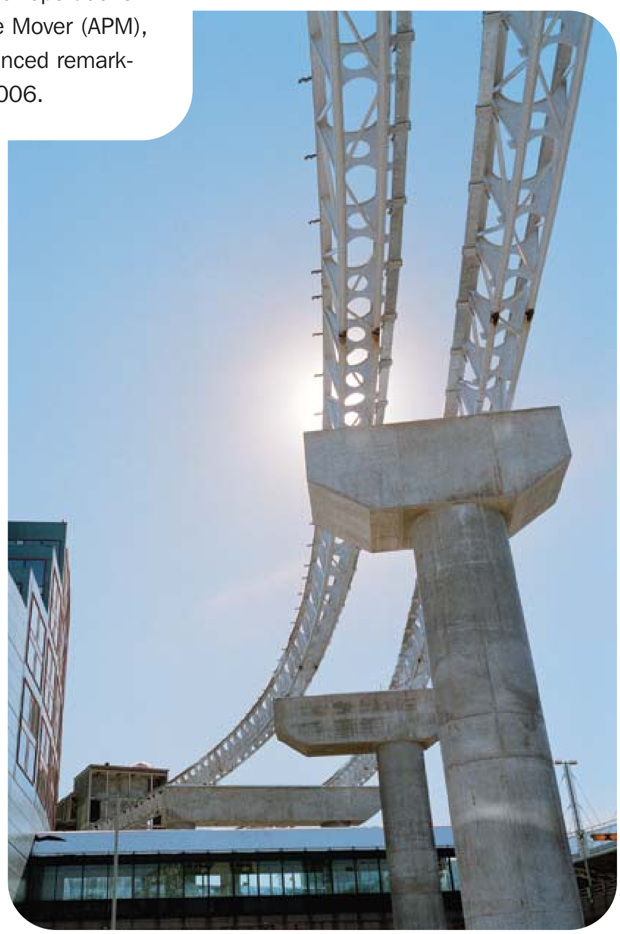
AIRCRAFT MOVEMENT FORCAST*
(in thousands)



* *Excluding general aviation*

The ADP plan also included three new runways at Toronto Pearson. Two of these have been completed and the third will be constructed as demand dictates. Based upon current forecasts, the third new runway will likely be required within the 2010 – 2015 time period. With the resulting six-runway configuration, the practical annual capacity will increase from approximately 500,000 to 570,000 aircraft movements.

Our Immediate Future: Much of the work is complete, but there's still more to come. • The demolition of the old Terminal 1 in November has allowed the second phase of the ADP to progress. • Construction of Pier F and Hammerhead F were well underway by the end of 2004 with operations slated for early in 2007. • Implementation of the Airport People Mover (APM), a rail link between off-site parking and Terminals 1 and 3, advanced remarkably in 2004. • Passengers will ride the first cars in February 2006.



It’s a sign of things to come.
With the introduction of
Terminal 1, the GTAA began
delivering on the promise of
its ambitious Airport
Development Program.
Phase 2 is now in full swing.

WORKING WITH THE COMMUNITY

The GTAA is committed to supporting the region it serves and within which it operates. The Noise Management and Consultative Committees continue to facilitate regular dialogue with community members and develop programs and initiatives of mutual benefit.

As previously noted, the Noise Management Committee completed an Air Quality Study in 2004. In addition, the GTAA worked with the Noise Management Committee and the community to minimize the impact of FedEx operations during the nighttime hours. To ensure the level of aircraft noise is efficiently monitored, the Authority has continued with the installation of new Noise Monitoring Terminals in the communities adjacent to the airport and, in fact, added one more terminal than targeted for 2004.

Through the Consultative Committee, the GTAA has collaborated with the local municipalities of Brampton, Mississauga and Toronto and committed to undertake an economic development study for Toronto Pearson. A sub-group of the committee will develop the terms of reference, retain a firm, and initiate work for the study in 2005.

The Airport Authority recognizes that industry has a stake in the education of those who will one day be brought into the work force. The GTAA firmly believes that by facilitating continuing education and providing opportunities for youth, the entire community benefits. In recognition and support of this need, the GTAA continues to offer scholarships at Georgian College, the University of Toronto and York University. Offering students practical experiences, the GTAA has consistently allowed for co-op work-term placements. In 2004, students played a major role in preparations for the terminal's opening.

Planning and preparations took place for the historical commemoration of the Boeing Lands located at the north end of the airport's property which are being acquired by the GTAA. The Boeing facilities played a significant role in the history of aviation in Toronto. Aircraft construction took place here as far back as the Second World War, including the Avro Arrow and Jetliner. In the interest of preserving history, the GTAA will retain a portion of the intact stonework from one of the office buildings and a suitable monument will be erected.

GOVERNMENT RELATIONS

The GTAA maintains a close working relationship with all levels of government and government agencies in the day-to-day operation of its business. Of primary interest to the GTAA is the amount of ground rent that airports pay to the federal government. The GTAA has petitioned federal cabinet ministers and other key government officials to eliminate or reduce airport rent. Should this initiative be successful, the GTAA has committed to passing the savings on to the airlines in the form of reduced landing fees.

As well, the GTAA has been working closely with federal officials to promote improved passenger facilitation measures that will keep Toronto Pearson competitive with other airports.

The Authority continues to work with the municipal and provincial governments in support of regional and provincial economic development and the promotion of tourism and business development. Through cooperative

The GTAA established its mission in 1996 and has worked steadfastly toward our goals since that time. We attained a major milestone with the opening of Terminal 1, providing the region with the airport facility it deserves. Our next steps include the preparation of all facilities and infrastructure to meet future projected demand. We will then begin to focus beyond Toronto Pearson's boundaries for the best means to serve the long-term needs of air travel for the GTA.

efforts with its municipal and provincial partners, the GTAA can ensure that the airport's improved facilities provide opportunity for joint initiatives which actively promote and market this region.

PICKERING

Through its mandate, the GTAA is committed to supporting the air transportation needs of the region. Toronto Pearson is expected to reach its maximum capacity around 2020 – 2022. The projected long-term aviation demands are such that they cannot be met by the current airport system in the Greater Toronto Area. Other facilities in the region are constrained and cannot be further expanded. While airports to the southwest, such as Hamilton, are expected to grow in response to their markets, an airport at Pickering is the most suitable option for meeting future demand in the eastern part of the GTA.

The final decision on the development of an airport on the Pickering lands rests with the federal government and this decision will be made after the planning and environmental review process is complete. If approved by the federal government, the GTAA Board of Directors will then determine whether the Authority will proceed with development. Should the project proceed, the earliest date for an operating general aviation airport in Pickering is expected to be 2012.

BUSINESS DEVELOPMENT

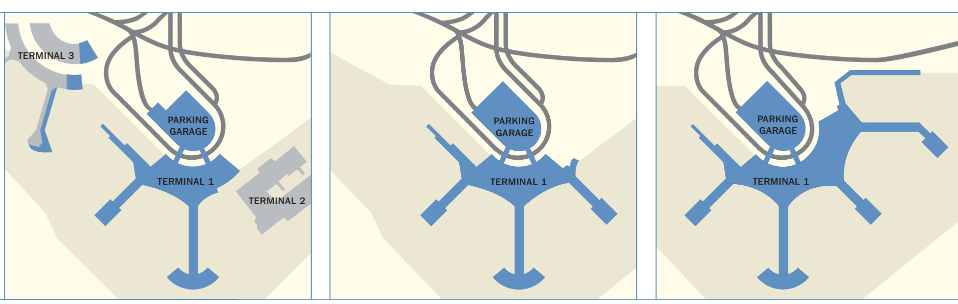
To ensure ongoing financial stability, the Authority continues to pursue business development opportunities to supplement standard aeronautical and non-aeronautical revenue sources. Further detailed discussion on this can be found in the Management's Discussion and Analysis.

The airport's facilities had been constrained for many years. With the first phase of the Airport Development Program complete, the GTAA now has the advantage of offering some of the most impressive facilities to the international air carrier community. To this end, the GTAA promoted its operations at the World Route Development Forum held in Spain in 2004. From its participation, the Authority sparked interest from several airlines in providing air service to Toronto Pearson and we have initiated discussions with some carriers. Negotiations will continue in 2005 as we look to providing new destinations and routes for the airport's passengers.

A major component of air traffic is cargo and the Authority continued activities to promote the airport's expanded cargo facilities. Through participation at forums such as the Program for Export Marketing Development (PEMD) we hope to raise the awareness of Toronto Pearson on a worldwide basis as an entry point for cargo into North America.

CONTINUING THE SIGNS FOR SUCCESS

The transition of the airport from a facility that is under redevelopment to one that is successfully operating in new facilities was our most significant achievement in 2004. As passenger volumes continue to rise, the Authority has positioned Toronto Pearson as an airport that can effectively handle the ever increasing air travel needs of the region. Through planning, unwavering determination and imaginative and thoughtful solutions to any circumstances we may encounter, the GTAA is poised for ongoing success now and in the future.



Phase 2: 2004 – 2007

Phase 3: 2007 – 2011 (earliest possible date)

Phase 4: the Ultimate Plan, dates to be determined

2004 Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

Dated March 28, 2005

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis ("MD&A") contains certain statements about our future expectations. Words such as "anticipate", "intend", "may", "plan", "believe", "expect", "estimate" and similar expressions are intended to identify such forward-looking statements. The GTAA cautions readers not to place undue reliance on the forward-looking statements since they involve future risks and uncertainties, and the actual results may be quite different from those expressed or implied in the statements. Some of the risks and uncertainties that could affect the GTAA's future results include the levels of aviation activity, air carrier instability, aviation liability insurance, construction risk, geopolitical unrest, terrorist attacks, war, health epidemics, labour negotiations, capital market and economic conditions, changes in laws, adverse regulatory developments or proceedings, future lawsuits and other risks detailed from time to time in our publicly filed disclosure documents. The forward-looking statements contained in this MD&A represent the GTAA's expectations as of March 28, 2005 and are subject to change after this date. Except as required by applicable law, the GTAA disclaim any intention or obligation to update or revise any forward-looking statements included in this document whether as a result of new information, future events or for any other reason.

This report discusses the financial and operating results for the Greater Toronto Airports Authority ("GTAA") for the year ended December 31, 2004 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2004 and 2003. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements are also available on its website at www.gtaa.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital, constituted under Part II of the Canada Corporations Act. The GTAA was recognized as a Canadian Airport Authority by the federal government in November 1994, an acknowledgement that it was constituted fully in accordance with the terms of the National Airports Policy. 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 facilities. In accordance with this mandate, at the present time, the GTAA is operating Toronto Pearson International Airport (the "Airport" or "Toronto Pearson"), and is undertaking the planning work at the request of the federal government for a potential airport on the Pickering lands located to the east of Toronto.

The responsibilities of the GTAA for the operation, management and development of the Airport are set out in the ground lease with the federal government which was executed in December 1996 (the "Ground Lease"). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The GTAA's priorities are to operate a safe, secure and efficient Airport and to ensure that the facilities provide the necessary services, amenities and capacity for current and future requirements for air travel for the GTA.

BUSINESS STRATEGY AND VISION

Over the past several years, the GTAA has managed an extensive redevelopment program, as described in the section on the Airport Development Program ("ADP") and Capital Projects, while operating the existing facilities in a constantly changing environment. Many components of the ADP are now complete, including the first phase of the new Terminal 1 which successfully opened in April 2004. With much of the construction complete, the GTAA has shifted its focus to be more operational in nature, while continuing with the ADP and other capital projects. The GTAA recognizes the importance of an airport system which supports the economic development and cultural diversity of the GTA, and providing aviation facilities and services that achieve:

- the highest standards of safety and security
- excellence in customer service
- environmental stewardship and sustainability
- cost effectiveness and efficiency

From an operations perspective, this includes consideration of customer service, meeting or exceeding industry standards for safety and security, achieving high environmental standards, cost efficient operations and revenue generation. From a capital investment perspective, it includes replacing aging infrastructure, designing and constructing facilities based on future demand as well as current travel needs, optimizing the utility of the Airport's infrastructure through common use strategies and the effective management of capital expenditures.

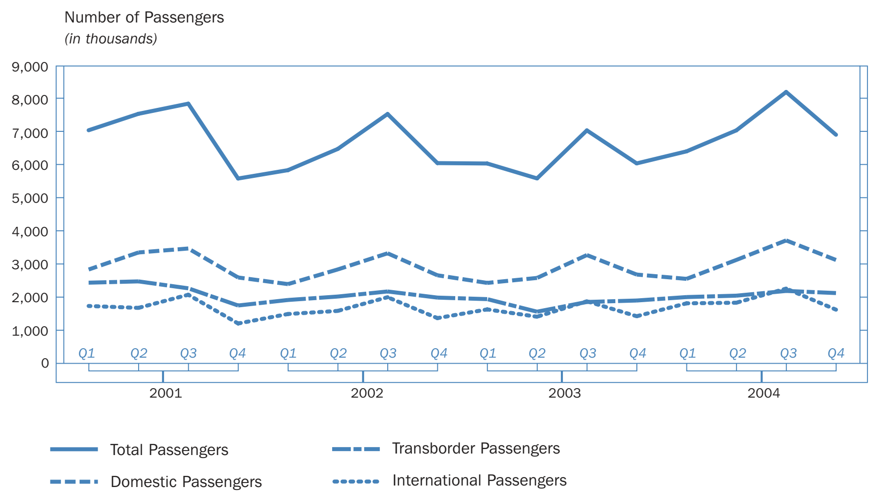
The ADP, a major capital program which includes passenger facilities, runways, taxiways, utilities, roadways, and other facilities, has required ongoing capital funding. As a non-share corporation, the GTAA has established an overall program to enable ongoing access to the debt capital markets to fund the ADP and other capital projects (the "Capital Markets Program"). The criteria, covenants and restrictions for financing by the GTAA are set out in the master trust indenture (the "Trust Indenture") and are described in the section on Liquidity and Capital Resources.

OPERATING ACTIVITY

Passenger activity levels are one of the most important performance measures for the GTAA and directly impact its financial results. During the 2001 to 2003 period, there were several significant events which had a negative impact on passenger activity and consequently on the financial performance of the GTAA. These included the terrorist attacks on September 11, 2001, the bankruptcy of Canada 3000 in November 2001, and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Toronto in 2003. With passenger volumes increasing significantly in comparison to prior years, 2004 was a year of recovery. At 28.6 million passengers, volumes for 2004 were just slightly below the peak of 28.9 million passengers handled at the Airport in 2000, and an increase of 15.8% over the 24.7 million passengers in 2003.

There are three traffic sectors at the Airport: domestic, or flights within Canada; transborder, or flights between Canada and the United States; and international, or flights between Canada and destinations outside of Canada and the United States. The most significant year-over-year increase was noted in the second quarter of 2004, since the second quarter of 2003 was the most severely impacted by SARS. The recovery in passenger volumes continued in the last quarter of 2004 with a year-over-year increase of 14.3% in that quarter. The following graph illustrates passenger levels (in thousands) by each sector for the past four years, by quarter:

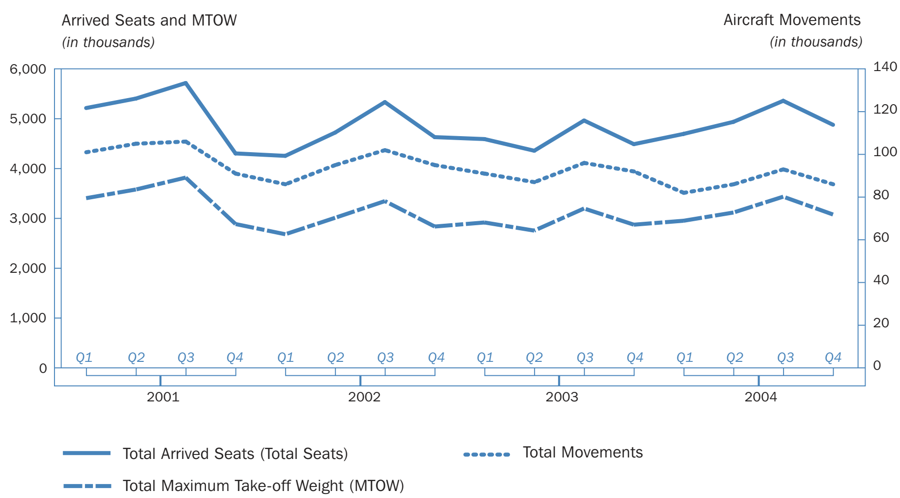
PASSENGER LEVELS, YEARS 2001 – 2004



In addition to passenger activity, another measure of operating activity directly affecting revenue is total Maximum Take-off Weight ("MTOW") which is determined by the number of aircraft movements and the type of aircraft used. On average in 2004, the load factors, or number of passengers on a plane, were higher than those experienced in prior years since air carriers had not added flights at the same rate as passenger activity increased. Consequently, the MTOW increased from 11.8 million tonnes in 2003 to 12.6 million tonnes in 2004, an increase of 6.8%.

The following graph illustrates arrived seats, MTOW and movements (in thousands) for the past four years, by quarter:

AIRCRAFT MOVEMENTS AND SEATS, YEARS 2001 – 2004



OPERATING EVENTS

On April 6, 2004 operations commenced in Piers D and E of new Terminal 1. On that date, all of Air Canada's domestic operations were transferred from Terminal 2 and old Terminal 1 was closed. International passenger check-in previously conducted at old Terminal 1 was transferred to new Terminal 1, while international passenger enplaning and deplaning was relocated from old Terminal 1 to the Infield Terminal. Work continues on new Terminal 1, with new gates currently scheduled to become operational in October, 2005. In addition, work has commenced on Pier F and the international hammerhead, which are currently scheduled to be completed in early 2007.

WestJet Airlines Ltd. ("WestJet") expanded its operations at Toronto Pearson in April 2004 by relocating much of its operations from Hamilton Airport. This increased activity could not be handled in Terminal 3 where WestJet was operating and consequently the GTAA modified certain areas of Terminal 2 to accommodate WestJet's expanded operations. At the time of relocation, WestJet was only flying domestic routes. In the third quarter, WestJet commenced transborder flights from Terminal 2.

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 and had been with Transport Canada prior to that date.

On March 11, 2005, Jetsgo ceased all operations and was granted protection from its creditors by the Quebec Superior Court under the Companies' Creditors Arrangement Act ("CCAA"). The GTAA has filed a claim for approximately $5.4 million, pertaining to 2005 revenues, including GST, representing all amounts due, and including approximately $2.5 million in AIF Revenue. While some disruption of passenger service during this initial period is anticipated, other air carriers have indicated their intent to work with passengers to provide alternate travel arrangements, although Jetsgo tickets will not be honoured. It is anticipated that there will be no significant impact on total passengers for the year.

RESULTS OF OPERATIONS

The GTAA has quantified its mandate to operate Toronto Pearson on a commercial basis by setting an objective of operating in a cost effective and efficient manner. In accordance with this mandate and its non-share status, the financial model of the GTAA is based on the premise that all funds, whether generated through revenue or debt, will be used for Airport operations, ancillary aviation related activities, construction, repairs and maintenance, debt payments and other activities within the GTAA's mandate.

Rate Setting Approach

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, projections are developed for passenger activity, air traffic (number of movements and MTOW), non-aeronautical revenue, operating costs and capital costs, including debt service (interest and principal). In calculating these rates in a given year, certain capital expenses, such as debt service, reserve funds and reinvestment requirements, for facilities that are operating or will be operating for a portion or all of the year, are included. The amortization of these operating assets is not included in the rate calculations. In addition, capital costs, including interest, for projects under construction are funded through debt and are not included in the annual rates and charges until the assets become operational.

The two components of the aeronautical rates and charges are the landing fee and the general terminal charge. Landing fees are set as a rate per tonne of MTOW to cover the projected operating costs associated with the airfield, plus ground rent, payments-in-lieu of real property taxes ("PILT") and specific debt service costs, offset by the projected non-aeronautical revenue and a specified amount of Airport Improvement Fee ("AIF"). General terminal charges are set to cover the operating costs for the common areas in the three primary passenger terminals and the Infield Terminal as a rate per landed seat, regardless of whether the seat is occupied by a passenger. The common areas include holdrooms, check-in counters, passenger processing areas and arrival halls, but exclude space that is exclusively leased to a tenant, such as office space, ticket counters, retail and concession space.

Net Operating Results

The GTAA's net operating results for the previous three years, based on the revenue and expenses outlined in the following sections, are summarized in the following table:

(in thousands)	2004	2003	2002
Revenues	$ 832,014	$ 646,863	$ 577,877
Operating Expenses	487,988	460,068	387,624
Revenue over expenses[1]	344,026	186,795	190,253
Interest and financing costs	267,973	157,086	127,204
Amortization	188,389	96,479	83,488
Revenue under expenses	$ (112,336)	$ (66,770)	$ (20,439)

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

Revenue over expenses before interest and financing costs and amortization increased from $186.8 million for the year ended December 31, 2003 to $344.0 million for the year ended December 31, 2004, an increase of 84.2%. This increase is being driven by increased debt service costs to be recovered through the rate base as more assets become operational and by increased passenger volumes. Interest and financing costs were $157.1 million and $268.0 million for the same periods. The comparison of the periods demonstrates that the revenues in each year covered operating expenses and interest and financing costs.

The GTAA's operating results reflect certain non-cash items, such as amortization and the ground rent deferral, that are not included in the calculation of the aeronautical rates and charges. The objective of the GTAA's rate setting approach is to break-even on a modified cash basis after including the reserve and debt requirements set out in the Trust Indenture. 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 the principal included in the rate setting calculation. After amortization, the net revenue under expenses for 2004 was $112.3 million as compared to $66.8 million in 2003. The increase in amortization, from 2002 and 2003 to 2004, reflects the new Terminal 1 becoming operational in April 2004. In 2004, amortization exceeded the principal component included in the landing fee by $129.2 million. Similar to many major infrastructure projects, the GTAA's revenue after expenses may not be sufficient to cover the non-cash amortization of capital assets for a period of several years.

Revenue

The GTAA receives revenue from aeronautical charges (landing fees and general terminal charges), AIF and non-aeronautical sources such as car parking, ground transportation, concessions license fees, retail and concession rents, land lease rents and other sources, such as interest on investments and reserve funds. 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 relationship between these revenue sources and expenses was discussed in the section on the Rate Setting Approach. The following chart summarizes the GTAA's revenue for the previous two years:

(in thousands)	2004	2003
Landing fees	$ 338,008	$ 246,771
General terminal charges	145,455	113,663
Airport improvement fees, net	142,235	105,857
Car parking and ground transportation	89,074	76,556
Concessions and rentals	107,738	98,812
Other	9,504	5,204
	$ 832,014	$ 646,863

Total aeronautical revenue for 2004 was $483.5 million as compared to $360.4 million in 2003, an increase of 34.2%. The significant increase in 2004 is due, in part, to landing fee and general terminal charge increases, but more importantly, to the increase in passenger and aircraft activity from 2003, a year which saw much lower activity levels. Landing fee revenue increased to a greater degree than general terminal charges, which is driven by the rate setting approach. With the new Terminal 1 becoming operational in April 2004, the debt service associated with that facility was included in the calculation of the landing fee for 2004, offset, in part, by the application of more AIF revenue in the calculation.

AIF revenue, which is net of the commission paid to the airlines for the collection of the AIF on the ticket, increased from $105.9 million in 2003 to $142.2 million in 2004. In 2003, the rate for the AIF was $10 for an originating passenger and $7 for a connecting passenger until September 1, 2003, when the rates were increased to $12 and $8 respectively. These rates for the AIF remained until November 1, 2004, when the GTAA implemented an increase in the AIF to $15 for originating passengers. The rate for connecting passengers remained the same. The increase in the AIF revenue reflects the changes in rates during the two years and the significant increase in passenger volumes experienced in 2004.

Under the terms of the AIF agreements with the airlines, the GTAA has committed that the AIF revenue will be used primarily for capital programs which includes the associated debt service (principal and interest) and reserve funds. 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. In 2003, $105.9 million of AIF revenue was earned and $95.0 million was used for capital projects or debt service. In comparison, in 2004, $142.2 million of AIF revenue was earned and $140.6 million was used for capital projects or debt service. The difference in each year continues to be held in the AIF Reserve Fund.

The GTAA also receives fees or rental payments from car parking, ground transportation, concessions, retail, space rental and other rental properties. In total, these categories generated $196.8 million in revenue in 2004, as compared to $175.4 million in 2003. The increase is due, in part, to additional parking revenues reflecting higher passenger volumes, and to a lesser extent, some additional concession rental revenue. The GTAA continues to focus on new initiatives to increase these non-aeronautical revenues.

Other revenue, which includes interest on reserve funds and investments, increased from $5.2 million in 2003 to $9.5 million in 2004. As in other years, this amount will fluctuate depending on the timing of debt issues, interest rates and the use of capital funds throughout the year.

Operating Expenses

The GTAA's operating expenses include the cost to operate and maintain the Airport, together with the interest and financing costs and amortization of assets. 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 rates and charges. Specifically, amortization is not included in the calculation of the landing fee, while the principal component of debt service, which is not an operating expense, is included in the landing fee calculation. The following chart summarizes the GTAA's operating expenses for the previous two years:

(in thousands)	2004	2003
Ground rent	$ 130,394	$ 125,211
Goods and services	237,943	223,426
Salaries, wages and benefits	95,553	85,504
Real property taxes and PILT	24,098	25,927
	487,988	460,068
Interest and financing costs	267,973	157,086
Amortization of capital assets	188,389	96,479
	$ 944,350	$ 713,633

The Ground Lease sets out the calculation of the annual ground rent payable by the GTAA to the federal government based on a fixed amount per revenue passenger, adjusted for inflation. For the purpose of calculating the payment, the annual number of revenue passengers was capped at 25 million for the first fifteen years, 26 million for the subsequent five years, and 27 million passengers thereafter. The reference to revenue passengers excludes certain passengers such as airlines employees, and will be lower than total passengers. The first threshold of 25 million was achieved in 1998, but in 2002 and 2003, revenue passengers dropped below the threshold, reducing the ground rent payments.

The ground rent reported reflects the amount due in accordance with the terms of the Ground Lease. In 2004, it was determined that the actual number of revenue passengers for 2002 and 2003 was lower than originally estimated, and an adjustment of $12.4 million was made in 2004, reducing the 2004 ground rent reported from $142.8 million to $130.4 million. In July 2003, the Minister of Transport announced a 24-month ground rent deferral program for a total of $41.6 million for Toronto Pearson in recognition of the impact of SARS. This reduced the amount of rent actually paid to the federal government by $10.0 million and $21.0 million for 2003 and 2004 respectively, but the full annual amount is recorded as an expense. These deferred amounts will be repaid over 10 years commencing in 2006 and therefore are recorded as a liability of the GTAA. These deferrals reduced the cash requirements for each year and the ground rent used in calculating the landing fee.

Goods and services include the general operating expenses for the Airport and were $223.4 million and $237.9 million for 2003 and 2004 respectively. Included in the goods and services for 2003 was a provision for Air Canada receivables of $32.2 million, and a further provision of $1.3 million was recorded in 2004 as a result of the air carrier's restructuring under the CCAA. Additional differences in the goods and services for 2003 and 2004 include increases in the costs associated with the logistics centre ($2.8 million), common use service delivery ($5.2 million), baggage handling ($6.9 million), building cleaning services ($5.7 million), and equipment maintenance ($5.8 million). Many of these increases are directly related to the significant increase in operating facilities, including new Terminal 1.

The GTAA has both union and non-union employees and both groups are compensated with salaries and benefits, including a pension plan, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits increased from $85.5 million in 2003 to $95.6 million in 2004. These increases reflect the negotiated union increases, additional staff required for the new Terminal 1 opening, and other staff adjustments. The actual salaries and benefits expenses for 2004 were within 5.2% of the budget for the year.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays PILT to each of the cities of Mississauga and Toronto as prescribed by an Ontario regulation. The PILT amount of $24.1 million for 2004 was based on total passengers for 2001, while 2003 PILT of $25.9 million was calculated using 2000 passengers. As passenger volumes recover, future PILT payments will increase.

The GTAA capitalizes interest for projects under construction and interest is expensed for projects that are complete and operational. The increase in interest and financing costs from $157.1 million in 2003 to $268.0 million in 2004 reflects the impact on interest expense of the first phase of the new Terminal 1 and ancillary facilities becoming operational in April 2004. Offsetting the total interest expense was interest earned on the Debt Service Reserve Fund, the gain on the sale of certain interest rate swaps in the first quarter of 2004 and a gain on the sale of shares.

As an offset to the interest and financing costs, the GTAA recorded a gain of $2.4 million from the sale of shares received as an unsecured creditor of Air Canada. The GTAA received shares in the new company that emerged from CCAA protection on September 30, 2004, ACE Aviation Holdings, Inc. ("ACE") in settlement of its unsecured claim against Air Canada. The GTAA was also granted the right to purchase additional ACE shares. The GTAA exercised this right and sold the shares on exercise. Both groups of shares were valued at $20 per share to determine the final provision for the Air Canada receivables and the gain on the subsequent sale of these shares. The gain on the sale of the ACE shares partially offset the provisions recorded in 2003 and 2004 of $33.5 million.

A similar trend to the increase for interest expense is noted for amortization which increased from $96.5 million in 2003 to $188.4 million in 2004 with the addition of operational assets.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the period from January 1, 2003 through December 31, 2004 are set out in the following table:

(in millions)	2004				2003			
Quarter ended	Dec	Sept	June	Mar	Dec	Sept	June	Mar
Revenue	$ 208	$ 230	$ 201	$ 193	$ 161	$ 176	$ 152	$ 158
Operating expenses	120	133	118	117	115	105	105	135
Revenue over expenses[1]	88	97	83	76	46	71	47	23
Interest and financing	79	80	66	43	41	40	39	37
Amortization	62	46	53	27	23	26	25	23
Revenue under expenses[2]	$ (53)	$ (29)	$ (36)	$ 6	$ (18)	$ 5	$ (17)	$ (37)

Notes: 1. Revenue over expenses before interest, financing costs and amortization
2. Revenue over/(under) expenses

The GTAA's quarterly results are influenced more by passenger activity, aircraft movements and other factors such as weather and economic conditions, than any seasonal pattern of demand. Due to these external factors, the historic results on a quarterly basis cannot be relied upon for future trends. The results in the fourth quarter of 2004 were not influenced by any significant or extraordinary external events, but reflect the continued passenger growth and the impact on amortization of the addition of operating assets.

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

After the GTAA assumed responsibility for the Airport, it initiated an extensive redevelopment program to improve and redevelop the facilities to ensure that capacity was available to meet future demand. The Airport Development Program ("ADP") includes the construction of a new terminal, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. The ADP was designed as a demand driven program that would be undertaken as the Airport continued to operate and would provide the GTAA with some flexibility on the timing of certain stages. The GTAA has completed a review of the components of the original development program and identified certain additional facility requirements and certain components originally contemplated that are not needed in the current development timetable to 2008. The net result is that the total budget, including the extension of the automated people mover to the remote parking lot, remains at approximately $4.5 billion. To the end of 2004, approximately $3.6 billion, excluding capitalized interest, had been spent on the program which is 79% complete.

The major milestone for the ADP in 2004 was the successful opening of the first phase of the new Terminal 1, which included the central processor and Piers D and E. The demolition of old Terminal 1 which commenced immediately upon moving all of the activities into the new Terminal 1 is now complete. In addition, during 2004, construction continued on the gates and apron areas on the east side of Pier E, the foundation and steel for Pier F, and the automated people mover which will connect the remote parking area operated by the GTAA to Terminal 3 and new Terminal 1.

After completion of Pier F, the next component of the ADP will involve an extension of the central processor with the construction of Pier G or a link to the remaining portion of Terminal 2 which could be used as a passenger holdroom. The GTAA is working through these plans in the context of current and projected passenger and air carrier demands to determine the best development alternatives including the configuration of Pier G and the timing of construction. It is expected that a determination will be made in 2005.

The GTAA has also undertaken a plan to redevelop and upgrade certain sections of Terminal 3 to improve passenger processing and provide additional facilities. This project has been underway since 2001, and the timing of certain components has been adjusted in response to the recent changes in passenger volumes and movement of air carriers between terminals. During 2004, $27.8 million was spent on Terminal 3 capital projects, including the Pier C expansion, improvements to the baggage system and expansion of the check-in areas.

In 2004, the GTAA commenced construction of a co-generation facility located near its Central Utility Plant to provide additional energy efficiencies and reduce or eliminate the dependence on external electrical supply. The plant will have a 117 megawatt capacity and is expected to be operational in late 2005.

The GTAA has an ongoing capital program for Toronto Pearson, and in 2004 $70.2 million was spent on these capital projects, such as upgrading certain runways and taxiways (including lighting systems), changes in Terminal 2 to accommodate WestJet, radio systems and ongoing capital improvements to the facilities.

PICKERING

In 2001, the GTAA was asked by the federal government to undertake studies to determine the requirement for and the feasibility of the development of a future regional reliever airport on the Pickering lands located to the east of Toronto. Throughout 2004, the GTAA continued its work with the local community. This included working groups, public workshops, and in the fall, a series of public meetings were held to present the draft plan which included the overall concept and potential runway locations. The study work that the GTAA is currently undertaking is in preparation for the environmental assessment process.

It is anticipated that the environmental assessment process could take several years. The decision on whether the airport at Pickering is built will ultimately be made by the federal government, based on, among other things, the planning and analysis completed by the GTAA and the evaluation of the environmental assessment. If an airport is to be built, it is currently anticipated that the GTAA will be given the mandate to construct and operate those facilities. If the airport is built it is expected to be a regional facility initially with expansion capability when warranted by demand.

ASSETS AND LIABILITIES

At December 31, 2004, total assets of the GTAA were $6.5 billion, as compared to $5.9 billion at December 31, 2003, and $4.9 billion at the end of 2002. The increase in 2004 includes a net change of $459.8 million of work in progress and capital assets (after amortization), and a change of $151.0 million of reserve funds. In addition, during 2004, there were significant changes in the asset classification with the new Terminal 1 opening as costs were transferred from work in progress to capital assets.

Total reserves at December 31, 2004 were $783.4 million as compared to $632.4 million at December 31, 2003, all of which are fully funded and invested. These reserves represent cash for regular payments of interest and principal, amounts set aside with the Trustee as security for specific debt issues, funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses, and funds set aside by the GTAA as described in its rate setting approach and other commitments, such as the AIF Reserve Fund.

Changes in the reserve funds during the year include an increase in the Debt Service Reserve Fund primarily as a result of the new Medium Term Notes ("MTN") issues ($52.0 million), application of the Debt Service Fund for ongoing interest payments, an increase in the Notional Principal Fund with additional reserves being set aside for future principal payments ($65.7 million), and the collection of AIF during the year of $135.6 million, offset by the application of the AIF Reserve Fund to debt payments of $140.6 million.

As noted earlier, as part of the landing fee, the GTAA includes a principal component for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. Only the debt associated with operational assets is included in this application. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter and these funds are to be applied in the future to repay any issue on maturity in whole or in part. During 2004, part of the Notional Principal Fund was applied to the principal payments for the Series 1999-1, which is an amortizing bond. This approach has been designed as a mechanism for debt reduction in the future. At December 31, 2004 there was $88.1 million in the Notional Principal Fund as compared to $22.4 million at December 31, 2003.

For the AIF Reserve Fund, the GTAA sets the AIF funds aside when collected and uses the funds for ongoing debt service payments. In prior years, this has meant a net increase in the AIF Reserve Fund. In setting the budget for 2004, the GTAA had anticipated the net impact would be a reduction of $40.0 million of the AIF Reserve Fund as funds in excess of collections would be applied to debt service. The strong revenue from other sources meant that the full anticipated utilization of the AIF Reserve Fund was not required to meet the covenants set out in the Trust Indenture. As a result, at December 31, 2004 the AIF Reserve Fund was $99.5 million as compared to $104.5 million at the end of 2003.

On September 30, 2004 the GTAA was issued shares in ACE in settlement of its approved claim of $40.1 million against Air Canada as an unsecured creditor. In the third quarter statements these shares were shown as an asset of approximately $4.3 million. In November 2004, the GTAA sold the ACE shares and recorded a gain of $1.7 million.

Total liabilities for the year ended December 31, 2004, was $6.6 billion, compared to $5.9 billion in 2003, an increase of $0.7 billion during the year, which corresponds to the increases in capital assets, work in progress and reserve funds. At December 31, 2002, total liabilities were $4.8 billion. The primary component of the liabilities is debt which at December 31, 2004 totaled $6.3 billion of current and long term debt. In addition, for the ground rent deferral program, the GTAA has a future liability for the ground rent which was deferred in 2003 and 2004. The total liability for 2004 was $21.0 million, bringing the total ground rent liability to $31.1 million. The GTAA realized the gain on certain interest rate swaps in the first quarter of 2004 and the deferred gain is recorded as a liability that will be amortized over the term of the respective swaps, providing a future benefit.

Total long term debt for the years ended December 31, 2004, 2003 and 2002 were $5.7 billion, $5.6 billion and $4.4 billion respectively. During 2004 the GTAA issued $850 million of new debt, and $600 million in debt which matures in May 2005 was reclassified to current debt, as set out in the following table:

(in millions)

MTN Series	Original Issue Date	Reopen Issue Date	Principal
2004-1	February 2, 2004	n/a	$ 350
2004-2	February 4, 2004	n/a	250
2004-1	February 2, 2004	September 2, 2004	250
2003-2 (to current debt)	May 20, 2003	n/a	(600)

The net assets reported on the balance sheet are a combination of the 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 revenue under expenses, which has resulted in negative net assets of $111.2 million at December 31, 2004. However the underlying financial stability and security for the debt relies more on the long-term economic potential for the Airport, and on the reserve funds which total $783.4 million at the same date. As noted previously, the ground rent deferral and gain on the interest rate swaps are recorded as a liability. In future years, it is anticipated that the collection of the deferred ground rent in landing fees and the benefit from the amortization of the deferred gain on the respective swaps will improve the GTAA's net asset position. The GTAA's amortization policy is set out in Note 4 the Consolidated Financial Statements as at December 31, 2004 and 2003. The result is that the amortization of assets, such as terminal buildings, is larger in the early years of the assets' life. This compares to the principal component in the landing fee, which is calculated similar to a traditional mortgage in that it is smaller in the early years and increases over time. This differential contributes to the GTAA's current negative net asset position. 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 amortization of assets, revenue will exceed all expenses, providing a potential improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a non-share corporation and therefore, the sources of funds for operations, capital expenditures and debt service payments are from operating activities, AIF revenue or the AIF Reserve Fund, other reserve funds, the debt capital markets, and a syndicated bank credit facility. The annual aeronautical rates are set each year to cover the projected operating costs, taking into account the projected air traffic activity and other revenue sources. Consistent with this residual approach, all revenue or other funds generated by the GTAA are used to cover expenses, debt service payments, capital programs, reserves and other activities within its mandate.

At December 31, 2004, the GTAA had reserve funds totaling $783.4 million which include certain funds held by the Trustee, and funds held by the GTAA for specific or future requirements. As previously noted, the AIF is collected by the air carriers on the ticket and remitted to the GTAA. The GTAA has committed that primarily all of the AIF revenue would be used for capital projects, including debt service. AIF revenue collected and not utilized in any given year is retained in the AIF Reserve Fund for future years. The Notional Principal Reserve Fund will increase with the principal component collected in the landing fee until it is utilized for the repayment of debt. The other reserve funds provide additional security for the debt program.

An overall Capital Markets Program was established by the GTAA with the Trust Indenture setting out the terms of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund all ongoing capital programs and the GTAA will continue to access the debt markets to fund the capital programs and to refinance maturing debt. At December 31, 2004, there was a total of $6.3 billion of debt outstanding. This includes the three issues completed in 2004, being two MTN issues in February 2004 for a total of $600 million and a reopening of one of the MTN issues in September 2004 for an additional $250 million. The proceeds of the MTN issues were used to fund the reserve requirements and the remaining proceeds were invested in short-term investment grade corporate debt instruments until they were required to fund the capital programs during the year. In February 2005, the GTAA completed a further MTN issue of $350 million, which has been invested to fund ongoing capital expenditures during 2005.

In addition, the GTAA has two bank credit facilities, a 364-day revolving facility and a 3-year revolving term facility with a bank syndicate totaling $550 million. These facilities are used to fund ongoing operations when expenses may exceed revenue due to timing and to fund capital expenses on a periodic basis prior to any debt issue. These facilities provide flexibility on the timing of accessing the capital markets, and provide additional liquidity for the GTAA at all times.

Principal payments for the next five years include the amortizing payments for MTN Series 1999-1, the maturity of MTN Series 2003-2, Series 1997-2, Series 2003-1 and Series 2004-2. The MTN Series 2003-2, which matures in May 2005, is a floating rate note and it is anticipated that the GTAA will refinance the issue on or prior to its maturity with a subsequent issue of floating rate debt. The GTAA has also entered into certain capital leases for equipment, but the annual payments are small. The total principal and capital lease payments for the next five years are:

Year	*(in millions)*
2005	$ 609.5
2006	9.2
2007	384.6
2008	385.1
2009	260.8
Thereafter	4,618.2
	$ 6,267.4

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, operations and other demands are met. Given the current levels of cash, reserves, credit facilities, and the recent issue of MTNs in February 2005, the GTAA does not anticipate any funding shortfalls for 2005. However, although the GTAA does actively manage its cash flow, there may be significant or external events outside the control of the GTAA that could affect its liquidity or resources.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted by the GTAA are set out in Note 4 of the Consolidated Financial Statements as at December 31, 2004 and 2003. In preparing the financial statements, management is required to make certain estimates or assumptions, including estimates for amortization of capital assets, revenue recognition and the fair value of financial instruments.

Capital assets for the Airport include items such as improvements to leased land, runways, terminal and other buildings, and roadways. These assets are recorded at cost and each asset type is amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. Amortization of assets commences when the asset is brought into operation and for certain assets, such as the terminal buildings, the asset may be brought into or removed from operations in stages. Starting on January 1, 2004, terminal facilities which were previously amortized at 5% sinking fund are now amortized at a rate of 2.5% on a declining balance. This change in policy, was implemented to comply with the changes to generally accepted accounting policies, which resulted in an increase in amortization of $10.9 million in 2004.

The timing for revenue recognition depends on the nature of the revenue and the specific agreements in place. Landing fees, general terminal charges and car parking are recognized as the Airport facilities are utilized. AIF, net of the airline administration fee, is recorded upon the enplanement of passengers, however it is not transferred to the AIF Reserve Fund until payment is received. Revenues from concessions, ground transportation and space or property rental are recognized in accordance with the respective agreements. For each month end there are certain estimates for the number of passengers, movements, sales and other criteria to determine the revenue earned for each of the respective categories.

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. The GTAA previously had certain interest rate swaps which were liquidated prior to March 30, 2004.

RISKS AND UNCERTAINTIES

The past several years have emphasized the fluctuating nature of air travel and the additional volatility in demand due to external sources such as economic conditions, geopolitical unrest, government regulation and the financial uncertainty in the aviation industry. The significant increase in passenger volumes in 2004 confirms the strength of the demand for air travel in the GTA and has had a positive impact on the financial results of the GTAA. This is in contrast to the negative impact of events in 2003 such as SARS, Air Canada filing under CCAA, extreme weather conditions and the power blackout in August. The GTAA responded to these challenges with adjustments to short term development plans and active cost control measures, but given the long construction schedule for terminal and other airport facilities, the GTAA has remained committed to its long-term vision.

The financial stability of the aviation industry remains a risk for the GTAA, and certain losses have been incurred in prior years from airlines ceasing operation, declaring bankruptcy or seeking protection under CCAA. Although there is some risk from industry changes or exposure to a dominant air carrier, this is mitigated by the fact that approximately 70% of the passenger activity at the Airport originates or terminates at Toronto Pearson. In early 2004, WestJet moved its operations to Toronto and expanded further with the addition of United States destinations in the fall, and other air carriers have added capacity. In addition there have been several requests for new air carriers wishing to commence operations at Toronto Pearson. This supports the premise that the origin and destination passenger base for Toronto will encourage other air carriers to enter the Toronto market to meet the demand.

The GTAA uses MTOW to calculate the landing fee per tonne and the number of seats on an aircraft to calculate the general terminal charge per seat. The risks inherent to this approach are that expenses may exceed projections, or aeronautical revenue may be lower than expected if passenger or aircraft activity volumes are not realized or non-aeronautical revenue projections are not achieved. In setting fees, the underlying rationale is that the airlines only pay for those assets for which they are receiving an operational benefit. As a result, with portions of the new Terminal 1 becoming operational in 2004, the debt payments associated with the operational portions of this asset were included in the rate calculation for 2004. The resultant increases caused some airlines and their trade associations to express concern about the effect of the increase in the GTAA's aeronautical fees. It is anticipated that the impact of these increases will be mitigated by continued increases in passenger activity, the high level of origin and destination passenger traffic in Toronto and the added value of improved facilities and service levels for passengers and airlines. The GTAA has the right to set fees and to implement a mid-year adjustment to aeronautical fees. Since assuming responsibility for the Airport, the GTAA has set rates annually with no mid-year adjustments to the aeronautical fees.

Any large construction project is subject to risks relating to costs, schedule, and other events. In 2004, the GTAA successfully opened the first phase of the new Terminal 1, reducing the ongoing construction risk from the levels that the GTAA had faced in prior years. During 2004, the demolition of old Terminal 1 was completed and the construction of Pier F and the international hammerhead of new Terminal 1 commenced. The magnitude of the remaining construction is much smaller and so are the associated risks. It is anticipated that the GTAA will continue to meet the specific goals of the ADP within its construction budget and schedule.

There is always risk when raising funds in the capital markets, such as the cost and availability of funds at any point in time. External factors such as economic conditions, government policies, catastrophic events and the overall state of the financial markets can impact the GTAA's ability to access the capital markets at certain points in time. The debt program for the GTAA has been well received by the capital markets in Canada. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of issues to ensure continued access to the markets and to maximize opportunities. The GTAA has issued debt with a broad range of terms to provide a stable debt maturity profile for the future.

As part of the debt program, the Trust Indenture sets out certain covenants that the GTAA must meet, including two specific coverage tests for operating expenses and debt payments. If revenue or expenses are substantially different than projected there is a risk of not meeting the tests defined. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. In meeting these tests, the AIF revenue included is the amount transferred out of the AIF Reserve Fund, and may not be the same as the AIF earned. If the debt service covenant test is not met in any year, the GTAA is not in default of its obligations under the Trust Indenture so long as the test is met in the subsequent year.

The availability of adequate insurance coverage is subject to the conditions of the overall insurance market and GTAA's claims and performance record. In previous years there have been significant changes in the insurance markets for aviation, largely driven by the events of September 11, 2001 which limited certain insurance products and resulted in higher pricing. The GTAA has been successful in placing all of its insurance needs and recently noted some savings in pricing due to changes in the market and its claims record.

CONCLUSION

The past year has been very positive with significant recovery in passenger activity, the successful opening of new Terminal 1, the move of WestJet's eastern operations to Toronto Pearson, Air Canada's emergence from CCAA protection, the expansion of operations by other air carriers and the success of the ongoing construction program. All of these have had a positive impact on the financial results for 2004 and have helped in the recovery from prior years.

The GTAA continues its approach of a long-term vision for the Airport, which includes ensuring that the facilities provide capacity, flexibility and high standards for the future. This must be done with an awareness and responsiveness to the short term and unexpected events and challenges. The strategy of constructing common use facilities, high standards for safety and security and financial efficiency, together with the recent recovery in passenger volumes all set a positive framework for a successful future at Toronto Pearson.

DISCLOSURE REQUIREMENTS OF THE GROUND LEASE

Subsection 9.01.07, paragraphs (a) to (g) of the Ground Lease requires the GTAA to publish an annual report that discusses the matters listed below.

A) AUDITED FINANCIAL STATEMENTS

The Auditors' Report and the audited consolidated financial statements are found on pages 50 to 74 and the summary of affairs (Management's Discussion and Analysis) is found on pages 29 to 43 of the Annual Report.

B) REPORT ON THE BUSINESS PLAN AND OBJECTIVES ESTABLISHED IN THE BUSINESS PLAN

The Business Plan for 2004 is set out in the 2004 budget. This budget sets the framework for the development and operation of the Airport in a fiscally responsible manner and the performance is discussed in Management's Discussion and Analysis.

Further, in the prior Annual Reports for the previous four years, the comparison to the respective Business Plans is discussed and the overall corporate performance is discussed in the Management's Discussion and Analysis. The table in Part C provides a comparison between the 2004 actual operating results and the 2004 projected summary of cash flows.

C) VARIANCES AND CORRECTIVE MEASURES WITH RESPECT TO THE REPORT ON THE BUSINESS PLAN

The following table provides a comparison between the 2004 actual operating results and the 2004 projected summary of cash flows which serves as the Company's business plan. The results are presented on a modified cash basis consistent with the projected summary of cash flows and the GTAA's rate setting methodology. This presentation does not include certain non-cash items such as amortization or deferred ground rent but does include other items such as the funding of reserve accounts and notional principal which are not included as expenses in the statement of operations.

(in millions)	2004 Actual	2004 Projection	Variance
Revenues			
Landing fees	$ 338	$ 331	$ 7
General terminal charges	145	140	5
Airport improvement fees, net	141	125	16
Car parking and ground transportation	89	82	7
Concessions, rentals and other	117	110	7
	830	788	42
Operating Expenses			
Ground rent	109	121	12
Goods and services	238	214	(23)
Salaries, wages and benefits	96	91	(5)
Real property taxes and payments-in-lieu of real property taxes	24	26	2
Debt Service	354	347	(7)
	821	799	(21)
Debt Service Coverage	6	23	17
Fund Deposits/(Withdrawals)	(1)	(34)	(33)
Net Cash Surplus/(Deficit)	$ 4	$ —	$ 4

A detailed discussion of the 2004 financial results is contained in Management's Discussion and Analysis. The overall performance as compared to budget was positive with the significant increases in passenger volumes.

In summary, total revenues were $42 million above budget. The improved traffic, measured in all categories, MTOW, seats arrived and passengers, contributed to the better than expected revenues in each category. In addition, the $3 increase in the airport improvement fee charged for an originating passenger commencing November 1, 2004 generated additional revenue in excess of the budget.

On the expense side, total operating expenses, including debt service, were $21 million over budget. During 2004, the GTAA was advised of overpayments in ground rent during 2002 and 2003. This adjustment of $12 million was made in 2004, but did not impact the amount due in 2004, which was close to budget. Goods and services were higher than budget by approximately $23 million due to higher fuel and utility costs, extended operations in Terminal 2 with the move of WestJet, and other unanticipated costs associated with new Terminal 1 and certain service level initiatives. Salaries and wages were $5 million over budget due to unanticipated staff requirements for operations and pension expenses. Debt service was $7 million over budget. On the positive side, actual interest rates on debt issues were lower, and with the opening of new Terminal 1 later than budgeted, capitalized interest was higher. Offsetting these were increased contributions to the notional principal reserve fund and lower interest income with the termination of certain swap contracts in the first quarter of 2004.

The debt service coverage was principally funded through an allocation of credit, as permitted under the Trust Indenture, resulting in a $17 million positive variance. Since the overall operating results exceeded budget, less of the AIF reserve fund was allocated to meet the coverage tests, resulting in a smaller draw on the net fund deposits.

D) SUMMARY OF THE FIVE YEAR CASH BASIS BUSINESS PLAN

The Five Year Cash Basis Business Plan is based on assumptions underlying the GTAA's assessment of various external factors. These figures include principal repayment amounts but do not include amortization. The reader is cautioned that some assumptions used may not materialize and unanticipated events and circumstances may occur subsequent to the date that this Plan was prepared. Therefore, the actual results achieved on a cash basis during the plan period may vary and the variations may be material. For a more complete discussion on the risks and uncertainties, see Management's Discussion and Analysis and the Annual Information Form.

Projected Summary of Cash Flows

(in millions)	2005	2006	2007	2008	2009
Revenues					
Landing fees	$ 423	$ 460	$ 502	$ 543	$ 553
General terminal charges	165	166	167	171	175
Airport improvement fees, net	169	174	181	188	196
Car parking and ground Transportation	90	111	138	147	157
Concessions, rentals and other	126	152	168	182	193
	973	1,063	1,156	1,231	1,274
Expenses					
Ground rent	133	146	160	164	168
Goods and services	251	260	269	282	291
Salaries, wages and benefits	97	98	101	106	109
Real property taxes and payments-in-lieu of real property taxes	24	26	27	29	29
Debt Service (net of interest income)	420	463	553	574	583
	925	993	1,110	1,155	1,180
Debt Service Coverage	33	11	13	13	11
Fund Deposits	15	59	33	63	83
Net Cash Surplus (Deficit)	$ —	$ —	$ —	$ —	$ —

Projected Capital Expenditures

(in millions)	2005	2006	2007	2008	2009	Total
Operating, Maintenance and Restoration Capital	$ 91	$ 91	$ 92	$ 85	$ 85	$ 444
T3 Redevelopment	94	35	—	11	—	140
Cogeneration Plant	48	4	—	—	—	52
Airside Development Plan	3	—	—	—	—	3
Terminal Development Plan	342	235	145	—	—	722
Infield Development Plan	—	—	—	—	—	—
Other, Utilities and Support	21	3	6	—	—	30
ADP Phase II	60	11	2	13	—	86
	$ 659	$ 379	$ 245	$ 109	$ 85	$1,477

E) REMUNERATION TO BOARD AND SALARY OF SENIOR OFFICERS

In 2004, remuneration to the Board of Directors and salaries paid to Senior Officers were as follows:

Board of Directors' Remuneration – 2004

Badger, Gregg	$ 24,750
Brigham, Patrick S.	8,589*
Butt, Michael A.	96,000
Cosburn, B. Mac	26,750
Day-Linton, Marilynne E.	9,839*
Hart, Christine E.	26,950
Hurren, Warren C.	29,200
Hutzel, Benjamin J.	37,700
Knipe, Catherine J.	25,000
Lyons, Jeffery S.	25,000
McCormack, Thomas W.	29,500
Meinzer, Gerry E.	22,411
Moss, Sharon T.	16,161
Parsons, Louis H.	25,700
Richmond, Dale E.	25,500
Soberman, Richard M.	9,839*
Wilson, Bernard R.	15,911
Worrall, Lawrence D.	30,000

* New Board Members term started May 5, 2004.

Messrs. Meinzer and Wilson and Ms. Moss's terms ended May 5, 2004.

Senior Officers' Salaries – 2004

Turpen, Louis A.	$ 439,300(1)
Kaldeway, John	303,012(2)
Burke, James J.	207,864
Fountain, Judy A.	203,905
Grant, Gordon D.	177,625
Lackey, Brian R.	202,496
Lotito, Vito	177,674
Love, Douglas A.	215,325
McCoomb, Lloyd A.	220,335
Shaw, Stephen A.	189,576

(1) Mr. Turpen retired September 30, 2004.

(2) Mr. Kaldeway was appointed President and Chief Executive Officer effective October 1, 2004.

Senior Officers are also eligible for a performance-based bonus. Additional information is available in the Annual Information Form which is available on www.sedar.com.

F) REPORT ON COMPLIANCE WITH CODE OF CONDUCT

The Code of Conduct has been provided to each member of the Board of Directors and to each employee. Each Director has executed and delivered a statement concerning his or her compliance with the Code of Conduct. All senior staff are required to make inquiries of their staff and report on their staff's compliance with the Code of Conduct. The results of such inquiries were provided to the Legal Services Department for review. Each of the Directors and all staff indicated compliance with the Code of Conduct.

G) REPORT ON CONTRACTS OVER $75,000 NOT TENDERED

The By-laws of the GTAA, the Public Accountability Principles for Canadian Airport Authorities and the Ground Lease provide that all contracts in excess of $75,000 (as adjusted annually by CPI) must be awarded through a public tendering process, except as may be otherwise determined by the Board of Directors having regard for what may be efficient and practicable. The contracts that are not awarded through a public tendering process must be described in the GTAA's Annual Report.

Contract Value Range	Contractor	Description of Contract	Reason for Award without Public Tender
$ 75,000 – $174,000	Tracer Field Services Canada	Design, supply and install electric heat tracing system.	C
	Sandale Utility Products Inc.	Four flange spools for Central Utility Plant chiller expansion project.	A
	Schneider Canada Inc.	Provision of variable frequency drive for pump for CUP chiller expansion project.	C
	Stealth Valve and Controls Ltd.	Provision of actuated block valves and manual valves for CUP chiller expansion project.	C
	Safegate Airports Systems Inc.	Supply and install hardware and software to upgrade visual docking system at new T1.	A
	ITT Industries of Canada Ltd.	Supply of three chilled water fed pumps for the CUP.	C
	Microsoft Canada Inc.	Microsoft premier support services.	C
	LGS Group Inc.	To implement the Eyretal IP Telephony Software Solution voice recording system for the new T1.	B
	Pioneer Transformers Ltd.	Three transformers.	B
	Eagle Airfield Ltd.	One Schmidt airport sweeper (model year 1993).	B
	Axis Consulting Inc.	Pickering financial assessment analysis.	A
	Ronald Richards Inc.	Consulting services.	B
	Baker Integrated Technologies	Provide integrated services (hardware and software) and emergency technical support 24 hours/day, 7 days/week.	C
	OveArup & Partners	Lessons learned and functional review.	B
	Preston Phipps Inc.	One de-aerator for CUP chiller expansion project.	B
	Siemens Building Technologies Ltd. – Fire Safety Division	Annual inspection of fire alarm system at Terminal 3.	A

Contract Value Range	Contractor	Description of Contract	Reason for Award without Public Tender
$175,000 – $274,000	Lakeside Process Controls Ltd.	Supply of nine pressure transmitters and ten temperature transmitters.	C
	ITT Industries of Canada Ltd.	Provision of five hot water distribution pumps and five space heaters for CUP chiller expansion project.	C
	Morrison Hershfield Ltd.	Consulting design site services for Area 6A.	A
	Ascom Transport Systems Inc.	Interim maintenance agreement for PARCS system.	C
$275,000 – $374,000	—		
$375,000 – $474,000	Saar Rhein Transportfesellschaft mBH	Transportation of artwork.	B
	H.E. Rieckelman (Canada) Inc.	Supply two cooling towers for CUP.	C
$475,000 – $574,000	Hewlett Packard (Canada) Co.	Computer equipment hardware/software.	A
$575,000 – $774,000	EllisDon Corporation	T2 WestJet fit-up – phase 1.	A
$775,000 – $874,000	—		
$875,000 – $974,000	—		
$975,000 +	Powell (Richmond Hill) Contracting Limited	Supply and install overhead sign structures and signs for roads leading to new T1.	A
	IBI Group	Automated vehicle identification maintenance agreement.	C

REASON FOR AWARD GLOSSARY

A) Where the Corporation determines that in connection with an existing contract for the supply of goods or services which is expiring, it is most efficient and practicable to award a new contract to the existing contractor or services supplier where such contractor or services supplier has developed a specific skill set or knowledge base in respect of that contract, or where the circumstances of the redevelopment program dictate that efficiency, time, cost or safety concerns dictate such action.

B) Where there is limited number (or just one) contractor, or services supplier who can provide the required goods or services.

C) Where warranty, patent or copyright requirements or technical compatibility factors dictate a specific supplier.

D) In any other circumstances where the President and Chief Executive Officer determines it is necessary to do so having regard to the safe, efficient and practicable operation of LBPIA.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Greater Toronto Airports Authority have been prepared by management and approved by the Board of Directors and the Members of the Greater Toronto Airports Authority. Management is responsible for the preparation and presentation of the information contained in these consolidated financial statements and other sections of this Annual Report. The Greater Toronto Airports Authority maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Greater Toronto Airports Authority's independent auditors, Deloitte & Touche LLP, have been appointed by the Members of the Corporation to express their professional opinion on the fairness of these consolidated financial statements.

The Board of Directors ensures that management fulfills their responsibilities for financial reporting and internal controls through an Audit Committee which is composed of four directors. This Committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

John Kaldeway
President and Chief Executive Officer
March 11, 2005

Judy A. Fountain
Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the consolidated balance sheets of the Greater Toronto Airports Authority as at December 31, 2004 and 2003 and the consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Greater Toronto Airports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2004 and 2003 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Mississauga, Ontario
February 4, 2005, except as to Note 19, second paragraph which is as of March 11, 2005.

CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands)	2004	2003
ASSETS		
Current		
Cash and cash equivalents	$ 16,859	$ 38,125
Accounts receivable	70,539	75,356
Prepaid expenses	2,738	3,491
Inventory	4,720	3,021
	94,856	119,993
Reserve and other funds (Note 5)	783,376	632,391
Deferred charges (Note 6)	53,422	47,007
Capital assets (Note 7)	4,818,721	2,298,837
Work in progress (Note 8)	710,392	2,770,494
Prepaid pension asset (Note 12)	7,030	3,708
	$ 6,467,797	$ 5,872,430
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 247,461	$ 265,263
Security deposits and deferred credits	18,425	24,346
Deferred gain on interest rate swaps (Note 17)	1,069	—
Current portion of long-term debt (Note 9)	609,473	9,536
	876,428	299,145
Deferred gain on interest rate swaps (Note 17)	13,506	—
Deferred ground rent (Note 3)	31,050	10,024
Long-term debt (Note 9)	5,657,975	5,562,087
	6,578,959	5,871,256
NET ASSETS (DEFICIENCY) (Note 10)		
Externally restricted	69,607	57,100
Internally restricted	209,955	143,378
Unrestricted	(390,724)	(199,304)
	(111,162)	1,174
	$ 6,467,797	$ 5,872,430

Signed on Behalf of the Board

Warren C. Hurren
Director

B. Mac Cosburn
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (in thousands)	2004	2003
REVENUES		
Landing fees	$ 338,008	$ 246,771
General terminal charges	145,455	113,663
Airport improvement fees, net	142,235	105,857
Car parking and ground transportation	89,074	76,556
Concessions	57,208	54,287
Rentals	50,530	44,525
Other	9,504	5,204
	832,014	646,863
OPERATING EXPENSES		
Ground rent (Note 3)	130,394	125,211
Goods and services	237,943	223,426
Salaries, wages and benefits	95,553	85,504
Real property taxes and payments-in-lieu of real property taxes (Note 13)	24,098	25,927
	487,988	460,068
Revenues over expenses before interest and financing costs and amortization	344,026	186,795
Interest and financing costs (Note 11)	267,973	157,086
Amortization of capital assets	188,389	96,479
Revenues under expenses	$ (112,336)	$ (66,770)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

2004

Year Ended December 31 *(in thousands)*	Balance, Beginning of Year	Revenues Under Expenses	Transfers/ Allocations	Use of Funds	Balance, End of Year
EXTERNALLY RESTRICTED					
Operating and maintenance reserve	$ 50,806	$ —	$ —	$ —	$ 50,806
Renewal and replacement reserve	3,000	—	—	—	3,000
Debt service fund – principal	3,294	—	20,413	(7,906)	15,801
	57,100	—	20,413	(7,906)	69,607
INTERNALLY RESTRICTED					
Airport improvement fees collected, net	104,475	—	135,602	(140,625)	99,452
Notional principal of long-term debt	22,350	—	86,163	(20,413)	88,100
Debt service coverage requirement	16,553	—	5,850	—	22,403
	143,378	—	227,615	(161,038)	209,955
RESTRICTED NET ASSETS	200,478	—	248,028	(168,944)	279,562
UNRESTRICTED NET DEFICIENCY	(199,304)	(112,336)	(79,084)	—	(390,724)
TOTAL NET ASSETS (DEFICIENCY)	$ 1,174	$(112,336)	$ 168,944	$(168,944)	$(111,162)

2003

Year Ended December 31 *(in thousands)*	Balance, Beginning of Year	Revenues Under Expenses	Transfers/ Allocations	Use of Funds	Balance, End of Year
EXTERNALLY RESTRICTED					
Operating and maintenance reserve	$ 43,649	$ —	$ 7,157	$ —	$ 50,806
Renewal and replacement reserve	3,000	—	—	—	3,000
Debt service fund – principal	—	—	3,294	—	3,294
	46,649	—	10,451	—	57,100
INTERNALLY RESTRICTED					
Airport improvement fees collected, net	93,727	—	105,748	(95,000)	104,475
Notional principal of long-term debt	—	—	25,644	(3,294)	22,350
Debt service coverage requirement	16,553	—	—	—	16,553
	110,280	—	131,392	(98,294)	143,378
RESTRICTED NET ASSETS	156,929	—	141,843	(98,294)	200,478
UNRESTRICTED NET DEFICIENCY	(88,985)	(66,770)	(43,549)	—	(199,304)
TOTAL NET ASSETS	$ 67,944	$ (66,770)	$ 98,294	$ (98,294)	$ 1,174

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (in thousands)	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues under expenses	$ (112,336)	$ (66,770)
Items not affecting cash		
Amortization of capital assets	188,389	96,479
Amortization of deferred gain on interest rate swaps	(1,069)	—
Loss on disposal of capital assets	1,461	234
Increase in prepaid pension asset	(3,322)	(330)
Realized gain on interest rate swaps	(2,437)	—
Amortization of deferred charges (Note 6)	5,094	3,962
Increase in deferred ground rent	21,026	10,024
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	4,817	(20,684)
Decrease in prepaid expenses	753	104
Increase in inventory	(1,699)	(92)
Decrease in accounts payable and accrued liabilities	(17,802)	(36,933)
Decrease in security deposits and deferred credits	(5,921)	(6,712)
	76,954	(20,718)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(3,211)	(9,028)
Proceeds on disposal of capital assets	6,648	—
Work in progress (Note 8)	(653,070)	(977,238)
	(649,633)	(986,266)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of medium term notes (Note 9)	850,000	975,000
Medium term notes premium	—	382
Credit facility (Note 9)	(145,000)	145,000
Repayment of long-term debt	(9,175)	(2,181)
Termination of interest rate swaps	18,082	—
Reserve and other funds	(150,985)	(84,933)
Deferred charges (Note 6)	(11,509)	(3,732)
	551,413	1,029,536
NET CASH (OUTFLOW) INFLOW	(21,266)	22,552
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,125	15,573
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 16,859	$ 38,125

At December 31, 2004, cash and cash equivalents consisted of short-term investments of $50.8 million (2003 – $78.0 million) less cash and outstanding cheques of $17.2 million (2003 – $21.9 million) and allocations to the Airport Improvement Fee Reserve Fund of $16.7 million (2003 – $18.0 million).

1. NATIONAL AIRPORTS POLICY

In July 1994, the federal government announced its National Airports Policy whereby the management, operation and maintenance of 26 airports within the National Airport System was to be transferred through various ground lease arrangements to locally controlled Canadian Airport Authorities ("CAAs"). The National Airports Policy also prescribed the Fundamental Principles for the Creation and Operation of CAAs including the Public Accountability Principles to be adopted by each CAA.

CAAs are free to operate airports on a commercial basis and have the authority to set all fees and charges. The federal government retains regulatory control over aeronautics and as such will set safety and security standards for airports, licence airports and regulate the aviation industry as a whole. The federal government does not retain regulatory responsibility for any operations undertaken by the CAAs.

2. CORPORATE PROFILE OF THE GREATER TORONTO AIRPORTS AUTHORITY

Greater Toronto Airports Authority ("GTAA") was incorporated on March 3, 1993 under Part II of the *Canada Corporations Act,* as a corporation without share capital. This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in airports and airport operations under control of the GTAA. The By-Laws of the GTAA were amended in 1994 to conform with the requirements of the National Airports Policy. The GTAA has all the powers, obligations and duties of any private Canadian corporation. The 15-member Board of Directors (the "Board") is comprised of nominees from four Regional Municipalities, the City of Toronto, the Government of Ontario and the Government of Canada and is meant to reflect the interests of the business community, organized labour and consumers. Amendments to the GTAA By-Laws were approved in 2003 that changed the process for the nomination and appointment of Directors. These amendments allow certain non-governmental organizations to make nominations to the Board. As a result, the Board will have greater choice for the selection of new directors.

The mandate of the GTAA is to operate and develop a regional network of airports in the Greater Toronto Area ("GTA"). Under the terms of a ground lease (see Note 3, Airport Subject To Ground Lease), the first airport in this network, Toronto Pearson International Airport (the "Airport"), was transferred to the GTAA in 1996. The Airport's operations on 4,400 acres of land include the new Terminal 1, Terminal 2 and Terminal 3, airside assets including five runways, taxiways and aprons, groundside assets including bridges and parking lots, infield assets including an aircraft deicing facility and cargo buildings, and ancillary structures. Excluded are any assets owned by NAV CANADA, the operator of Canada's civil air navigation system.

The GTAA is committed to the continuing development of the Airport. This includes the staged replacement of old Terminal 1 and Terminal 2 with a single unified terminal, increasing airside capacity to six runways, increasing cargo and aircraft facilities, and reconstructing the roadway system.

3. AIRPORT SUBJECT TO GROUND LEASE

On December 2, 1996, the GTAA assumed the operation, management and control of the Airport for a period of 60 years, together with one renewal term of 20 years, by virtue of a ground lease (the "Ground Lease") between the GTAA, as tenant, and Her Majesty the Queen in Right of Canada, represented by the Minister of Transport ("Transport Canada"), as landlord. The GTAA assumed the obligations of Transport Canada under all existing agreements at the Airport.

The Ground Lease is the principal document governing the relationship between the GTAA and Transport Canada at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport. Under the Ground Lease, all revenue and expenditure contracts in effect on December 1, 1996 were assigned to the GTAA. The GTAA did not assume any liability with respect to claims against the federal government incurred prior to December 2, 1996.

By virtue of its status as the tenant under the Ground Lease, the GTAA has the authority to set and collect airline rates and charges, negotiate and issue leases, licences and permits and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

Rent under the Ground Lease is comprised of Base Rent, Participation Rent and Deficiency Rent. Base Rent is calculated on a capped passenger volume formula subject to adjustments for inflation. Participation Rent is based on a measure of incremental revenues and is not applicable until year 2012. Deficiency Rent is payable in the event the GTAA does not meet capital expenditure targets delineated in the Ground Lease (see Note 15, Commitments and Contingent Liabilities). The Ground Lease with amendments made in April 1997 provided a total of $199.6 million in rent credits consisting of $113.4 million for specified development projects, $72.3 million for Airside Development Projects, $10.0 million for security costs, $3.5 million for the acquisition of two pieces of land which were subsequently transferred to the landlord and $0.4 million for a restoration project. The rent credits for development projects and land acquisitions have been fully allocated to capital assets (see Note 7, Capital Assets).

Under the Ground Lease, Transport Canada is required to assume all costs associated with environmental remediation in the event an order is issued by an appropriate government agency requiring the clean-up of any noxious or hazardous substance where such substance was present prior to December 2, 1996 (see Note 15, Commitments and Contingent Liabilities).

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. For each of the 10 years following January 1, 2006, the GTAA's annual ground rent payments will be increased by approximately $4.2 million per year (see Note 18, Ground Rent Agreement).

4. SIGNIFICANT ACCOUNTING POLICIES

Presentation and Basis of Accounting

The GTAA's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Examples of such estimations and assumptions include the useful lives of capital assets, provisions for projected costs and valuation allowances. Actual results could differ from estimates.

Principles of Consolidation

The financial statements consolidate the accounts of GTAA and its wholly-owned subsidiary, Greater Toronto Airports Authority Associate Inc. (the "GTAAA").

Ground Lease

The Ground Lease is accounted for as an operating lease. Rent credits under the Ground Lease have been applied to reduce the cost of completed capital assets (see Note 3, Airport Subject To Ground Lease).

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with an original term of 90 days or less.

Inventory

Inventory, which is held for use at the Airport, is stated at the lower of cost and replacement value.

Deferred Charges

Costs relating to long-term financing including underwriter fees, professional fees, derivative instruments and bond discounts are deferred and amortized over the terms of the respective debt instruments. The amortization of these charges is included in interest and financing costs.

Acquisitions

Assets acquired related to the development of the Airport are capitalized to Work in progress or Capital assets. Net revenues related to projects under construction are capitalized until the construction project or replacement facilities become operational.

Capital Assets

Capital assets are recorded at cost. Capital assets include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease.

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 are being amortized at a rate of 2.5% declining balance, applied prospectively. The change in this policy resulted in an increase in amortization of $10.9 million in 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 15 years straight-line for runway and taxiway surfaces
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

Work in Progress

Work in progress is transferred to Capital assets when the asset is placed in service. Interest associated with borrowing funds for Work in progress is capitalized until the work is substantially complete and assets are operational.

Revenue Recognition

Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport improvement fees, net of airline administration fees, are recorded upon the enplanement of the passenger.

Concession revenues are charged on a monthly basis and are recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rental revenues are recognized over the duration of the respective agreements.

Salaries, Wages and Benefits

Reimbursements to service organizations for their salaries, wages and benefits have been included in this expense category. Employee benefits are accrued as earned by employees.

Employee Future Benefit Plans

The GTAA maintains both defined benefit pension plans and a defined contribution pension plan for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Pension plan assets are valued at fair value. The unamortized net actuarial gain or loss exceeding 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year is deferred and amortized over the average remaining service life of active employees. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plan are expensed as paid.

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 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.

5. 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)	2004	2003
Debt Service Fund		
Interest	$ 79,527	$ 59,603
Principal	15,801	3,294
	95,328	62,897
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	35,170	34,991
Series 1997-3 due December 3, 2027	37,004	36,820
Series 1999-1 due July 30, 2029	40,320	40,116
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,828	38,591
Series 2000-2 due July 19, 2010	39,817	39,660
Series 2001-1 due June 4, 2031	35,248	35,131
Series 2002-1 due January 30, 2012	31,260	31,073
Series 2002-2 due December 13, 2012	29,748	29,500
Series 2002-3 due October 15, 2032	38,474	38,303
Series 2003-1 due June 2, 2008	19,469	19,350
Series 2003-2 due May 20, 2005	22,461	22,358
Series 2004-1 due February 2, 2034	38,782	—
Series 2004-2 due February 4, 2009	11,335	—
	417,916	365,893
Bank indebtedness secured by Series 1997 – A Bond	6,371	6,417
	424,287	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	99,452	104,475
Notional Principal Fund	88,100	22,350
Debt Service Coverage Fund	22,403	16,553
	263,761	197,184
	$ 783,376	$ 632,391

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 9, Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. On a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. Also on a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. Amounts held in the Debt Service Funds are held by the Trustee for the benefit of the bond or noteholders and are disbursed by the Trustee to pay interest and principal as it becomes due.

Principal of $7.9 million was paid from the Debt Service Fund Principal Account in July 2004. During 2004, $20.4 million was deposited to the Debt Service Fund Principal Account by the GTAA as reserve for the principal of the series 1999-1 revenue bond and the 2003-2 medium term note. The deposit to the Debt Service Fund Principal Account was funded from the Notional Principal Fund (see Operations, Capital and Financing Funds below) during the year.

To the extent provided in any Supplemental Indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bonds or medium term notes. The required amount is established at the time of issue of each series of bonds or medium term notes and funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held by the Trustee for the benefit of the bond or noteholders for use and application in accordance with the terms of the Trust Indenture. At the maturity of each series of bonds or medium term notes, funds not applied by the Trustee will be returned to the GTAA.

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture (see Note 9, Long-Term Debt). The Operating and Maintenance Reserve Fund is equal to one-sixth of the projected operating and maintenance expenses for the following fiscal year. As at December 31, 2004 this fund had a balance of $50.8 million (2003 – $50.8 million). This amount is to be used only for operating and maintenance expenses, or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of $3.0 million (2003 – $3.0 million) is to be used for unanticipated repairs to, or the replacement of property and equipment.

In conjunction with the airport improvement fee agreements with participating airlines the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2004, this fund had an accumulated balance of $99.5 million (2003 – $104.5 million). During 2004, $140.6 million (2003 – $95.0 million) of accumulated Airport Improvement Fee Funds were utilized for the payment of debt service associated with the Airport Development Program.

Capital and financing funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for each series of bonds or medium term notes. The Debt Service Principal Fund was funded from the Notional Principal Fund during 2004 and had a balance of $15.8 million at December 31, 2004 (2003 – $3.3 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2004 had a balance of $22.4 million (2003 – $16.6 million).

6. DEFERRED CHARGES

(in thousands)	December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	$ 44,131	$ 13,963	$ 30,168
Deferred loss on commodity swap	196	—	196
Deferred hedge loss on bond	17,953	6,528	11,425
Bond discount costs	14,449	2,816	11,633
	$ 76,729	$ 23,307	$ 53,422

(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 year ended December 31, 2004 was $5.1 million (2003 – $4.0 million) and is included in interest and financing costs. Additions to deferred charges during the year totaled $11.5 million (2003 – $3.7 million).

7. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
TERMINAL ASSETS			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	$ 4,016,151	$ (227,738)	$ 3,788,413
Baggage handling systems	165,588	(17,244)	148,344
	4,181,739	(244,982)	3,936,757
AIRSIDE ASSETS			
Improvements to leased land	24,000	(3,233)	20,767
Runways and taxiways	311,958	(19,624)	292,334
Deicing facilities	29,902	(3,915)	25,987
	365,860	(26,772)	339,088
OTHER ASSETS			
Utilities and stormwater management facilities	219,800	(16,635)	203,165
Operating assets	536,154	(199,737)	336,417
Capital leases	9,967	(6,673)	3,294
	765,921	(223,045)	542,876
	$ 5,313,520	$ (494,799)	$ 4,818,721

(in thousands)	December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
TERMINAL ASSETS			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	$ 1,690,155	$ (131,088)	$ 1,559,067
Baggage handling systems	49,591	(11,974)	37,617
	1,739,746	(143,062)	1,596,684
AIRSIDE ASSETS			
Improvements to leased land	24,000	(2,833)	21,167
Runways and taxiways	310,234	(12,121)	298,113
Deicing facilities	29,730	(3,243)	26,487
	363,964	(18,197)	345,767
OTHER ASSETS			
Utilities and stormwater management facilities	189,383	(11,199)	178,184
Operating assets	313,709	(139,912)	173,797
Capital leases	9,679	(5,274)	4,405
	512,771	(156,385)	356,386
	$ 2,616,481	$ (317,644)	$ 2,298,837

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

On April 6, 2004, the GTAA commenced operations at the new Terminal 1 following the closure of old Terminal 1, which has been fully amortized. Approximately $2.5 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. Amortization of these costs commenced concurrently. The balance of the costs of the Airport Development Program will remain in Work in progress until the respective components are substantially complete and operational.

8. WORK IN PROGRESS

(in thousands)	Beginning of Year	Additions / Adjustments	Transfers to Capital Assets	End of Year
Airside Development Project	$ 2,193	$ 2,059	$ (4,185)	$ 67
Terminal Development Project	2,539,519	465,982	(2,479,982)	525,519
Infield Development Project	2,082	(537)	(1,303)	242
Utilities and Area Support Facilities	553	855	(593)	815
	2,544,347	468,359	(2,486,063)	526,643
Restoration Projects	179,191	70,181	(193,680)	55,692
Cogeneration Plant	1,780	86,738	—	88,518
T3 Redevelopment	45,176	27,792	(33,429)	39,539
	$ 2,770,494	$ 653,070	$ (2,713,172)	$ 710,392

As at December 31, 2004, Work in progress included capitalized interest and financing costs in the amount of $89.7 million (2003 – $297.0 million).

9. LONG-TERM DEBT

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

(in thousands) Series	Coupon Rate	Maturity Date	2004	2003
	(Note 17)			
Revenue Bonds, *See below*				
1997-2	5.95%	December 3, 2007	$ 375,000	$ 375,000
1997-3	6.45%	December 3, 2027	375,000	375,000
1999-1	6.45%	July 30, 2029	492,094	500,000
Medium Term Notes				
2000-1	7.05%	June 12, 2030	550,000	550,000
2000-2	6.70%	July 19, 2010	600,000	600,000
2001-1	7.10%	June 4, 2031	500,000	500,000
2002-1	6.25%	January 30, 2012	500,000	500,000
2002-2	6.25%	December 13, 2012	475,000	475,000
2002-3	6.98%	October 15, 2032	550,000	550,000
2003-1	5.17%	June 2, 2008	375,000	375,000
2003-2, *See below*	floating	May 20, 2005	600,000	600,000
2004-1	6.47%	February 2, 2034	600,000	—
2004-2	4.45%	February 4, 2009	250,000	—
			6,242,094	5,400,000
Credit facility, *See below*				
Secured by 1997-A Bond			—	145,000
Capital leases, *See below*			1,354	2,623
Province of Ontario				
Interest-free, payable in five equal annual installments commencing 2011			24,000	24,000
			6,267,448	5,571,623
Less current portion			609,473	9,536
			$ 5,657,975	$ 5,562,087

Interest arising from these debt instruments amounted to $365.0 million (2003 – $318.4 million).

For Series 2003-2 the interest rate is adjusted quarterly at the 3-month Bankers' Acceptance rate plus 55 basis points. During 2004 interest rates ranged from 2.64% to 3.36% (2003 – 3.36% to 3.90%).

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. These payments commenced July 30, 2004 and continue until maturity.

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing capital requirements are financed with debt. The GTAA developed a financing plan referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under a Master Trust Indenture (the "Trust Indenture") dated December 2, 1997, and supplemented from time to time, which establishes common security and a set of common covenants by the GTAA for the benefit of its lenders. The security comprises an assignment of the revenues of the GTAA, a specific charge on certain funds, reserve funds and accounts, an unregistered first leasehold mortgage of the GTAA's leasehold interest in the Airport and a guarantee and related collateral security of subsidiaries as designated from time to time.

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
2000-2	July 17, 2000	$ 325,000	January 19, 2001
2000-2 reopen	January 09, 2001	$ 275,000	January 19, 2001
2000-1 reopen	January 16, 2001	$ 300,000	December 12, 2000
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 December 31, 2004, no amount was drawn on the revolving term facility (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 year ranged from 2.25% to 5.00% (2003 – 3.13% to 5.00%).

Capital Leases

The GTAA has undertaken to lease certain operating equipment. Effective interest rates of the capital leases range from 0.59% to 3.19% (2003 – 4.5% to 10.8%).

Principal Repayments

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

(in thousands)

2005	$ 609,473
2006	9,220
2007	384,573
2008	385,152
2009	260,807
Thereafter	4,618,223
	$ 6,267,448

During the year, the GTAA incurred interest costs, on a cash basis, of $345.8 million (2003 – $314.5 million).

10. NET ASSETS (DEFICIENCY)

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 5, Reserve and Other Funds) set out in the Trust Indenture (see Note 9, Long-Term Debt).

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 5, 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.

Unrestricted Net Assets (Deficiency)

Unrestricted net assets are the cumulative revenue over expenses, including amortization, which exceeds reserve fund cash commitments. An unrestricted net deficiency represents cumulative revenue under expenses, including amortization, which remains after reserve fund cash commitments have been made.

11. 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:

(in thousands)	2004	2003
Interest and financing costs incurred	$ 362,601	$ 321,333
Less:		
Interest earned on the Debt Service Reserve Fund	(11,657)	(17,535)
Capitalized Interest	(82,971)	(146,712)
	$ 267,973	$ 157,086

12. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

The GTAA maintains two defined benefit pension plans. One of these plans is for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan. As at September 30, 2000, the final election date, 151 of these employees elected to transfer their credits. As at December 31, 2004, all employee pension credits were transferred to the GTAA from the Public Service Superannuation Account ("PSSA"). No unfunded pension liability in respect of employees who transfer these pension credits will be assumed by the GTAA plan on transfer.

Aggregate information about the GTAA's defined benefit pension plans as at December 31 is as follows:

(in thousands)	2004	2003
ACCRUED BENEFIT OBLIGATION		
Balance at beginning of year	$ 54,515	$ 47,097
Transfer of PSSA liabilities	4,351	—
Actuarial (gain) / loss	6,769	(314)
Current service cost	2,958	3,769
Interest cost	3,894	3,208
Benefits paid	(743)	(325)
Employee contributions	942	1,080
Past service costs	1,635	—
Balance at end of year	74,321	54,515
PLAN ASSETS		
Fair value at beginning of year	55,510	45,051
Transfer of PSSA assets	4,351	—
Employee contributions	942	1,080
Employer contributions	6,558	4,388
Actuarial gain	1,209	2,314
Expected return on plan assets	3,867	3,002
Benefits paid	(743)	(325)
Fair value at end of year	71,694	55,510
Funded status – plan surplus (deficit)	(2,627)	995
Unamortized net actuarial loss	8,131	2,534
Unamortized past service credits	1,362	—
Unamortized transitional obligation	164	179
PREPAID PENSION ASSET	$ 7,030	$ 3,708

As at December 31, 2004, one of the GTAA's two defined benefit pension plans is in a deficit position of $7.4 million (2003 – $2.9 million deficit), with an accrued obligation of $65.3 million (2003 – $48.6 million) and a fair value of $57.9 million (2003 – $45.7 million). The other is in a surplus position of $4.8 million (2003 – $3.9 million), with an accrued obligation of $9.0 million (2003 – $5.9 million) and a fair value of $13.8 million (2003 – $9.8 million).

The GTAA's net defined benefit pension plan expense is as follows:

(in thousands)	2004	2003
Current service cost	$ 2,958	$ 3,769
Interest cost	3,894	3,208
Amortization of transitional amount	15	15
Amortization of past service cost	273	—
Net actuarial loss	—	31
Expected return on plan assets	(3,867)	(3,002)
Net defined benefit pension plan expense	$ 3,273	$ 4,021

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the GTAA to its funded pension plans and cash contributed to the defined contribution plans was $10.5 million (2003 – $7.6 million).

The GTAA's plan assets consist of:

	Percentage of plan assets	
Asset Category	2004	2003
Equity Securities	58%	60%
Fixed Income	30%	35%
Real Estate	10%	3%
Cash	2%	2%
Total	100%	100%

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31, 2004):

	2004	2003
Discount rate	6.00%	6.50%
Expected long-term rate of return on plan assets	6.50%	7.00%
Rate of compensation increase	4.00%	3.75%

Defined Contribution Pension Plan Expense

The GTAA maintains a defined contribution pension plan providing pension benefits to certain of its employees. The net expense for the defined contribution pension plan is as follows:

(in thousands)	2004	2003
Defined contribution pension plan expense	$ 1,362	$ 811

The GTAA's contribution to the defined contribution pension plan matches each participating employee's contribution to a maximum of 6% of the employee's gross earnings.

Other Employee Future Benefits

Each employee is provided with paid-up life insurance at the time of retirement, the cost of which is recorded in the period in which the insurance is acquired. The estimated accumulated benefit obligation for this expected payment has not been recorded, as it is not considered to be a material amount.

13. 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.

14. RELATED PARTY TRANSACTIONS

Directors' Fees

Directors' fees for the year ended December 31, 2004 were $483,550 (December 31, 2003 – $498,050).

15. COMMITMENTS AND CONTINGENT LIABILITIES

Ground Lease

The GTAA's commitment in respect of annual Ground Lease Base Rent, net of the ground rent deferral, has been estimated at approximately $133.9 million for the year ending 2005; $150.9 million for the year ending 2006; $153.1 million for the year ending 2007; $155.4 million for the year ending 2008 and $157.7 million for the year ending 2009 (see Note 18, Ground Rent Agreement).

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2004 of approximately $384.5 million (2003 – $384 million).

The GTAA would be required to pay a Deficiency Rent (see Note 3, Airport Subject To Ground Lease) equal to any shortfall, which may exist between actual eligible capital expenditures and target capital expenditure amounts established in the Ground Lease. Target capital expenditure amounts, subject to adjustments for inflation, were set at approximately $422 million by December 31, 2001, which the GTAA has met. Target capital expenditure amounts, subject to adjustments for inflation, have also been established for the five-year periods ending December 31, 2006, 2011 and 2016 at $345 million, $313 million and $835 million, respectively, with total target capital expenditures aggregating $1.915 billion.

Environmental

As part of its obligations prior to the transfer of the Airport to the GTAA, Transport Canada commissioned an environmental baseline study report for the Airport. This report delineates the state of environmental contamination at the Airport and discloses processes and practices which were not in full compliance with environmental laws or accepted environmental practices at the time of transfer. Since the transfer, the GTAA has performed environmental assessments as part of its ongoing environmental management program and has achieved ISO 14001 certification.

The GTAA is committed to ensuring that activities undertaken at the Airport are carried out in an environmentally sensitive manner, in compliance with applicable environmental laws and regulations, and with sensitivity to community and public concerns.

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011, the GTAA has agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The timing and amount of funding participation has yet to be negotiated and agreed upon with the Province of Ontario and will be dependent upon the redevelopment process. The GTAA has undertaken significant transportation infrastructure work in meeting this requirement.

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 mid 2005, 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 2005. 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 2005.

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.

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 (the "ACE Shares") in Air Canada's parent company, ACE Aviation Holdings Inc. ("ACE"), as a settlement of a final Claim. In November 2004, the GTAA sold these ACE shares for net proceeds of $6.0 million, resulting in a gain of $1.7 million.

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") which were sold upon issuance to a third party purchaser for proceeds of $4.6 million. This resulted in a net gain of $0.7 million in September 2004.

16. GUARANTEES

In the normal course of operations, the GTAA provides indemnification agreements to counterparties in a wide variety of transactions such as contracts for goods and services, maintenance agreements, design-build contracts, construction contracts, and information technology agreements. These indemnification agreements require the GTAA to indemnify the counterparties in respect of costs incurred as a result of certain changes in the underlying nature of the contracts (including, without limitation, changes in laws, delays caused by the GTAA, pre-existing environmental conditions) and in respect of costs incurred as a result of certain litigation claims that may result from the transaction (such as, by way of example, patent infringement or personal injury and property damage due to the GTAA's negligence). The terms of the indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents Management from making a reasonable estimate of the maximum potential amount the GTAA may be required to pay to or expend on behalf of such counterparties because such limits are most commonly not set out in the said agreements and the events in question are themselves highly contingent and variable in nature. Management attempts to limit its liability in respect of the indemnifications provided to such counterparties through the purchase of liability and property insurance and the allocation of risk to other contractors.

17. 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)	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	**$ 6,267,448**	**$ 6,750,517**	$ 5,571,623	$ 5,795,857

Prior to January 1, 2004, 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 5, 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

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. As of December 31, 2004, $14.6 million of this deferred gain remains unamortized.

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. The fair value of the commodity swap as at December 31, 2004 is $0.2 million (see Note 6, Deferred Charges).

Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its floating rate current and long-term bank indebtedness (see Note 9, Long-Term Debt). The impact of a 1% change in interest rates applied to the average bank indebtedness outstanding during 2004 would have amounted to approximately $5.7 million (2003 – $3.6 million). The Debt Service Reserve Fund for bank indebtedness (see Note 5, Reserve and Other Funds) is adjusted annually on December 2nd based on the prevailing bankers' acceptance rate.

The impact of a 1% change in the interest rate on the Reserve Funds would amount to approximately $8.8 million (2003 – $5.2 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 is also subject to credit risk through interest rate swap contracts arising from the possibility that the counterparties to the swap contract may default on their obligations. The GTAA manages this risk by effecting transactions with major financial institutions that carry a satisfactory credit rating from an independent rating agency.

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

18. 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. The long-term liability for 2004 was $21.0 million, bringing the total liability to $31.0 million.

In December 2004, the GTAA received a ground rent refund totaling $12.4 million (net of interest) as a result of published revenue passenger levels from Statistics Canada for 2002 and 2003. The published revenue passenger levels were lower than passenger thresholds established under the terms of the Ground Rent Agreement.

19. SUBSEQUENT EVENTS

Medium Term Note Issue

In February 2005, the GTAA issued Series 2005-1 Medium Term Notes in the amount of $350 million. Series 2005-1 has a term of 10 years and bears interest at 5.0%. Interest is payable semi-annually commencing June 1, 2005. The Series 2005-1 Medium Term 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 a similar term to maturity.

Jetsgo

On March 11, 2005, Jetsgo ceased all operations and was granted protection from its Creditors by the Quebec Superior Court under the Companies' Creditors Arrangement Act. The GTAA has filed a claim for approximately $5.4 million, including G.S.T., representing all amounts due at the time the operations ceased, and including approximately $2.5 million of AIF Revenue. All receivables at year-end were collected in full and the claim pertains to 2005 revenues.

20. COMPARATIVE FIGURES

Certain of the 2003 comparative figures have been reclassified to conform to the 2004 basis of presentation.

BOARD OF DIRECTORS

Warren C. Hurren
Chairman of the Board
Warren Hurren is a founding partner of the accounting firm Hurren, Sinclair, MacIntyre and is currently the Ajax Rotary Club's District Governor's Representative in Durham.

Nominated by the GTA Boards of Trade/Chambers of Commerce

Gregg Badger
Gregg Badger is Secretary and is in charge of Risk and Asset Management at Ronald A. Chisholm Limited, a Toronto-based international food merchant that trades and transports meat and dairy commodities worldwide.

Nominated by the Province of Ontario

Patrick S. Brigham
Patrick Brigham is Chair of Mad Catz Interactive Inc., a leading provider of innovative peripherals in the interactive entertainment industry.

Nominated by the GTAA Board as a Member-at-Large

Michael A. Butt
Michael Butt is Chairman and CEO of Buttcon Ltd., Past Chairman of the Ontario General Contractors' Association, Past Chairman of the Canadian Construction Association and Chairman of GTAA Board from 1997 to 2004.

Nominated by the Regional Municipality of York

B. Mac Cosburn
Mac Cosburn is Vice President of Stantec Consulting, and a current and past member of several professional hospital and charitable boards.

Nominated by the GTA Boards of Trade/Chambers of Commerce

Marilynne E. Day-Linton
Marilynne Day-Linton is a Chartered Accountant with a background in the travel industry.

Nominated by the Chartered Accountants of Ontario

Christine E. Hart
Christine Hart is President and founder of Accord/hart & associates inc., a transportation and environmental lawyer, corporate director, and one of Canada's pioneers in Alternative Dispute Resolution.

Nominated by the Government of Canada

Benjamin J. Hutzel
Benjamin Hutzel is a partner with the firm of Bennett Jones, and the founding Chairman of the Canadian Lawyers Liability Assurance Society.

Nominated by the Government of Canada

Catherine J. Knipe
Catherine Knipe is a founding partner of Meadow Group Consulting Inc. and has held numerous senior management positions in the healthcare field.

Nominated by the Regional Municipality of Halton

Jeffery S. Lyons
Jeffery Lyons is the President and founder of the Lyons Group and is a former Vice Chairman, Toronto Police Services Board.

Nominated by the City of Toronto

Thomas W. McCormack
Thomas McCormack is the President and founder of Strategic Projections Inc., and Immediate Past President of the Canadian Association for Business Economics.

Nominated by the GTA Boards of Trade/Chambers of Commerce

Louis H. Parsons
Louis Parsons is the President of Lou Parsons & Associates Inc. and the former Chairman of GO Transit and the Regional Municipality of Peel.

Nominated by the Regional Municipality of Peel

Dale E. Richmond
Dale Richmond recently retired as the President and Chief Executive Officer of OMERS (Ontario Municipal Employees Retirement System) and is a former Chief Administrative Officer (CAO) for the Municipality of Metropolitan Toronto.

Nominated by the GTAA Board as a Member-at-Large

Richard M. Soberman
Richard Soberman is an Associate of Trimap Communications Inc., Professor Emeritus of Civil Engineering, University of Toronto. He is a transportation specialist.

Nominated by the GTA Boards of Trade/Chambers of Commerce & PEO

Lawrence D. Worrall
Lawrence Worrall is currently a Director of several boards. These include the Oshawa General Hospital Foundation, Intier Automotive Incorporated, Tiercon Automotive Incorporated and Van Rob Stamping Incorporated.

Nominated by the Regional Municipality of Durham

CORPORATE INFORMATION

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SENIOR OFFICERS

John Kaldeway
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James J. Burke
Vice President and Chief Information Officer

Judy A. Fountain
Vice President and Chief Financial Officer

Gordon D. Grant
Vice President, Strategic Plans and Programs

Brian R. Lackey
Vice President, Operations and Chief Engineer

Vito Lotito
Vice President, Human Resources and Administration

Douglas A. Love
Vice President, General Counsel and Secretary

Lloyd A. McCoomb
Vice President, Planning and Development

Stephen A. Shaw
Vice President, Corporate Affairs

ANNUAL PUBLIC MEETING

The GTAA's Annual Public Meeting will be held on May 11, 2005 at 1:30 p.m. at the Toronto Board of Trade Airport Centre, 830 Dixon Road, Toronto, Ontario

PUBLIC INFORMATION

Media inquiries, requests for general information and copies of publications should be directed to:
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PUBLICATIONS AVAILABLE

Newsletters

GTAA Update Newsletter
GTAA Pickering Bulletin
GTAA Today Employee Newsletter

Brochures and Miscellaneous Publications

Airport Development

Art, Architecture and the Airport – The Visual and the Visionary

Bus Connections to the Infield Terminal

Central Deicing Facility Annual Financial Report

Customer Assistance Guide for Airport Employees

Customer Service at Toronto Pearson

Environmental Management

Noise Management

Pickering Airport Draft Plan Report

Pickering Financial Assessment Analysis

Pickering – Natural Environment

Safety, Security and Airport Operations

T1 Terminal Guide

Transportation and Parking

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