GREATER TORONTO AIRPORTS AUTHORITY 2006 ANNUAL REPORT

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H
H24 H23
H22 H21
ENTRANCE TO U.S. CUSTOMS AND BORDER PROTECTION


PACIFIC CARGO
B-HKH
SWIRE

77 passenger airlines • 16 cargo airlines
27 direct Canadian destinations
42 direct US (transborder) destinations
84 direct International destinations

TERMINAL 1

Air Canada Jazz
Air Canada
Air Jamaica
Air New Zealand
Alitalia
All Nippon Airways
Austrian Airlines
Avianca
bmi
Brussels Airlines
Condor
Etihad Airways
Lufthansa
Mexicana
Royal Jordanian
SAS Scandinavian Airline
Singapore Airlines
Sunwing Airlines
SWISS International Air Lines
Thai Airways International
United Airlines
United Express/Chatauqua
United Express/Shuttle America
Varig Brazilian

TERMINAL 3

Aeroflot Russian
Aeromexico
Aerosvit Airlines
Air France
Air India
Air Transat
Air Wisconsin/US Airways
Alaska Airlines Inc.
America West Airlines
American Airlines
American Eagle
Atlantic Southeast Airlines
British Airways
CanJet Airlines
Caribbean Airlines
Cathay Pacific
Comair
Continental Airlines Inc.
Continental Express
Cubana
Czech Airlines
Delta
El Al
Finnair
Flyglobespan
Harmony Airways
Iberia Airlines
Japan Airlines
KLM
Korean Air
LACSA/TACA
Lan Chile
Lot Polish Airlines
LTU International Airways
Malev Hungarian
Martinair Holland
Miami Air International
Midwest Connect
MyTravel Airways
Northwest Airlines
Olympic Airlines S.A.
Pakistan International
Piedmont/US Airways
Pinnacle Aviation/NW Airlink
Qantas
SATA International
Skyservice
SkyWest Airlines
Thomas Cook Airlines U.K.
Transaero Airlines
US Airways
WestJet Airlines
Zoom Airlines Inc.

CARGO

Air Canada Cargo
BAX Global
Cathay Pacific Cargo
Cubana
DHL Airways
Federal Express
Kalitta Air
Korean Air Cargo
Martinair Cargo
MNG Airlines
Morningstar
Polet Airlines
Skylink Aviation
UPS
Vega Airlines
Volga Dniepr

DOMESTIC

Abbotsford
Calgary
Charlottetown
Edmonton
Fredericton
Halifax
Kelowna
Kingston
London
Moncton
Montreal
North Bay
Ottawa
Quebec
Regina
Saint John
Sarnia
Saskatoon
Sault Ste. Marie
St. John's
Sudbury
Thunder Bay
Timmins
Vancouver
Victoria
Windsor
Winnipeg

TRANSBORDER

Albany
Allentown
Atlanta
Baltimore
Boston
Charlotte
Chicago
Cleveland
Columbus
Covington/Cincinnati
Dallas/Fort Worth
Denver
Detroit
Fort Lauderdale
Houston
Indianapolis
Kansas City
Las Vegas
Los Angeles
Manchester
Memphis
Miami
Middletown
Milwaukee
Minneapolis
Nashville
Newark
New York
Orlando
Philadelphia
Phoenix
Pittsburgh
Providence
Raleigh-Durham
Rochester
San Francisco
Seattle
St. Louis
Tampa
Washington
White Plains
Windsor Locks

INTERNATIONAL

Acapulco
Amsterdam
Aruba
Athens
Beijing
Belfast
Birmingham
Bogota
Bridgetown
Budapest
Buenos Aires
Camaguey
Cancun
Cardiff
Cayo Coco
Cayo Largo
Cienfuegos
Cozumel
Curacao
Delhi
Dublin
Dusseldorf
Faro
Frankfurt
Glasgow
Grand Cayman
Hamilton
Havana
Helsinki
Holguin
Hong Kong
Huatulco
Ixtapa/Zihuatanejo
Karachi
Kiev
Kingston
La Romana
Liberia
Lima
Lisbon
London
Manchester
Manzanillo
Margarita Island
Mexico City
Milan
Montego Bay
Moscow
Munich
Nassau
Panama City
Paris
Point Saline
Ponta Delgada
Port of Spain
Porto
Prague
Providenciales
Puerto Plata
Puerto Vallarta
Punta Cana
Rome
San Jose
San Jose del Cabo
San Juan
San Salvador
Santa Clara
Santiago de Cuba
Santiago, Chile
Santo Domingo
Sao Paulo
Seoul
Shannon
St. Lucia
St. Maarten
Stansted
Tel Aviv
Terceira Island
Tobago
Tokyo
Varadero
Vienna
Warsaw
Zurich

CORPORATE PROFILE

"THE NEW FACILITIES AT TORONTO PEARSON FULFILL A VITAL LINK IN CANADA'S INTERNAL TRADE AND COMMERCE AND ITS EXTERNAL BUSINESS ACTIVITIES."
NANCY HUGHES, PRESIDENT & CEO, CANADIAN CHAMBER OF COMMERCE

The Greater Toronto Airports Authority was incorporated in March 1993 as a corporation without share capital, and recognized as a Canadian Airport Authority by the federal government in November 1994. The GTAA is 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, the GTAA currently manages and operates Toronto Pearson International Airport (the "airport" or "Toronto Pearson").

The responsibilities of the GTAA for the operation, management and development of Toronto Pearson 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 air travel requirements for the GTA.

BUSINESS STRATEGY AND MISSION

The GTAA remains focused on providing quality aviation facilities at Toronto Pearson, recognizing that the region's current and future demand for air travel is expected to continue to grow. To meet this anticipated demand, the GTAA has undertaken the Airport Development Program ("ADP"), completed in January 2007, as well as the redevelopment of Terminal 3. The GTAA is committed to fulfilling its mandate in a fiscally responsible manner. This commitment is expressed in the GTAA mission statement:

"To develop and operate for the public benefit, an airport system which supports the economic development and cultural diversity of south-central Ontario and Canada, providing aviation facilities and services that achieve:

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

This mission will be achieved through:

- developing a skilled and dedicated workforce
- maximizing technology innovation and
- excellence in corporate governance."

The mission of the GTAA establishes its operational priorities and guides its capital decision making. The GTAA's strategy places priority on fiscal management and facility and service development. The much needed redevelopment of Toronto Pearson has required the GTAA to borrow extensively and the management of this financial commitment is a central issue for the corporation. The GTAA recognizes the need to manage costs, maximize non-aeronautical revenues, and optimize the use of new facilities and, over time, to reduce the magnitude of outstanding debt.

2006 HIGHLIGHTS

Among the 30 busiest world airports, Toronto Pearson International Airport handled 31 million passengers in 2006, an increase of 3.5 per cent over 2005. The major growth area was international travel at 4.6 per cent.

Aircraft movements also increased over 2005 by 2.1 per cent, an increase attributed to airlines adjusting their fleet mixes and flight schedules resulting in higher load factors.

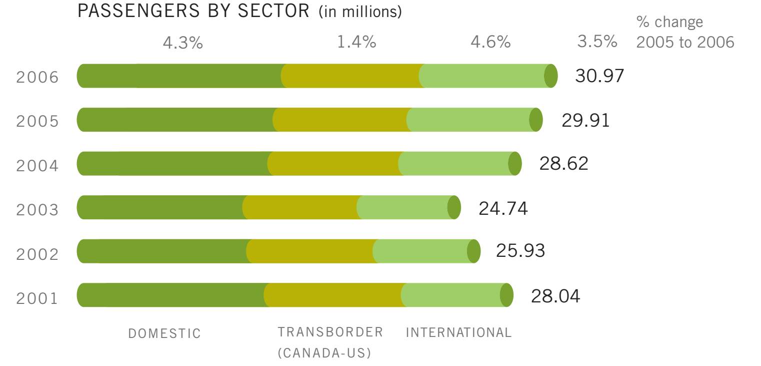
The GTAA has committed to seek new opportunities for generating revenue and in 2006, this initiative realized a 23 per cent increase over 2005 in non-aeronautical revenue. While some of these are from traditional sources such as parking and ground transportation, and concessions and rentals, other avenues have permitted growth.

In February 2006, the GTAA completed a debt issue of five-year Medium Term Notes ("MTNs") in the amount of $250 million and in October 2006, we completed a debt issue in the amount of $350 million.

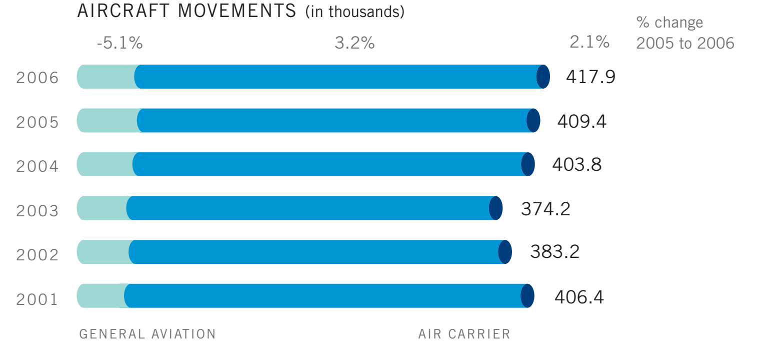
Effective June 1, 2006, the GTAA took over the direct day-to-day management of Terminal 3, which had previously been managed by TBI Canada. Consolidating the management of all terminals at Toronto Pearson under the GTAA is expected to provide the opportunity to increase operational efficiency and reduce costs in the future.

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. The two components of these rates and charges are the landing fee and the general terminal charge. In setting the 2007 rates and charges, the GTAA considers many factors, including the state of the aviation industry, and makes every effort to minimize increases to the greatest extent possible. To this end the 2007 rates and charges were held to a single digit increase.

PASSENGERS BY SECTOR (in millions)



AIRCRAFT MOVEMENTS (in thousands)



PASSENGERS PER AIR CARRIER MOVEMENT

TORONTO PEARSON'S CUSTOMERS AND STAKEHOLDERS HAVE RELIED ON THE GTAA TO DELIVER FACILITIES THAT WILL SERVE THEM WELL INTO THE FUTURE. WE PROMISED AND WE HAVE DELIVERED.

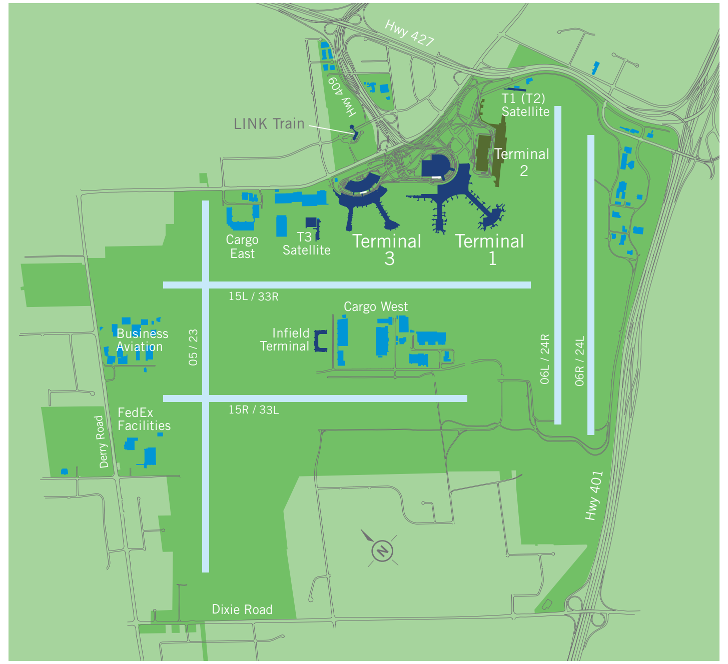
On December 2, 2006, the GTAA reached its 10th anniversary of managing and operating Toronto Pearson International Airport. The date also marked the public celebration of the completion of Pier F and the Airport Development Program. This program has been the major focus of the GTAA since breaking ground for the new terminal in December 1998. As the airport continued to operate while the redevelopment program advanced, travellers and other airport users have shown understanding and patience, which is much appreciated. All the pieces of the puzzle have been joined together and at last, Toronto Pearson is ahead of the demand and is a facility that will serve its community well into the future.

> "We see Toronto Pearson not only as a transportation hub and a driver of economic development but as a catalyst for positive environmental change in the region."
>
> **Brian Denney, Toronto Regional Conservation Authority, CAO**

With the opening of Pier F in January 2007, the GTAA reached its most significant milestone. As a testament to our accomplishments, Toronto Pearson was the recipient of several awards while others recognized the GTAA as an industry leader. Most noteworthy was the award for Best Global Airport by Institute of Transport Management ("ITM"). In addition to several design awards for communications and marketing initiatives, we received accolades in the JD Power North American Airport Satisfaction Study, recognition for Terminal 1 by the American Institute of Steel Construction's IDEAS (Innovative Design and Excellence in Architecture with Steel) award and acknowledgement of our advances in productivity and efficiency in information technology with the Canadian Information Productivity 2006 Award of Excellence.

Many projects, both small and larger in scale, were completed and brought on stream in 2006.

The Cogeneration Plant was completed in late 2005 and in early 2006, the plant began providing power to Toronto Pearson's facilities, reducing our reliance on external sources. In addition to meeting the electrical needs of the airport, this sustainable facility will also produce a substantial amount of clean power to sell back into the Ontario grid. Not only does this offer a new source of revenue to the GTAA, it also provides many operational benefits to the airport including the establishment of defined energy costs and the self-sustainability that comes from the proprietary power.



In June, the GTAA assumed management of Terminal 3, allowing all of the airport's terminal facilities to be operated and managed under one umbrella. This offers ease in effecting technological and operational changes, and ensures consistency in service levels for all terminals.

> "I believe the airport's additional capacity and services will prove the merits of the Airport Development Program."
>
> **The Honourable Lawrence Cannon, Transport Minister**

Also in June, Terminal 3's East and West Processors were completed and brought into operation. The newly expanded spaces are the first stage of the terminal's redevelopment project and will add much needed check-in counters in the new departures hall, and significantly reduce congestion for passengers and meeters and greeters in the international arrivals hall.

In July, the LINK Train began operations, providing an easy and efficient connection between Terminal 1, Terminal 3 and the Reduced Rate Parking Lot. Operating on rope-way cable technology, the LINK travels the 1.5 km between Terminal 1 and the parking lot in under 3.5 minutes. The need for inter-terminal busses has been eliminated by the more efficient driverless vehicles.

In the fall, the Glycol Processing Facility was fully commissioned, in time to be ready for the 2006/2007 winter season. This environmentally-friendly facility processes spent deicing fluid and generates a concentrated glycol product which can then be sold to a secondary market.

In December, construction of the Leadership in Energy and Environmental Design ("LEED") certified Fire and Emergency Services Training Institute neared completion. Finishing touches such as the grass roof and landscaping will be added in spring 2007. The environmentally-friendly building houses classrooms and vehicles bays. There are additional training buildings where Toronto Pearson's Fire Service Instructors can share their expertise in training firefighters from local and international business, industry, colleges and emergency service groups.

> "A strong and vibrant Toronto Pearson International Airport offers municipalities in the GTA a global transportation infrastructure that allows us the opportunity to prosper and grow."
>
> **Susan Fennell, Mayor, City of Brampton**

Several new services were introduced for passengers in 2006, among these, Valet Care. Travellers who want a premium service can get to their gates even more quickly by dropping off their car with a valet at Terminal 1's departures curb. Due to its steadily increasing popularity, the GTAA plans to expand this program to Terminal 3 in 2007.

These are but a snapshot to show some of the highlights of the GTAA's accomplishments in 2006. The Operating Report offers more details and achievements.

THE GTAA IS PROVIDING A BUSINESS ENVIRONMENT THAT ENABLES STAKEHOLDERS TO OFFER THE SERVICES WARRANTED BY TRAVELLERS AND SHIPPERS IN SOUTHERN ONTARIO.

It is my distinct privilege to present my third report as Chairman of the Board of the Greater Toronto Airports Authority, and I thank my fellow Directors for their continuing confidence in my leadership. I am particularly pleased to report on a very successful year for the GTAA. We met our goals by completing Pier F, opening the automated LINK Train and limiting aeronautical fee increases to less than inflation. On December 2, we proudly celebrated 10 years of the GTAA assuming responsibility for the management and development of Toronto Pearson International Airport. The eight years of ongoing construction by the GTAA has now been completed, with the opening of Pier F, on time and on budget; a resounding success to mark our anniversary.

It has also been a time of transition for management, as President and CEO John Kaldeway retired January 31, 2007, and was succeeded by Dr. Lloyd McCoomb. The Board undertook an international search for Mr. Kaldeway's successor. It was a tribute to the strength of our organization that a member from our own senior management team was chosen. There is considerable benefit of having a Chief Executive Officer who is intimately familiar with the GTAA, our past achievements and our future challenges. We thank John for his leadership over the last two and a half years, and congratulate Lloyd on his appointment.

We have now embarked on the next stage of the GTAA's management of Toronto Pearson, as we turn our focus to maximizing revenue generating opportunities while ensuring operating costs are appropriate. The initiative of reshaping our strategy and reviewing our resources is integral to restructuring the GTAA's strategic plan. The revised plan will be released towards the end of this year. We have premier airport facilities – we are now ready to market them to the world.

The GTAA Board has benefitted from first-rate, skilled Board Members drawn from the community. Many have been able to serve more than one term thereby gaining knowledge and experience of the airport that has boded well for the GTAA. The Board nomination cycle ensures that five Board Members' terms come up for either renewal or completion every year. We have been well served by our Members and I thank those who have moved on for their contribution. I appreciate the willingness of our new Members to work and contribute to the GTAA. We are looking forward to meeting our future challenges.

The role and structure of the GTAA as a non-share corporation operating as a commercial entity within a defined public accountability framework is sometimes not fully understood by our various stakeholders. We continue to work on enhancing communications to expand our community support and to provide a balanced picture of the benefits and value that the GTAA has given the region with the redeveloped Toronto Pearson International Airport.

However, the matter of the excessively high ground rent the GTAA is required to pay the federal government, has not yet been addressed by the government and during the year, the GTAA Board felt it imperative to become more outspoken on this major component of our landing fees (34 per cent). The campaign to achieve a more reasonable rent is being undertaken with the support of business and community partners as well as the active involvement of ATAC (Air Transportation Association of Canada) and IATA (International Air Transportation Association). The GTAA's position has overwhelming support from all stakeholders including the travelling community, and we believe that eventually the federal government will offer a fair and competitive rent for Toronto Pearson.

The GTAA is mandated to provide the airport facilities required to meet the demands of aviation in south-central Ontario. While there are several airports in the regional airport system, the GTAA's focus must be on Toronto Pearson which will remain the premier airport not only for the Greater Toronto Area but also for Canada. However, at some point in time further capacity will be required and the GTAA has indicated its support for the work required to protect the option for a regional reliever airport on the Pickering lands.

I must, on behalf of the Board of Directors, congratulate the management and staff of the GTAA at all levels. We have a superb professional organization that has won accolades for both the Airport Development Program's completion and for quality service to all our customers. Thank you all for your commitment and achievements in 2006. I trust you have the same pride as the Board has in the GTAA's outstanding performance.

Ten years ago we set a vision which today is a reality. Now it is incumbent on us to maximize the effective use of these facilities, to market Toronto Pearson to international airlines and to strive to excel in airport management. This is a task we look forward to and will proceed with the same determination that guided the GTAA as it took over Toronto Pearson International Airport 10 years ago.

WARREN C. HURREN, CHAIRMAN

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. Five Directors are appointed from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto is entitled to provide, on a rotating basis, the names of three candidates, and the Board will appoint the most appropriate and qualified candidate for each available position as a Director, taking into account the skill set and make-up required for the full Board. 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. Each Director is an independent Director within the meaning of Multi-lateral Instrument 52-110. The GTAA's By-laws provide that nominees are to be appointed by the Board for a three-year term. No Director may serve in such a capacity for more than nine years.

The GTAA's Board meets on a regular basis and views its principal responsibility as overseeing the conduct of the business of the GTAA and setting the strategic direction for the Corporation. The Board ensures that long-term goals and the strategies necessary to achieve them are established and are consistent with the GTAA's mission:

"TO BE THE NORTH AMERICAN AIRPORT OF CHOICE." To fulfill this mission the GTAA will develop and operate for the public benefit, an airport system which supports the economic development and cultural diversity of south-central Ontario and Canada, providing aviation facilities and services that achieve:

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

This mission will be achieved through:

- developing a skilled and dedicated workforce
- maximizing technology innovation and
- excellence in corporate governance.

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.

"AS A VITAL ECONOMIC ASSET TO OUR RESIDENTS, COMMUNITIES AND BUSINESSES, THE REGION OF PEEL WORKS TOGETHER WITH THE GTAA TO ENSURE TORONTO PEARSON'S SAFE OPERATIONS." CHAIRMAN EMIL KOLB, REGION OF PEEL

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:

GREATER TORONTO AIRPORTS AUTHORITY
BOARD OF DIRECTORS 2006 – 2007

Front row, left to right
Patrick Brigham
Norman Loberg
Warren Hurren *(Chairman)*
Catherine Knipe
Benjamin Hutzel

Back row, left to right
Mac Cosburn
Richard Soberman
Scott Cole
Dale Richmond
Marilynne Day-Linton
Lawrence Worrall
Bruce McKelvey
Christine Hart
Vijay Kanwar
Stanley Archdekin

AUDIT COMMITTEE

The Audit Committee's mandate is to fulfill the legal obligations that apply to audit committees and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting, accounting, auditing and internal controls. In so doing, the Committee reviews all aspects of the GTAA's financial and accounting management procedures, oversees the integrity of the Corporation's financial statements and financial reporting process, the work of the Corporation's external auditors engaged for the purpose of preparing or issuing an auditors' report, overseeing the qualifications and independence of the external auditors and providing an open avenue of communication between the Senior Management of the Corporation, the external auditors, the internal auditors, and the members of the Board and committees of the Board.

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.

A written copy of the Charter of the Audit Committee is attached to the Corporation's Annual Information Form which may be accessed at www.sedar.com.

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

The Corporate Governance and Compensation Committee is charged with monitoring the relationship between management and the Board and defining management's responsibilities. The Committee is also responsible for developing and reviewing the roles and responsibilities of the Board, the Chair of the Board and the President and Chief Executive Officer, overseeing the nomination process, recommending candidates for appointment as Directors, establishing an orientation program for new Directors, reviewing the terms of reference of Board committees, reviewing management succession policies, assessing the effectiveness of the Board and the Committees of the Board 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, employee occupational health and safety, public safety, emergency preparedness and security 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.

THE REGION NOW HAS THE AVIATION FACILITIES TO SUPPORT LEISURE AND BUSINESS AIR TRANSPORTATION WELL INTO THE FUTURE. TORONTO PEARSON IS PROUD TO BE THE FRONT DOOR TO A GROWING AND DYNAMIC AREA.

In taking up the position of President and CEO of the GTAA, I would like to recognize my indebtedness to my predecessors. I am directly following the very successful leadership of John Kaldeway who brought the Airport Development Program ("ADP") to completion with the opening of Pier F and has positioned the GTAA favourably for the future; I congratulate John on his achievements and a well earned retirement.

I must also express my thanks to the Chairman and Board Members for the trust they have shown me, and with the GTAA's exceptional management team, I am looking forward to a very exciting time of consolidation and progress as we take the Corporation into its next decade.

The year 2006 proved to be one of outstanding accomplishments for the GTAA as Toronto Pearson's passenger volume reached the 31 million mark. By the end of the year, the eight-year ADP was nearing its completion with the preview of Pier F in early December. When the first flight ushered in the operational opening of Pier F on January 30, 2007, the end of the ADP had arrived. Pearson is ahead of the demand curve for the first time in 20 years and we are now able to focus on the operation and management of facilities rather than their construction. Toronto Pearson is virtually a new airport built to the most advanced standards of safety, security and environmental sustainability. Furthermore, this has all been achieved within budget and on time – a remarkable feat given that the ADP represented one of the largest construction programs of its type in Canadian history. As the Vice President of Planning and Development prior to my current position, I take great pride that, in just 10 years, the GTAA's accomplishments have secured for the Greater Toronto Area aviation facilities that provide the excellent access to the global markets of commerce and tourism needed to support southern Ontario's vibrant economy.

Toronto Pearson is today a convenient and efficient airport for all users and has many distinctive features. The addition of the automated LINK Train now offers new efficiencies and time savings for passengers, linking Terminal 1, Terminal 3 and the Reduced Rate and employee parking lots. During 2006, we opened significant additions to Terminal 3 maximizing its capacity potential; we began operations on a new glycol recovery and recycling plant; and finished our first LEED building, the GTAA Fire and Emergency Services Training Institute. The list goes on and it is very satisfying to record that our achievements have received international recognition with Toronto Pearson being named by the Institute of Transport Management as Best Global Airport for 2006.

This annual report provides details on the projects completed and our many other achievements in 2006, and it does so not by architectural renderings of intended plans but by photography of facilities we have built. The GTAA is proud to finally present the people in the Greater Toronto Area with the airport facility it deserves.

With the major project finished and premier facilities open, it is time now to work toward marketing the airport and pursuing a more efficient and more effective operational model. Toronto Pearson is a superbly located international gateway and it is incumbent on us to work diligently to meet our customers' and partners' expectations for delivering quality services and facilities at competitive costs. As we had anticipated, the transition from a focus on construction to a focus on management is providing an opportunity to look across the organization and reshape our strategic direction. We have been very successful to date in accomplishing our mission and in the process we have accumulated a wealth of corporate knowledge and expertise. It is on this solid base that we intend to build the next iteration of our strategic plan which will in turn shape the way we go about our business. While we have been effective in the past, as with everything, we recognize that we have an opportunity to do things even better.

Finally, I would like to recognize the excellent, professional executive team I now lead. We are supported by a corporate staff group which is second to none in the business of airport management. And we are privileged to serve a Board that is regional in makeup, widely experienced, and international in vision and strategy. Thank you.

DR. LLOYD A. MCCOOMB,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

"The GTAA's redevelopment of Toronto Pearson positions the airport as an important inter-modal hub within the Province's transportation network and connects Ontario with the world."

DONNA CANSFIELD, MINISTER OF TRANSPORTATION, ONTARIO

AS IN THE PREVIOUS NINE YEARS, 2006 SAW MANY CHANGES AT THE AIRPORT, THROUGH NEW FACILITIES, UPGRADED SERVICES AND IMPROVEMENTS IN OPERATING EFFICIENCIES. THE GTAA'S FOUR CORNERSTONES HAVE GUIDED THE CORPORATION'S STRATEGIC OBJECTIVES AND MISSION TO DEVELOP A REGIONAL AIRPORT SYSTEM THAT SUSTAINS THE ECONOMIC DEVELOPMENT OF THE GREATER TORONTO AREA AND SOUTH-CENTRAL ONTARIO. IT HAS BEEN THE GTAA'S GOAL TO BRING NEW AIR SERVICES, A GREATER SELECTION OF AIR CARRIERS AND EXPANDED ROUTES FOR PASSENGERS FLYING INTO AND OUT OF TORONTO PEARSON. AS THE AIRPORT DEVELOPMENT PROGRAM NEARED COMPLETION, 2006 SAW SEVERAL NEW DESTINATIONS SERVED, AND INCREASING OPPORTUNITIES FOR NEW AIRLINES TO FLY OUT OF TORONTO PEARSON.

2006 NEW AIRLINE MARKETS

AIR CANADA	ABBOTSFORD FORT MCMURRAY HOUSTON SAN DIEGO SARASOTA
AIR CANADA JAZZ	CHARLOTTE SALT LAKE CITY ST. LOUIS WASHINGTON, D.C.
AIR INDIA	AMRITSAR
AIR TRANSAT	MADRID
COMAIR	SALT LAKE CITY
DELTA	SALT LAKE CITY SAN ANTONIO
NORTHWEST	BISMARCK BOSTON CENTRAL WISCONSIN DULUTH FLINT GREEN BAY JACKSON LACROSSE MADISON MIAMI MISSOULA NEWARK SHREVEPORT TULSA
SKYSERVICE	STEPHENVILLE
SUNWING	CHARLOTTETOWN FORT LAUDERDALE GANDER HALIFAX ORLANDO ST. JOHN'S SYDNEY, N.S.
TRANSAERO	MOSCOW
UNITED	DENVER SAN FRANCISCO
WESTJET	NASSAU PRINCE GEORGE ST. JOHN'S WEST PALM BEACH

This list may not be inclusive of all new routes introduced in 2006.

SAFETY

Fire and Emergency Services Training Institute The GTAA's firefighting expertise has gained worldwide recognition since its training program was launched in 1998, with more than 2,000 trained in 2006. To support the growing demand, a $15 million Fire and Emergency Services Training Institute was completed in Fall 2006. The 2,804 m^2 environmentally-friendly building conforms to Silver standards outlined in the Leadership in Energy and Environmental Design ("LEED") building program. LEED evaluates a building over its life cycle based on six primary categories: sustainable site, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, and innovation and design process.

Housing 220 people when running at full capacity, the training institute includes many environmental features: a solar wall will absorb heat over the day, aiding in heating the building; concrete walls, floors and ceilings retain heat better and at a lower cost; classrooms are located partially underground for better temperature control in the summer and winter; and a grass-covered roof. In addition to the main building, there is a Confined Space Tower, Burn Building/Fire Tower and the Rescue Tower.

With a growing clientele from all over Ontario, Canada and the world, instructors deliver a wide range of firefighting and emergency services programs and have formed partnerships with firefighting programs at several local colleges.

Medical Services Since 1999, a fully functioning medical clinic has been operating out of Toronto Pearson. Serving the needs of the airport community as well as the travelling public, the clinic provides emergency care, family practice, chiropractic, and various other medical services. In 2006, a team of three physicians assisted more than 14,000 patients. The 24 specially trained Registered Nurses and Paramedics responded to over 3,400 emergency calls and saw over 13,800 ambulatory patients in the clinic.

Emergency Planning Toronto Pearson continues the evolution of the Airport's Emergency Management Program to mitigate, prevent, prepare for and recover from events that could disrupt normal operations. The airport's level of preparedness to address all hazards was evidenced in July 2006, when the Canadian government implemented an action plan to evacuate 17,000 Canadians from Lebanon, many of whom were to be repatriated through Toronto Pearson. Within 24 hours of notification of the impending flights, the GTAA was able to mobilize resources to receive and process the expatriates.

New Security Measures and Programs In August 2006, responding to alleged terrorist threats in the United Kingdom, the Canadian government implemented enhanced aviation security measures at Canadian airports. An initial ban on all liquids, gels and aerosols in passenger carry-on baggage severely impacted sales at duty free, retail, food, and beverage outlets. To address this, the GTAA worked with the federal government and other Airport Authorities to develop revised security measures with conditions for the transportation and screening of such items.

The GTAA instituted a Supply-Chain Security Program to ensure a secure chain of custody and control for all goods destined for terminal sterile areas. This program exceeds the requirements of civil aviation safety and security legislation, and ensures that security policies and procedures pertaining to shipment and receipt of goods destined for Toronto Pearson are adhered to at all points of goods handling. At Toronto Pearson, we are now able to meet all the security requirements of an aerodrome operator and at the same time permit passengers to take onto aircraft liquids, gels and aerosols purchased at concessions beyond passenger screening points, minimizing the impact on concession sales.

The GTAA is participating in consultations led by Transport Canada to develop an enhanced air cargo security regime that will impact on the operational practices of the Canadian aviation cargo industry and airport operators. As a member of the Security Expert Working Group, the GTAA participates in two subcommittees, Policies and Procedures and Security Verification Process.

Restricted Area Identity Card ("RAIC") Program In November 2002, Transport Canada announced the Restricted Area Identity Card Program for all Class 1 and 2 airports which would enhance the Restricted Area Pass ("RAP") Program through the use of biometric validation. To implement this program at Toronto Pearson, the GTAA worked with the Canadian Air Transport Security Authority, ("CATSA"), the lead agency responsible for program design, development and implementation.

Phase 1 of the program required replacement of all RAPs with RAICs and deployment of RAIC reader equipment in the air terminal buildings. At Toronto Pearson, the GTAA redesigned the existing RAPs and re-issued identity cards to approximately 33,000 permanent pass holders and worked with CATSA on the implementation of a complex network of systems and equipment functionalities. The GTAA has now completed the first phase of the program. Phase 2, currently under development by Transport Canada and CATSA, will extend the general RAIC security concept (i.e., biometric validation at access points) beyond the air terminal buildings.

Wildlife Management The GTAA wildlife management program is one of the most comprehensive of its kind in Canada. In addition to traditional wildlife management practices, the GTAA uses a hack (young falcons raised in an artificial aerie) to control the number of small perching birds on the airport. Through the falcon hack, which hunts and chases nuisance birds, the GTAA aims to reduce the number of flocking birds frequenting critical parts of Toronto Pearson. The program was expanded in 2006 to include a release of up to 27 Gyrfalcons and Gyr hybrids. As the only airport in North America with a falcon hack, Toronto Pearson has been featured on the Discovery Channel's "Working with Animals" program.

CUSTOMER SERVICE

Airport Customer Assistance Program ("ACAP") Several years ago, the GTAA introduced ACAP to provide point-to-point transportation and assistance for persons with disabilities and those in need of mobility assistance. In conjunction with the airlines operating at Toronto Pearson, the GTAA's intent is to provide seamless services from the point of arrival at the terminal through to the seat of the aircraft. Airlines which choose to continue providing their own wheelchair services do so from check-in to the seat of the aircraft, and on arrival from the aircraft to the exit doors at the baggage hall, where ACAP completes the services required by the passenger.

Introduced at Terminal 1 in April 2004, the service has expanded and by 2006, all airlines in Terminal 3 were using the service. As a component of the program, electric vehicle (surrey) routes have been established and are available to all passengers requiring assistance beyond the security screening points.

Made to Fly In recent years, many airlines have reduced their in-flight food services as part of changes in their operating procedures. To give travellers an opportunity to quickly "grab a bite for the flight" from retailers in the terminals, in 2006, the GTAA established a convenient food service program called "Made to Fly". Travellers can select a meal of their choice from the numerous retail facilities available in the terminal and meals are suitably packaged for the flight. Through this program, the GTAA is offering an added service to passengers, and also supporting its retail partnerships in the terminals.

New and Expanded Retail The GTAA is focused on better meeting the needs of travellers and is continually working with Toronto Pearson concessionaires to offer passengers what they want. Introducing familiar brands and ensuring "fair market" pricing in dining, products and services allows passengers an opportunity to exercise their brand-loyalty while in the terminals.

In 2006, the retail program

expanded to include Fruits & Passion, Lindt, Business Essentials, additional Relay newsstands and a renovated Java Joes. With the opening of Pier F in 2007, to meet the needs of U.S. and International-destined passengers, retail additions will include news, books and music stores, a :10 Minute Manicure kiosk and a shoe shine stand. International passengers now have a greater selection in the new 12,000 square foot Duty Free store in Hammerhead F and the first downstream duty free offering for U.S.-bound passengers in Canada, assuring Toronto Pearson's recognition as a world-class facility.

Information Counters The GTAA's blue-uniformed Terminal Specialists and Passenger Information Representatives are an integral part of ensuring that Toronto Pearson's travellers, greeters, and employees find their way in the terminal and beyond. To supplement the services of these mobile customer assistance agents, the GTAA installed fixed Information Counters at key decision-points (eight in Terminal 1 and two in Terminal 3). Each counter is equipped to staff can provide live flight information, tourist information, transportation schedules, and respond to other passenger inquiries. Since this initiative began, the agents have been able to assist more than double the number of passengers.

Art Program The art and exhibitions program at Toronto Pearson saw exciting additions with the new international pier coming on stream. The permanent collection of commissioned works now includes sculptures by Canadian artist Dereck Revington and American artists Gwynn Murrill and Richard Serra, as well as a wall painting by American artist Sol LeWitt.

Two new "storefront" style galleries – Destination West and Destination East – and a series of freestanding display cases in Hammerhead F offer rotating exhibitions, frequently showcasing partnerships with Canadian cultural organizations and collectives, as well as community-minded projects.

Play Areas To make the travel experience enjoyable for the entire family, the GTAA has created a number of play areas suited for the younger passenger. With conventional indoor playground equipment, play areas can be found in Terminal 3's international departure lounges and Terminal 1's domestic departure lounges. Comfy Cars, interactive children's computer games, are also available in both terminals. The play areas offer an opportunity for the young to burn some energy, use their imaginations, and play.

Serving Customers in Many Languages To supplement the multi-lingual customer service agents, the GTAA has contracted Language Line Services for over-the-telephone interpretation during situations when on-site resources are not readily available. The professionally trained interpreters can provide service in over 150 languages.

Wireless Internet The GTAA now offers internet services in all public areas beyond security points in Terminal 1. Branded with distinctive Wi-Fi logos throughout the terminal, the service provides high speed wireless access for travellers arriving from or waiting for flights. Any laptop PC or personal digital assistant capable of using wireless services can easily link to the internet for e-mail, browsing or accessing a corporate network. Whether for important business, keeping up to date or just filling in time, no one will have to be out of touch while at the airport. The GTAA will introduce the same service in Terminal 3 during the summer of 2007.

High Speed Walkway By mid-2007, two 268m long high speed moving walkways will be available to move international passengers the full length of Pier F. These outbound and inbound passengers will have the option to take the high speed moving walkway between security and their gates and from their gates to Canadian customs. This state-of-the-art equipment is the first of its kind in the world and will move at speeds of two metres per second – or three times the speed of normal moving walkways. The high speed moving walkways will reduce the travel time over the length of Pier F by approximately 65 per cent. Installation of the walkways began in mid-September 2006. They are fully installed and currently being commissioned for use.

ENVIRONMENT

Cogeneration Plant Toronto Pearson became more self sustainable when the GTAA opened the new Cogeneration Plant, which was designed to eliminate the GTAA's dependency on power from external sources. Further, it protects the airport from the effects of a blackout similar to the one experienced in August 2003. The Cogeneration Plant was originally identified by the GTAA in 1998 as a possible project, but was not feasible in the regulated energy market that existed at that time. In 2002, the market was deregulated and, after a thorough assessment, the GTAA decided in January 2004 to proceed with the project. The first electricity was supplied to the provincial grid from the plant during testing on August 31, 2005, and the plant was fully operational on December 22, 2005.

The natural gas-fuelled facility supplies power at peak times – up to 117 MW – to the GTAA and to the provincial grid, reducing both the province's reliance on coal-fired generation and its need to import power from outside the province. The greatly-reduced air emissions relative to the amount of power generated by the GTAA provide a significant positive environmental benefit to the people of Ontario. In addition, the "waste" heat from the plant is currently used to provide up to 25 per cent of the airport's heating and cooling needs through the airport's Central Utilities Distribution System.

Earth Day Officially launched worldwide in 1990, Earth Day has grown to an event celebrated by more than 500 million people globally. On April 21, 2006, GTAA employees played their part, collecting almost 22 cubic yards of debris along Spring Creek. The waterway flows from a highly urbanized area, resulting in garbage and other unwanted materials floating down onto airport property. The GTAA plans to continue this initiative and clean a new section of the creek bank in 2007.

ISO Recertification When the GTAA received ISO 14001 certification for its Environmental Management System ("EMS") in 1999, we recognized that while obtaining the designation was a challenge, maintaining it would be the more critical one. The positive 2006 ISO audit findings reflect our commitment toward the environment. The GTAA was again recommended for continued registration to the ISO standard.

Riparian Habitat The GTAA has established a multi-year project to complete aquatic and riparian habitat improvements along Etobicoke and Spring Creeks within the airport boundary. During 2006, a bank with excessive erosion along Etobicoke Creek was successfully stabilized using bioengineering methods as opposed to a traditional hardscaping method. An ongoing monitoring program will evaluate the success of the previously completed works, through photographic monitoring, fish population and benthic invertebrate monitoring and vegetation assessment.

Watershed Management In partnership with the GTAA, the Toronto and Region Conservation Authority ("TRCA") established the Living City Project, an interdisciplinary approach to watershed management within this area of the Etobicoke and Spring Creeks. As part of the project an in-depth assessment of the terrestrial natural heritage system around the airport was completed, as well as a fish management plan for the Etobicoke Creek, and a review of the stormwater system for the entire Etobicoke Creek watershed. Resultant reports provide a characterization of the natural heritage system in the creek, and offer management and restoration recommendations to guide improvements in the watershed's ecosystem. The TRCA, the GTAA and its municipal partners will implement these recommendations starting in 2007. The GTAA Living City Project is a major undertaking involving four main components:

Terrestrial Natural Heritage The Terrestrial System inventory and modelling for the study area (Toronto Pearson) includes management recommendations, identification of potential/targeted natural cover and priority restoration and enhancement sites to meet TRCA's local, as well as watershed, targets for the terrestrial system.

Aquatic Ecosystems The Etobicoke Creek Watershed Fisheries Management Plan presents management recommendations for target species at a subwatershed scale and restoration opportunities for priority aquatic habitat in close proximity to GTAA lands.

Stormwater Management The Stormwater Management Study includes five components: a modelling assessment of runoff water quality management in Etobicoke Creek for catchment 219, which is a representative catchment upstream of the GTAA property; the Etobicoke Creek watershed spills mapping study; a fluvial geomorphology and erosion assessment of Etobicoke Creek; off-site and on-site stormwater management opportunities, and the TRCA hydrology model update. These reports provide the basis for improved stormwater controls in the watershed.

Integration and Priority Implementation Recommendations Key recommendations from the above studies are spatially and conceptually integrated to ensure land uses, water quality, fisheries and terrestrial opportunities are prioritized within the study area. Potential partnerships and community outreach opportunities for implementation are provided as part of the business stewardship program.

Water Quality Program The stormwater facility WM4 construction was completed at the end of 2005. This facility is the latest component of the stormwater system and supplements the GTAA's program of stormwater management. The completion of this pond is a major milestone with all major stormwater quantity and quality control work on the GTAA lands now completed.

Glycol Processing Facility The GTAA Glycol Processing Facility was completed in November 2005 and commissioned in January 2006, processing approximately one million litres of spent deicing fluid during the spring of 2006. Additional concentrators arrived in the summer of 2006 and the facility has been in full operation since January 2007 when the first significant volumes of fluid became available.

The concentrated product generated from this processing is sold into a secondary market. The revenue generated from the GTAA's portion of the sale of fluid was returned in the form of a credit toward the processing fee which in turn offsets the overall operating cost of the Central Deicing Facility. The airport is now environmentally self-sufficient in processing high concentrate spent glycol rather than relying on an outside source to destroy it. Recycled ethylene glycol is primarily used in the automotive industry as engine coolant.

REVENUE AND GROWTH

Retail and Concessions Initiatives In 2006, a Request for Proposals was issued for new retail spaces at Toronto Pearson's terminals. New outlets will include three more :10 Minute Manicure locations, GOSH Cosmetics by :10 Minute Manicure, Business Essentials and Rocky Mountain Chocolate Factory. In 2007, new services will include a second Business Essentials in Terminal 3, two kiosk-retail concepts in Terminal 1, a second food and beverage location in Terminal 1 Arrivals and incremental duty free locations throughout the airport.

Advertising Initiatives In 2006, the GTAA expanded the in-terminal advertising program, introducing new technology and interactive displays including the Cisco Phone, Philips Simplicity Environment, AMEX point-technology kiosk and the Mercedes information terminal with display. As a result, revenues from advertising in 2006 exceeded 2005 revenues by approximately 72 per cent. In 2007, this program will see added outdoor advertisement boards along major roadways.

Cargo Operations Air cargo volumes at Toronto Pearson increased to 505,000 metric tonnes in 2006, up 6 per cent over 2005. The positive results were mainly driven by strong freighter traffic volumes with a combined 13 per cent growth for this sector. Cargo transported on scheduled freighter flights increased 27 per cent and all-cargo charters increased 3 per cent over 2005. These volumes place Toronto Pearson as the leading air cargo hub in Canada served by scheduled all-cargo programs to Latin America, Europe, Asia and the U.S.

Cathay Pacific Cargo launched a new freighter program in September 2006 with three weekly B747-400F flights and is considering adding a fourth flight as of summer 2007. This activity confirmed Toronto Pearson's position as the leading cargo gateway in Canada.

Still the leading cargo operator in Canada, Air Canada has its cargo hub at Toronto Pearson operating a freighter program that serves both

Asia and Europe. With leading all-cargo carriers such as Korean Air and Martinair, the airport is a platform for heavyweight charter operators and Canada's leading courier gateway for transborder traffic with FedEx, which uses Toronto as its Canadian hub. UPS, DHL and BAX Global also have significant operations at the airport.

Airport Improvement Fee The Airport Improvement Fee ("AIF") is used to partially fund capital costs and the associated debt service at Toronto Pearson International Airport. On January 1, 2007, the GTAA increased the AIF charged to passengers originating their journey at Toronto Pearson from $15.00 to $20.00. The AIF for connecting passengers remains unchanged at $8.00.

AIRPORT DEVELOPMENT PROGRAM ("ADP")

Terminal 1 The second phase of the ADP was completed in 2006, when the international Pier F was opened for public previews in early December and for operations at the end of January 2007. This marks the culmination of the GTAA's 10-year ADP and now permits us to look at the longer term requirements for Toronto Pearson.

Terminal 2 Terminal 2 began processing charter flights in 1971 with operations in full swing by 1973. Today, Terminal 2 is in the process of being decommissioned to make way for the expansion of Terminal 1. Further expansion of Terminal 2 was not possible due to site geometry and its proximity to airside maneuvering surfaces and other permanent structures. Additionally, the building's linear two-level configuration was unable to provide an acceptable level of service for all passengers. The demolition of Terminal 2 will continue throughout 2007 and into 2008.

Terminal 3 In addition to the new facilities in Terminal 1, Terminal 3 also saw expanded services and facilities in 2006. Forty additional check-in counters, with space allocated for more to be added as required, will ease the departure process for many travellers. Also a part of the terminal's development, an enlarged and streamlined Customs Border Services Agency processing area and an expanded arrivals area create a more inviting meet and greet area. Additional features including a larger Pre-Boarding Security Screening point for international passengers will follow in 2007.

COMMUNITY

Consultative Committees To foster and maintain dialogue with its many community groups, the GTAA continues its program which includes meetings and other opportunities for consulting with airport stakeholders.

In 2006, the Noise Management Committee expanded its focus to include environmental issues and made site visits to Noise Monitoring terminal, and stormwater and deicing facilities. The committee advocated for improvements to City of Mississauga aircraft noise warning signage and passed a resolution calling on Transport Canada to reinvest fines collected for aircraft noise violations into local noise mitigation efforts.

The Consultative Committee addresses initiatives where Toronto Pearson and airport stakeholders can collaborate in support of the region's economic development. This committee launched and guided a study that examined ways to integrate the economic development strategies of the airport and its neighbouring communities of Brampton, Mississauga, and Toronto. The committee also advocated for Canada to adopt a more liberalized air policy and to enter into less restrictive agreements with other countries; arrivals duty free at Canadian airports; and supported the call for a fair rent deal for Toronto Pearson.

The GTAA's Consultative Committee on Taxicabs and Limousines offers an opportunity for the airport taxicab and limousine industry to share information, discuss issues of interest, and act in an advisory capacity to the GTAA. In 2006, this group developed a new out-of-zone tariff map for passengers and refined the GTAA excess baggage protocol. They also made recommendations to improve customer service for the travelling public and advocated for legislative changes to combat illegal scooping.

Industry Stakeholders The GTAA has been working diligently over the last several years with local and regional business and industry associations to enhance stakeholder relations. Once an unknown and unfamiliar organization, the GTAA has garnered support for its undertakings and improvements at Toronto Pearson. As a result, in 2006, several Boards of Trade, Chambers of Commerce, municipalities, and aviation industry partners have championed the GTAA's efforts to get a fair rent deal for the airport.

Economic Impact Study In addition to enabling the movement of passengers and goods, Toronto Pearson is a major contributor to the region's economy. Measuring direct, indirect and induced impacts for business revenue, employment wages, and taxes paid to all levels of government, the findings show that the impacts of the airport were greater than those under the previous model of 1995.

Scholarships Toronto Pearson and Georgian College have shared a special connection, as for the past two decades, the school has been a major source of employable graduates eager to enter the field of aviation. In 2006, prospective students of the Georgian College Aviation Management program were able to explore opportunities available to program graduates during a behind-the-scenes tour of Toronto Pearson.

Recognizing the need for aviation and related expertise in the future, the GTAA has established scholarships for students of Georgian College, the University of Toronto, and the Dreams Never Die foundation. These three scholarships, and the GTAA's support of the Georgian College Aviation Management program, are a testament to the Authority's commitment to the community and developing its youth.

GOVERNMENT AND AGENCIES

Improved Transit Access The GTAA continues to work with local transit authorities to expand its inter-modal connections with the surrounding regions. In 2006, the TTC added a new stop to the existing 192 Airport Rocket route, offering enhanced bus service to the airport.

Illegal Scoopers The GTAA is dedicated to the safety of its passengers and has established stringent training and safety standards that taxis and limousines must meet in order to be licensed to pick up passengers at the airport. "Scoopers" are taxi/limo drivers who are not licensed by the GTAA and may not meet our required safety standards. The GTAA has worked with all levels of government and Peel Regional Police to find a legislative solution to the problems associated with "scooper" activity and in 2006, the provincial government introduced legislation making it an offence to engage in scooper activity in Ontario. Peel Regional Police can now charge "scoopers" under the Highway Traffic Act. It is hoped that this new offence, which carries significant fines, will eliminate this dangerous activity at Toronto Pearson.

GTAA AND ITS EMPLOYEES

Terminal 3 Management Effective June 1, 2006, the GTAA took over the direct day-to-day management of Terminal 3. Previously, Terminal 3 was managed by TBI Canada under a contract which was initially in place when the GTAA acquired Terminal 3 in 1997. The combined GTAA workforce will offer increased opportunities for operational efficiencies and reduced costs. With the focus now shifting from the Airport Development Program, it was timely to consolidate the management of all terminals under the GTAA.

Sponsorship and Community Support The GTAA recognizes that many in the airport's surrounding regions rely on support from individuals and organizations. Through donations to local charities, including the United Way, a group of employees at the GTAA organized an airport-wide hockey tournament, dubbed the Toronto Pearson Cup, to raise funds for the Albion Boys and Girls Club, a community-based charity.

2006 FINANCIAL REVIEW

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the section titled "Caution Regarding Forward-Looking Statements" contained at the end of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to the forward-looking statements.

This report discusses the financial and operating results for the Greater Toronto Airports Authority ("GTAA") for the year ended December 31, 2006 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2006 and 2005 and the Annual Information Form for the year ended December 31, 2006. These documents provide additional information on certain matters which may or may not be discussed in this report. 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 and MD&A 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, and recognized as a Canadian Airport Authority by the federal government in November 1994. 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, the GTAA currently manages and operates Toronto Pearson International Airport (the "Airport" or "Toronto Pearson").

The responsibilities of the GTAA for the operation, management and development of Toronto Pearson 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 air travel requirements for the GTA.

BUSINESS STRATEGY AND MISSION

The GTAA remains focused on providing quality aviation facilities at Toronto Pearson, recognizing that the region's current and future demand for air travel is expected to continue to grow. To meet this anticipated demand the GTAA has undertaken the Airport Development Program ("ADP"), completed in January 2007, as well as the redevelopment of Terminal 3. The GTAA is committed to fulfilling its mandate in a fiscally responsible manner. This commitment is expressed in the GTAA mission statement:

"To develop and operate for the public benefit, an airport system which supports the economic development and cultural diversity of south-central Ontario and Canada, providing aviation facilities and services that achieve:

- The highest standards of safety and security;
- Excellence in customer service;
- Environmental stewardship and sustainability; and
- Cost effectiveness and efficiency.

This mission will be achieved through:

- Developing a skilled and dedicated work force;
- Maximizing technology innovation; and
- Excellence in corporate governance."

The mission of the GTAA establishes its operational priorities and guides its capital decision making. The GTAA's strategy places priority on fiscal management and facility and service development. The much needed redevelopment of Toronto Pearson has required the GTAA to borrow extensively and the management of this financial commitment is a central issue for the corporation. The GTAA recognizes the need to manage costs, maximize non-aeronautical revenues, and optimize the use of new facilities and, over time, to reduce the magnitude of outstanding debt.

The ADP, a major capital program which included the construction of passenger facilities, runways, taxiways, utilities, roadways and other facilities, and the redevelopment of Terminal 3 and other capital projects have required ongoing capital funding. The GTAA is a non-share capital corporation and therefore has established a program to access the debt capital markets on an ongoing basis to fund its various capital programs. 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. With the ADP now complete and redevelopment of Terminal 3 in its final stages, it is anticipated that over the next several years any additional indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and smaller scale new capital investments to improve operations at the Airport or generate additional non-aeronautical revenues.

SIGNIFICANT EVENTS

A number of significant events transpired in 2006 which had an impact on the GTAA's operations or financial results or which may affect future results. In addition to the events discussed in this section, certain construction projects were completed and these are discussed in the section on the Airport Development Program and Capital Projects.

On February 28, 2006, the GTAA completed a debt issue of five-year Medium Term Notes ("MTNs") in the amount of $250 million. The proceeds were used to fund the reserve requirements, repay the syndicated bank facility and fund capital expenses.

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") entered into an agreement whereby Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport for a total price of $30.0 million. The land is to be transferred to the GTAA in stages and the first transfer of 16.1 hectares for $8.0 million occurred in May 2006. While the GTAA retains a leasehold interest in the land, title to this first parcel has been transferred to the federal government as required under the terms of the Ground Lease.

Effective June 1, 2006, the GTAA took over the direct day-to-day management of Terminal 3. Previously Terminal 3 had been managed by TBI Canada under a contract which was initially in place when the GTAA acquired Terminal 3 in 1997. Consolidating the management of all terminals at the Airport under the GTAA is expected to provide the opportunity to increase operational efficiency and reduce costs in the future.

In June 2006, the Supreme Court of Canada released its decision unanimously upholding the rights of Canadian Airport Authorities, including the GTAA, to seize and detain leased aircraft operated by an air carrier who had defaulted in the payment of fees and charges to the Airport Authority. This decision arose from the insolvency of Canada 3000, which filed for bankruptcy in November 2001, owing the GTAA $12.8 million. In upholding the right of Canadian Airport Authorities to seize and detain leased aircraft, the Supreme Court of Canada referred the matter to the original motions judge for an order that would have allowed the Airport Authorities to cash certain security posted at the time of the bankruptcy by the aircraft lessors in lieu of the aircraft themselves. In December, 2006, one group of aircraft lessors challenged the right of the motions judge to issue an order allowing for the security to be cashed by the Airport Authorities. Following a hearing of the matter, the motions judge rejected the aircraft lessors' position. The aircraft lessors have appealed this decision to the Ontario Court of Appeal. A date for the hearing of the appeal has not been set.

In a related matter, the GTAA has filed a claim for approximately $5.7 million, representing all amounts owed by Jetsgo Corporation at the time of its bankruptcy for outstanding landing fees, terminal charges, rent and approximately $2.5 million in AIF revenue. The GTAA and other Canadian Airport Authorities obtained a court order which segregates the sale proceeds of certain Jetsgo aircraft for unsecured creditors including the GTAA. It is expected that the question of whether the proceeds of the sale of the aircraft can be applied to the debt owing by Jetsgo to Canadian Airport Authorities including the GTAA, will be determined in court proceedings to be held in 2007.

On June 15, 2006 Bill C-20, entitled the Canada Airports Act was tabled before Parliament. This Bill is largely based upon Bill C-27 which was tabled before Parliament, but expired on the order paper in 2003. If enacted into law, Bill C-20 would regulate all Canadian Airport Authorities, including the GTAA, by establishing specific requirements for corporate governance, the process for setting rates and charges and the management of their facilities. The GTAA has presented its position to Transport Canada on the proposed legislation. Bill C-20 did not receive second reading in 2006, nor was it referred to committee. The precise legislative timetable for Bill C-20 is uncertain.

On July 13, 2006, those GTAA employees represented by the Public Service Alliance of Canada Local 00004 ratified a new four-year collective agreement covering the period from August 1, 2006 to July 31, 2010.

In August 2006, responding to alleged terrorist threats in the United Kingdom, the Government of Canada implemented enhanced aviation security measures at all airports across Canada, including Toronto Pearson. After an initial ban on all liquids, gels and aerosols in carry-on baggage, modified security measures were implemented allowing for liquids, gels and aerosols but restricting the type and amount that can be carried by passengers onto the aircraft. During the period of the initial ban, sales at duty free and some other retail and food and beverage operations at the Airport were severely affected which also affected the rents paid by the operators of these concessions to the GTAA. The current security measures allow for the sale of liquids, gels and aerosols, which can be taken onto the airplane, in the areas of the Airport located beyond passenger screening points, minimizing the impact on concession sales and rents.

On September 20, 2006 CanJet Airlines ceased all scheduled passenger operations. CanJet continues to operate charter flights from the Airport.

On October 24, 2006 the GTAA completed a debt issue in the amount of $350 million. A portion of the proceeds from the issuance of these two-year floating rate MTNs was used to fund reserve requirements and to repay the syndicated bank facility. The remainder of the proceeds is being used to fund capital expenses.

Subsequent to the end of 2006, on January 1, 2007, the GTAA increased the Airport Improvement Fee ("AIF") charged to passengers originating their journey at Toronto Pearson from $15.00 to $20.00. The AIF for connecting passengers remains unchanged at $8.00.

Effective February 1, 2007, the Board of Directors appointed Dr. Lloyd McCoomb as President and Chief Executive Officer of the GTAA. Dr. McCoomb replaces Mr. John Kaldeway who had previously announced his intention to retire. With over 35 years experience in transportation and engineering management, Dr. McCoomb was most recently Vice President, Planning and Development at the GTAA and was responsible for the successful completion of the ADP.

The GTAA purchased 9.7 hectares of land adjacent to Bramalea Road and the Airport for $15.3 million on February 16, 2007. This land was formerly owned by the York Skeet Club and is located to the west of the FedEx cargo facility. The vendor completed an environmental remediation of the lands and transferred the land to Transport Canada. Transport Canada added these lands to the lands leased by the GTAA under the Ground Lease.

On March 7, 2007, the GTAA Members, on the recommendation of the Audit Committee and the Board, appointed PriceWaterhouseCoopers LLP to serve as auditors of the GTAA. Deloitte & Touche LLP had previously served as the GTAA's auditors, including in respect of its financial year ended December 31, 2006. There were no reservations in Deloitte & Touche LLP's audit reports for either of the GTAA's two most recently completed financial years, and there were no "reportable events" (as such term is defined in the Canadian Securities Administrators' National Instrument 51-102 ("NI 51-102")) in connection with the change of auditors. A complete reporting package relating to the change of the auditors, as required pursuant to NI 51-102, can be accessed through SEDAR at www.sedar.com.

Each of PriceWaterhouseCoopers LLP and Deloitte & Touche LLP is independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

OPERATING ACTIVITY

The GTAA monitors passenger activity levels and aircraft movements, including the type and size of aircraft, as both passenger and aircraft activity have a direct impact on financial results. Passenger activity has recovered from a recent low in 2003 of 24.7 million passengers, caused by the impact of the terrorist attacks of September 11, 2001, and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Toronto in 2003 and the related travel advisories. The Airport has recorded an average compound passenger growth rate of 7.8 per cent from 2003 to 2006.

Total passenger traffic at the Airport in 2006 was 31.0 million passengers, an increase of 3.5 per cent from the 2005 level of 29.9 million passengers. Each of the three traffic sectors at the Airport demonstrated passenger growth during 2006. The domestic sector, or passengers travelling within Canada, showed year-over-year growth of 4.3 per cent in 2006. The transborder sector, or passengers travelling between Canada and the United States, grew at a 1.4 per cent year-over-year rate. The greatest growth was in the international sector, or passengers travelling between Canada and destinations outside of Canada and the United States, which in 2006 was up 4.6 per cent over 2005.

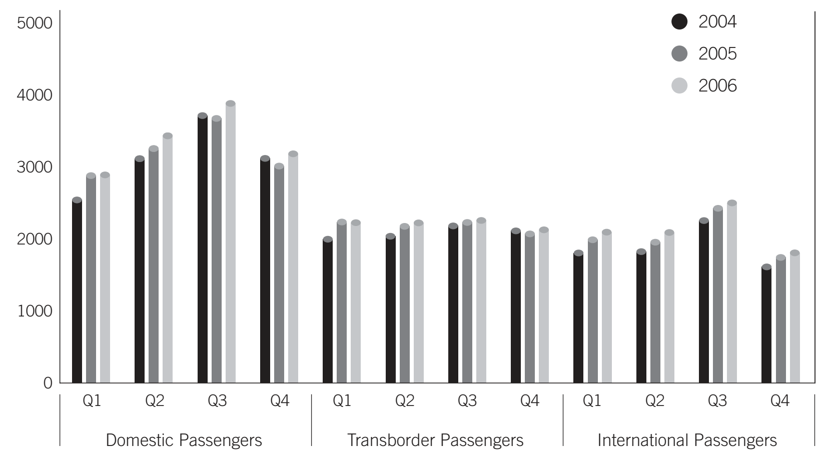
Total passengers in each sector for 2006 and 2005 respectively were:

Passengers in millions	**2006**	2005
Domestic	**13.5**	12.9
Transborder	**8.9**	8.8
International	**8.6**	8.2
Total	**31.0**	29.9

In addition to the annual change, there are some seasonal fluctuations in travel patterns such as increased activity during the summer months and holiday periods. The following graph illustrates the quarterly passenger levels (in thousands), by sector, for the past three years:

PASSENGER LEVELS, YEARS 2004 – 2006

Number of Passengers (in thousands)



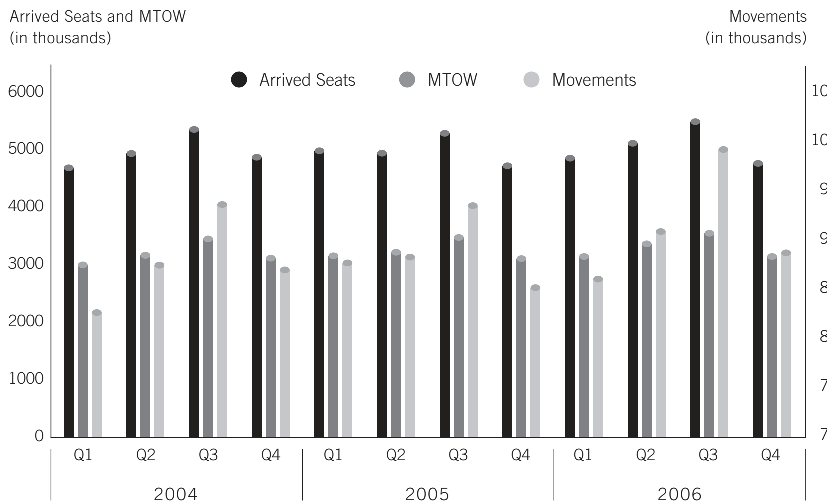
Flight activity is measured by aircraft movements, including the type and size of aircraft, which determines the Maximum Takeoff Weight ("MTOW") and the number of seats. These measures are used to calculate airline charges for each flight. Total movements in 2006 increased by 2.1 per cent over 2005. MTOW for 2006 was 13.1 million tonnes, as compared to 12.8 million tonnes in 2005, an increase of 2.1 per cent. Total arrived seats increased 1.4 per cent in 2006 compared to 2005. During the past several years airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in airline load factors, or the ratio of passengers to seats, steadily increasing. As a result, the growth in MTOW and arrived seats has not kept pace with the growth in passengers. With airlines now operating at historically high load factors, there was some evidence in 2006 that the growth rates of MTOW, arrived seats and passengers are becoming more closely aligned.

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

In November, 2006 the Government of Canada announced its "Blue Sky" policy whereby the federal government intends to proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation. This policy initiative is expected to provide increased opportunities for passenger and cargo service to be added at Toronto Pearson as market demand warrants.

On January 23, 2007, new regulations came into force requiring all air passengers entering the United States to possess a valid passport or other U.S. government approved identity card. Previously, Canadians and Americans could enter the U.S. using birth certificates or other non-passport documents. This new requirement is expected to have a short-term negative impact on transborder air travel. The GTAA has reflected this development in its 2007 operating activity forecasts.

AIRCRAFT MOVEMENT AND SEATS, YEAR 2004 – 2006



RESULTS OF OPERATIONS

The following section discusses the GTAA's approach in setting its aeronautical rates and charges, together with its financial results. In reviewing the financial results, it is important to note that the GTAA is a non-share capital corporation. Accordingly, the GTAA's financial model 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, reserve funds, and other activities within the GTAA's mandate.

Rate Setting Approach

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 as set out in the Trust Indenture. 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 a given year, projections are developed for measures of Airport operating activity such as passengers, MTOW and arrived seats, non-aeronautical revenue and operating costs. Operating costs include debt service (interest and principal) for those assets which are operational, but do not include non-cash items such as amortization of capital assets. Capital costs, including interest for projects under construction, are funded through debt and are not included in the calculation of the aeronautical rates and charges.

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 property taxes ("PILT") and specific debt service costs, offset by the projected non-aeronautical revenue and a specified amount of AIF. General terminal charges are set to cover the operating costs for the common areas in the primary passenger terminals and the Infield Terminal as a rate per landed seat, regardless of whether the seat is occupied by a passenger. There is a premium on the general terminal charge for non-domestic flights to cover the additional costs, such as security and providing space and services to government agencies, incurred by the GTAA in handling these flights. The common areas include holdrooms, check-in counters, passenger processing areas and arrival halls, but exclude space that is exclusively leased to airlines or other tenants.

Net Operating Results

The GTAA's net operating results for the three years ended December 31, 2006, 2005 and 2004, are summarized in the following table:

(in thousands)	**2006**	2005	2004
Revenues	**$ 1,062,303**	$ 953,674	$ 832,014
Operating expenses	**560,120**	527,992	487,988
Revenues over expenses[1]	**502,183**	425,682	344,026
Interest and financing costs	**355,027**	334,400	267,973
Amortization	**225,934**	209,638	188,389
Revenues under expenses	**$ (78,778)**	$ (118,356)	$ (112,336)

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

Revenues over expenses before interest and financing costs and amortization increased from $425.7 million for the year ended December 31, 2005 to $502.2 million for the year ended December 31, 2006. This 18.0 per cent increase reflects some higher fees and charges together with increased airport activity, resulting in revenues increasing at a faster rate than operating expenses. Interest and financing costs were $355.0 million for 2006 as compared to $334.4 million for 2005 reflecting the additional interest expense associated with those portions of the ADP and the Terminal 3 redevelopment program completed in 2006. The above table demonstrates that for each year, the revenues generated by the GTAA were more than sufficient to cover operating expenses and interest and financing costs. In accordance with its rate setting approach, the GTAA 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.

The financial results reported by the GTAA include certain non-cash items, such as amortization of capital assets and, until June 30, 2005, the deferral of ground rent payments, which are not included in the calculation of the aeronautical rates and charges. In accordance with its rate setting approach, the GTAA expects that revenues and reserve funds will continue to be sufficient to cover operating expenses, and interest and financing costs, including notional principal. Consistent with many infrastructure developments, the GTAA's net revenues may not be sufficient to cover amortization of capital assets for a period of several years which will result in total cash and non-cash expenses exceeding revenues.

Revenues

Revenues are received from aeronautical charges (landing fees and general terminal charges), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions and rentals, and other sources. The primary drivers for aeronautical revenue are aircraft movements and passenger activity. Landing fees are based on the MTOW and general terminal charges are based on the number of seats of an arriving aircraft. The AIF is charged per passenger and a significant portion of non-aeronautical revenues are highly correlated to passenger activity. The relationship between these revenue sources and expenses was discussed in the section on Rate Setting Approach. The following chart summarizes the GTAA's revenues for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	2006	2005	2004
Landing fees	**$ 440,807**	$ 405,874	$ 338,008
General terminal charges	**172,453**	157,206	145,455
Airport improvement fees, net	**183,500**	175,425	142,235
Car parking and ground transportation	**102,283**	96,115	89,074
Concessions and rentals	**118,141**	110,775	107,738
Other	**45,119**	8,279	9,504
	$ 1,062,303	$ 953,674	$ 832,014

Total aeronautical revenue for the year ended December 31, 2006 was $613.3 million, as compared to $563.1 million for the year ended December 31, 2005. The increase reflects increased landing fees and general terminal charges in 2006 as a result of additional debt service and operating costs associated with the new facilities which became operational in late 2005 and throughout 2006. As previously mentioned, airline load factors were higher than expected in 2006 and therefore the revenues received from aeronautical sources were slightly below the projections of the GTAA. The GTAA expects air carriers to continue to manage their operations to achieve high load factors and this trend has been incorporated in the passenger and flight activity projections used for setting the aeronautical rates and charges for 2007.

AIF revenue, which is net of the commission paid to the air carriers for the collection of the AIF, increased from $175.4 million in 2005 to $183.5 million in 2006. The increase in AIF revenue in 2006 reflects the increase in passenger volumes for 2006 as compared to 2005.

Under the terms of the AIF agreements with the air carriers, the GTAA has committed that AIF revenue will be used primarily for capital programs at Toronto Pearson, including associated debt service (interest and principal) and reserve funds. Historically the GTAA has used AIF revenue to fund debt service, but it retains the option of funding capital projects directly with AIF revenue. 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 2006, $183.5 million of AIF revenue was earned and $175.0 million was used for capital projects or debt service. This compares to $175.4 million earned and $162.0 million used during 2005, with the difference from each year held in the AIF Reserve Fund.

The GTAA also receives fees or rental payments from car parking and ground transportation, concessions, space rental and other rental properties. In total, these categories generated $220.4 million in revenue in 2006 as compared to $206.9 million in revenue in 2005. This increase of 6.5 per cent is largely attributable to the higher passenger volumes which result in greater demand for parking and ground transportation services and higher sales at the various retail outlets at the Airport. In addition, the GTAA increased vehicle parking rates effective October 1, 2006. Many concession rental agreements are tied to sales and/or passenger volumes. The GTAA continues to focus on new initiatives to increase these non-aeronautical revenues beyond increases associated with expected passenger growth, including additional advertising as well as reviewing leasing and development opportunities such as the Request For Proposals issued in January 2007 for the commercial development of six hectares of land at the Airport that has been identified as not being required for aeronautical use. The alleged terrorist threats in the United Kingdom which occurred in August 2006 severely disrupted duty free and some other retail sales for a period. Under the new security rules, the impact on GTAA revenues has been mitigated and is not expected to be significant going forward. It is anticipated that Pier F at Terminal 1, opened in January 2007, will provide greater opportunities to generate non-aeronautical revenue, especially with the increased duty free, retail and food and beverage facilities.

Other revenues increased $36.8 million for the year ended December 31, 2006 as compared to the same period in 2005. In December 2005 the GTAA commenced operation of a 117 megawatt Cogeneration Plant. In conjunction with the Cogeneration Plant, the GTAA has entered into a Clean Energy Supply Contract ("CES") with the Ontario Power Authority ("OPA") whereby the OPA, under certain conditions, will make contingent support payments to the GTAA. The CES, which has the effect of reducing the financial risk associated with the GTAA's Cogeneration Plant, came into effect in February 2006. Electricity sales from the Cogeneration Plant and any payments made under the CES are recorded as other revenue and formed the majority of the year over year increase in other revenues as the Cogeneration Plant was not operational until very late in 2005. Other revenue also includes interest on certain reserve funds and investments which increased from $7.6 million in 2005 to $15.1 million in 2006. This revenue 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 of operating and maintaining the Airport, together with interest and financing costs, and the amortization of capital assets. As noted previously, the operating expenses that are reported in the financial statements are determined according to Canadian generally accepted accounting principles and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization is not included in the landing fee, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the landing fee calculation. The following chart summarizes the GTAA's operating expenses for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	2006	2005	2004
Ground rent	**$ 147,635**	$ 144,423	$ 130,394
Goods and services	**285,894**	262,281	237,943
Salaries, wages and benefits	**105,090**	98,701	95,553
Real property taxes and PILT	**21,501**	22,587	24,098
	560,120	527,992	487,988
Interest and financing costs	**355,027**	334,400	267,973
Amortization of capital costs	**225,934**	209,638	188,389
	$ 1,141,081	$ 1,072,030	$ 944,350

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. The $3.2 million increase in ground rent in 2006 as compared to 2005 is a result of this inflation adjustment. In July 2003, the Minister of Transport announced a 24-month ground rent deferral program which had the effect of reducing the ground rent paid by $10.0 million in 2003, $21.0 million in 2004 and $10.5 million in 2005. However, the GTAA has the obligation to repay the deferred amount over 10 years, commencing on January 1, 2006, and therefore the full ground rent expense was recorded for each period, with an offsetting liability recorded on the balance sheet. The deferred rent reduced the cash requirement for ground rent in each of 2003, 2004 and 2005. However, from 2006 to 2015, as the deferred amount is repaid, the amount of ground rent actually paid to the federal government will be $4.2 million greater than the amount recorded as an expense in the financial statements with the liability reduced accordingly. The deferred amount paid each year is included in the calculation of landing fees in each year.

In May 2005, the federal government announced a proposed new regime for calculating ground rent payable by Canadian airports, based on current year revenue rather than on passengers, commencing in 2011. The proposed new rent regime is to be phased in over four years with ground rent being calculated based on current rent and projected 2010 rent payments during this period. The GTAA believes that the proposed rent structure is prejudicial to the GTAA since the calculation of ground rent would include revenue generated to pay debt service which results in the GTAA paying a disproportionate share of ground rent when compared to other Canadian Airport Authorities and impacts the competitiveness of Toronto Pearson as an international airport. The federal government circulated the amending agreement for the Ground Lease in December 2005. The GTAA has not executed the amending agreement, and continues ongoing discussions with the federal government with the goal of developing a more appropriate and favourable agreement for Toronto Pearson.

Goods and services which comprise the general operating expenses for the Airport, were $285.9 million and $262.3 million for 2006 and 2005, respectively. The increase in expenses between these periods is primarily attributable to increased costs associated with operating the Cogeneration Plant, which are offset by revenues earned by the plant as outlined above in the discussion of revenues. In addition the following contributed to the increase in goods and services expense: increased bussing costs under a new contract; changes to the delivery of services under the Airport Customer Assistance Program which provides assistance to travellers with disabilities; and increased service costs for some mechanical and electrical systems, including public safety systems and the baggage handling system, related to new facilities becoming operational in late 2005 and during 2006. These increases were partially offset by reduced snow clearing costs, consulting and other contracted service costs, and bad debts associated with the 2005 bankruptcy of Jetsgo Corporation.

The GTAA has both union and non-union employees and both groups are compensated with salaries and benefits, including pension plan options, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits increased from $98.7 million in 2005 to $105.1 million for 2006. The increase reflects salary increases and solvency payments required for one of the GTAA's pension plans, partially offset by a reduction in contract employee expense and overtime.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays to each of the cities of Toronto and Mississauga an amount prescribed by an Ontario provincial government regulation as PILT. The amounts due are based on passenger activity for a specified prior year. PILT paid in 2005 was $22.6 million, based on passengers for 2002, and PILT for 2006 was $21.5 million based on passenger activity in 2003. The recovery in passenger activity since 2003 will be reflected in higher PILT payments in future years.

The year over year increase in interest and financing costs and amortization reflect the impact of new facilities becoming operational late in 2005 and during 2006. The GTAA capitalizes interest for projects under construction and interest is expensed for projects that are complete and operational. Interest and financing costs were $355.0 million and $334.4 million for 2006 and 2005 respectively. Offsetting the interest expense in each year is interest earned on reserve funds. Amortization of capital assets increased from $209.6 million in 2005 to $225.9 million in 2006, reflecting the GTAA's increased capital asset base and the accelerated amortization of Terminal 2 which ceased operations on January 29, 2007.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the period from January 1, 2005 through December 31, 2006 is set out in the following table:

(in millions)	**2006**				2005			
Quarter ended	**Dec**	**Sept**	**June**	**Mar**	Dec	Sept	June	Mar
Revenues	**$ 260**	**$ 291**	**$ 263**	**$ 248**	$ 230	$ 260	$ 233	$ 231
Operating expenses	**144**	**143**	**134**	**139**	143	124	126	135
Revenues over expenses[1]	**116**	**148**	**129**	**109**	87	136	107	96
Interest and financing	**92**	**89**	**87**	**87**	84	82	84	84
Amortization	**58**	**56**	**57**	**55**	55	52	52	51
Revenues over/(under) expenses	**$ (34)**	**$ 3**	**$ (15)**	**$ (33)**	$ (52)	$ 2	$ (29)	$ (39)

Notes: 1. Revenues over expenses before interest and financing costs and amortization

The GTAA's quarterly results are influenced by passenger activity and aircraft movements which vary with travel demand associated with holiday periods and other factors such as weather and economic conditions. Due to these external factors the historic quarterly results cannot be relied upon for future trends. The opening of additional areas in Terminal 1 and other facilities during 2005, 2006 and in the future will impact revenues and expenses. There were no exceptional events during the fourth quarter of 2006 which had a significant impact on traffic, revenues or operating expenses.

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 meet current and future demand. The Airport Development Program ("ADP") included the construction of terminal facilities, roadways, cargo facilities, airside improvement such as runways and taxiways, ancillary services and utilities infrastructure. The ADP was designed as a demand driven program that would be undertaken while the Airport continued to operate and would provide the GTAA with some flexibility on the timing of certain future stages. The GTAA has regularly reviewed the components of the ADP in responding to changes in the aviation industry, with the current total budget and expected final cost being $4.4 billion. To the end of 2006, $4.2 billion, excluding capitalized interest, had been spent on the program which was approximately 96 per cent complete.

During 2006, construction continued on Pier and Hammerhead F at Terminal 1. At year-end, construction was substantially complete, with some interior finishing, and the installation of the express walkway that runs the length of Pier F outstanding. A program of extensive building and system testing was also well under way. Subsequent to year-end, on January 30, 2007 the GTAA opened Pier and Hammerhead F. This 25-gate addition to the terminal will handle international and transborder passengers. The opening of Pier F, which replaces Terminal 2, represents the completion of the ADP.

Another component of the ADP, the Automated People Mover, known as the LINK Train, opened to the public on July 6, 2006. The LINK Train is a free automated shuttle train service which connects Terminal 1, Terminal 3 and the GTAA Reduced Rate Parking Area (Viscount Station). The LINK Train replaces the bussing service that had transferred passengers and staff between these locations.

The GTAA has examined several options with respect to any continued expansion of Terminal 1 to meet future air travel demand. Based on this analysis, it has been determined that upon the completion of Pier F and the relocation of all remaining activity from Terminal 2 to Terminal 1, Terminal 2 will be demolished. The GTAA has authorized a budget of $389.4 million for the demolition of Terminal 2 and the Terminal 2 parking garage, constructing apron in the area that Terminal 2 once occupied, replacing the Terminal 2 parking capacity with an expansion of the Terminal 1 parking garage and a new parking garage in Area 6A on the east side of Airport Road, and the preliminary design of an additional pier at Terminal 1, Pier G. This work is currently scheduled to be carried out from 2007 to 2011. The final design and construction timing of Pier G is still under review and will be dependent on demand.

In addition to the ADP, the GTAA has undertaken plans to expand and upgrade certain areas and components of Terminal 3. During 2006, $45.0 million, excluding capitalized interest, was spent on the capital project known as the Terminal 3 Redevelopment Program. One of the most significant aspects of this program, the expansion of the passenger processing area at the east end of the terminal, was completed and opened to the public on June 16, 2006. This 19,000 square metre expansion includes 40 new check-in counters as well as new concession and office space. Still ongoing is work in the west end of the terminal where expansions to the passenger waiting areas, baggage system and security areas are scheduled to open in 2007.

The GTAA has other ongoing capital projects for Toronto Pearson, and in 2006, $60.0 million, excluding capitalized interest, was spent on projects such as a new LEED-Certified fire training centre, restoration, replacement and upgrading of existing runway and taxiway pavements and systems, information technology and communication system upgrades and fleet vehicle replacement.

PICKERING

In 2001, the federal government asked the GTAA to undertake studies to determine the requirements for a future airport on the Pickering lands located to the east of Toronto. Between 2001 and 2004, the GTAA undertook certain feasibility studies, held numerous public workshops and meetings and prepared for the environmental assessment process in accordance with the federal government's request. During 2005, the federal government determined that it would undertake a due diligence evaluation of the need for an airport before the environmental assessment is commenced. The GTAA views this as an important initiative and will continue to cooperate with the federal government to protect the option of constructing a future airport on the Pickering Lands. However, the final decision on whether an airport will be constructed on the Pickering Lands rests with the federal government.

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2006, 2005 and 2004 are set out below:

(in millions)	**2006**	2005	2004
Total Assets	**$ 7,445.6**	$ 7,007.4	$ 6,467.8
Total Liabilities	**$ 7,753.9**	$ 7,236.9	$ 6,579.0

The increase in total assets reflects the ongoing investment in Airport infrastructure as described in the ADP and other capital projects section above. Between 2005 and 2006, the primary increase in assets was $168.9 million in reserves and other funds, $108.3 million in capital assets and $62.5 million in work in progress. The increase in total liabilities reflects debt issued to fund this capital investment. The increase between 2004 and 2005 shows a similar pattern, as new assets were constructed and this investment was financed in the debt capital markets.

Total reserves and other funds as at December 31, 2006 were $1.1 billion as compared to $916.7 million at December 31, 2005. These reserves represent funds 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 for future principal payments and other commitments such as the AIF Reserve Fund. All of the reserves are fully funded and invested.

Changes in the total reserve funds include: an increase in the Debt Service Reserve Fund, primarily as a result of the new MTN issues; application of the Debt Service Fund for ongoing interest payments for all debt and principal payments on the Series 1999-1 MTN amortizing issue; an increase in the Notional Principal Fund with the ongoing collection of Notional Principal in the landing fee; and the collection of AIF during the year, offset by the application of the AIF Reserve Fund to debt service payments.

The GTAA includes in its projection for rates and charges the principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. Consistent with the treatment of interest expense, principal is only included for the debt associated with operational assets. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter. The Notional Principal Fund will be applied to the ongoing amortizing payments for Series 1999-1 or to repay any issue on maturity in whole or in part. At December 31, 2006, there was $218.3 million in the Notional Principal Fund, as compared to $152.6 million at December 31, 2005.

For the AIF Reserve Fund, the GTAA accumulates AIF revenue as it is collected and uses the funds primarily for ongoing debt service payments. During 2006, the GTAA used $175.0 million of AIF which is the amount anticipated when setting the rates and charges for 2006. The result is that the AIF Reserve Fund increased from $111.8 million at the end of 2005 to $119.1 million at the end of 2006.

The primary component of the total liabilities is the debt program, which at December 31, 2006 totalled $7.5 billion of current and long term debt obligations, as compared to $6.9 billion as at December 31, 2005. Under the ground rent deferral program, deferred ground rent decreased to $37.4 million at December 31, 2006, as compared to $41.6 million at December 31, 2005. This liability will continue to decrease with the repayment of the ground rent deferral.

During 2006, the GTAA issued $600.0 million of new debt. The 2006 new MTN issues are set out in the following table:

(in millions)

MTN Series	Original Issue Date	Maturity Date	Principal
2006-1	February 28, 2006	February 28, 2011	$ 250
2006-2	October 24, 2006	October 24, 2008	$ 350

The net deficiency reported on the consolidated balance sheet is a combination of the reserve funds which have been funded through operating revenue and cumulative revenues over or under expenses. Since revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization for several operating periods, the GTAA has recorded revenues under expenses. This has resulted in a cumulative net deficiency of $308.3 million as at December 31, 2006 as compared to a net deficiency of $229.5 million as at December 31, 2005. The principal component included in the aeronautical charges is based on a 30-year amortization and will therefore be lower in early years and increase over time, similar to the principal payments of a mortgage. The amortization of the GTAA's most significant assets is reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. This differential contributes to the GTAA's current net deficiency. 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, including amortization, providing a potential improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a non-share corporation and accordingly is funded through operating revenue, AIF revenue, reserve funds, the debt capital markets and its syndicated bank credit facility. As noted previously, aeronautical charges are set each year to cover the projected operating costs, including debt service and reserve requirements, after consideration of the projected air traffic and passenger activity and non-aeronautical revenues. Consistent with its residual approach, any funds generated by the GTAA are used to cover costs within its mandate.

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 capital programs and the GTAA will continue to access the debt markets to fund capital programs and to refinance some or all of its maturing debt. At December 31, 2006, there was a total of $7.5 billion of debt outstanding, excluding the bank facility. Any proceeds received from debt issues and not immediately required are invested in short-term investment grade debt instruments until they are required.

On October 13, 2005, the GTAA filed a new shelf prospectus qualifying up to $2.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus. The first issue under this new shelf prospectus was completed on October 26, 2005 for $350 million, for a term of 10 years with a 4.7 per cent coupon rate. On February 28, 2006, the GTAA completed a further issue of $250 million for a term of 5 years at 4.4 per cent which was designed for retail investors. On October 24, 2006 a third issue of $350 million two-year floating rate notes was completed under this shelf prospectus.

The GTAA has a $500 million credit facility and a $50 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2009 and can be extended annually for an additional year with the lenders' consent. The banking facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets in the future. This facility ranks *pari passu* with all other debt of the GTAA. As at December 31, 2006, $2.3 million was drawn on the $500 million facility by way of a letter of credit. No amounts were drawn against the $50 million facility.

At December 31, 2006, the GTAA had reserve and other funds totalling $1.1 billion, which include reserve funds held by the Trustee in accordance with the Trust Indenture and certain funds held by the GTAA for specific or future requirements. 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 used for the repayment of debt. The other reserve funds provide additional security for the debt program.

Principal payments for the next five fiscal years include the amortizing payments for MTN Series 1999-1, the maturity of MTN Series 1997-2, Series 2000-2, Series 2003-1, Series 2004-2, Series 2005-2, Series 2006-1 and Series 2006-2. The GTAA has also entered into certain capital leases for equipment, but the annual payments are not significant. The total principal and capital lease payments for the next five years are:

(in millions)

2007	$ 895.7
2008	736.3
2009	261.3
2010	611.7
2011	267.0
Thereafter	4,689.7
	$ 7,461.7

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met and to maximize the flexibility in accessing the capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given recent MTN issues, the credit facility, reserves and the projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls in the near term. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies adopted by the GTAA are set out in Note 4 of the Consolidated Financial Statements as at December 31, 2006 and 2005. In preparing the consolidated financial statements, management is required to make certain estimates or assumptions that affect the reported amount of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

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 (less estimated residual value) 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.

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 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. Concessions revenue is charged on a monthly basis and is 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. Rentals revenue is recognized straight-line over the duration of the respective agreements. Revenue derived from the cogeneration facility included in other revenue, is recognized as electricity is delivered to customers.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

In 2005, the Canadian Institute of Chartered Accountants issued three new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3855 Financial Instruments-Recognition and Measurement, and Handbook Section 3865 Hedges. These new standards become effective for the GTAA on January 1, 2007.

Section 1530 and the guidance report entitled Financial Instruments – Proposed New Accounting Standards – A summary for Not-for-Profit Organizations issued by the Accounting Standards Board introduces the concept of Unrealized Changes in Net Assets ("UCNA"). UCNA represents unrealized gains and losses on financial assets classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. UCNA and the cumulative amount, Accumulated Unrealized Changes in Net Assets ("AUCNA") will be presented as a new category of Net Assets, in the Consolidated Statements of Changes in Net Assets (Deficiency).

Section 3855 establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives ("financial instruments"). Section 3855 requires changes in the value of certain financial instruments to be recorded in the financial statements of a company. Section 3855 also requires that derivatives that are embedded in contracts be identified and accounted for as financial instruments. All financial instruments will be recognized on the balance sheet and should be measured at fair value at initial inception. Measurement in subsequent periods depends on whether the financial instrument has been designated as held-for-trading, available-for-sale or held-to-maturity. Changes in the value of financial instruments designated as held-for-trading will be recognized in Revenues over/under expenses. Unrealised gains and losses on financial instruments designated as available-for-sale will be recognized in UCNA. Financial instruments designated as held-to-maturity are measured at amortized cost using the effective interest method of amortization. Other significant accounting implications arising on the adoption of Section 3855 include the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Section 3865 specifies criteria under which hedge accounting can be applied and how hedge accounting should be executed for permitted hedging strategies. As at the date of this report the GTAA is not party to any active hedges.

Section 3855 requires certain opening adjustments to the financial statements effective January 1, 2007. Financial liabilities must be recognized at their fair value and as a result the value of debt will be adjusted by unamortized transaction costs such as bond issue costs, bond discount costs and bond premiums. The unamortized portion of the deferred hedge loss on bond issue and the deferred gain on interest rate swaps at December 31, 2006 will be recorded in the January 1, 2007 opening balance of AUCNA. The Province of Ontario loan reflected in long term debt will be fair valued which will result in a reduction in debt and a January 1, 2007 opening adjustment to net deficiency and capital assets. The CES Contract is a derivative and is in the process of being valued. Other impacts of section 3855 on the financial statements are not expected to be material in nature. The overall amounts of these adjustments to the financial statements are still being quantified.

INTERNAL CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of December 31, 2006 of the design and operation of the disclosure controls and procedures, as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, under the supervision and with the participation of the President and Chief Executive Officer ("CEO"), and the Vice President and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has previously reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures.

GTAA management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the company's reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As required under *Multilateral Instrument 52-109*, the GTAA, under the supervision and with the participation of the CEO and the CFO, has carried out a review of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the GTAA has designed, or caused to be designed under the GTAA's supervision, such internal controls over financial reporting so as to provide reasonable assurance regarding the reliability of the company's reporting and the preparation of financial statements for external purposes and that there were no changes in the GTAA's internal control over financial reporting that occurred during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

Continuing the trend that began in 2004, the GTAA experienced a much more stable financial and economic environment with continued growth in passenger volumes in 2006. However, the risk of sudden and possibly significant impacts or volatility in demand due to external sources such as economic conditions, geopolitical unrest, government regulation, world health epidemics and the financial uncertainty in the aviation industry continue to exist. Any of these could impact the GTAA's financial results.

In 2003 Toronto experienced an outbreak of SARS and more recently there has been extensive commentary on the potential of a pandemic or severe outbreak of avian flu. Depending on the location, timing, and extent of an outbreak of a highly contagious illness such as SARS or avian flu, there could be significant impacts on regional or world travel. The GTAA has worked with Health Canada to understand the risks of such an event, and has developed operational contingency plans based on various scenarios.

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, was named as a defendant in a class action lawsuit and another separate lawsuit commenced by certain passengers. The GTAA's insurers are defending this action and it is the opinion of the GTAA that this is an insurable event. Consequently, it is expected that the GTAA's financial exposure, if any, will be limited to its insurance deductibles. This event also demonstrates that there are always operational risks associated with an airport. The GTAA mitigates these risks through strict compliance with safety requirements and regulations and emergency response procedures.

The financial stability of the aviation industry remains a risk for the GTAA, particularly with respect to domestic air carriers. To date the GTAA has not experienced any losses directly due to foreign air carriers filing for bankruptcy protection. However, the GTAA has incurred losses due to Canadian airlines seeking bankruptcy protection or declaring bankruptcy. Although there is some risk from industry changes or exposure to a dominant air carrier, this is mitigated by the fact that approximately 80 per cent of the passenger activity at the Airport originates or terminates at Toronto Pearson. During the past year, the GTAA received several requests for additional routes or landing slots.

Another potential impact from changes in the aviation industry is the trend to allocating smaller aircraft to some shorter routes. Such changes in the fleet mix can impact the GTAA's planning of facilities and on determining the traffic for projecting future landing fees and general terminal charges. The GTAA uses projected revenues, expenses, MTOW and arrived seats to calculate the landing fee per tonne and the general terminal charge per seat. The risks inherent to this approach are that expenses may be underestimated or non-aeronautical revenues overestimated, resulting in inadequate aeronautical revenue for the GTAA to break even on a modified cash basis or meet its debt covenants. Aeronautical revenue may also be lower than expected if passenger or aircraft activity volumes are not realized. In 2006, passenger activity was essentially as projected, but MTOW and seats were below projections. The GTAA believes that this is a result of higher load factors and the use of smaller aircraft on certain routes. These revised patterns have been taken into account in planning for subsequent years.

While the ADP was completed with the opening of Pier F in January 2007, the GTAA continues to undertake capital projects as required to maintain the Airport and meet air travel demand. Any large construction project is subject to risks relating to costs, schedule and other events.

There is always risk when raising funds in the capital markets, including interest rates and the availability of funds at any point in time. External factors such as economic conditions, government policies, catastrophic events and the state of the financial markets can impact the GTAA's ability to access the capital markets. The GTAA debt program 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 any debt issue to ensure continued access to the markets and to maximize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in 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 coverage tests. 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 from 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 markets and the GTAA's claims and performance record. The GTAA has continued to be successful in placing all of its insurance needs.

CONCLUSION

The past year has been another successful year with total revenues, expenses and passenger activity largely as expected. While MTOW and arrived seats were below forecast due to continued increases in airline load factors, this strength is a positive factor for the air travel industry. It is important to note that the alleged terrorist threats that occurred in the United Kingdom in August 2006 had very little impact on the number of passengers travelling in general and specifically at Toronto Pearson.

The redevelopment of Toronto Pearson through the ADP and other capital programs is now essentially complete with only a small portion of the Terminal 3 Redevelopment Program remaining. These new, efficient facilities provide capacity, flexibility and high standards now and into the future. The focus of the GTAA is now shifting from the redevelopment of the Airport to ensuring that the Airport is operated efficiently and effectively to meet the needs of the travelling public, airlines and other users of our facilities. The strategy of constructing common use facilities and insisting on high standards for safety and security, customer service and financial efficiency, together with the continued recovery in passenger volumes, continues to set a positive framework for a successful future at Toronto Pearson.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis ("MD&A") contains certain statements about the GTAA and its future expectations. By their nature, forward-looking statements require the GTAA to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections will not prove to be accurate, that the GTAA's assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The GTAA cautions readers of this MD&A not to place undue reliance on the forward-looking statements as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking statements. Specific forward-looking statements in this MD&A include, among others, statements regarding: future demand for air travel in the Greater Toronto Area; budgets and expenditures relating to capital programs; future capital development at the Airport; insurance and other recoveries; the impact of bilateral air transport agreements on passenger and cargo activity; the impact of the requirement that all air passengers entering the United States have a valid passport or government approved identity card on passenger activity; the GTAA's annual debt capital requirements; the relationship between the GTAA's revenues and reserve funds, and its operating expenses and interest and financing costs; non-aeronautical revenues; airline load factors and fleet mixes; and the GTAA's liquidity.

These forward-looking statements are based on a variety of factors and assumptions including but, not limited to: long-term growth in population, employment and personal income will provide the basis for increased aviation demand in the Greater Toronto Area; the Canadian and U.S. economies will grow at expected levels in the near team; the growth and sustainability of low fare and other air carriers will contribute to aviation demand in the Greater Toronto Area; transborder and international travel will continue to grow; the commercial aviation industry will not be directly affected by terrorism; the cost of enhancing aviation security will not overly burden air carriers or the GTAA; and no significant event will occur which impacts the ordinary course of business such as a natural disaster or other calamity. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third party experts and analysts.

Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things: levels of aviation activity; air carrier instability; aviation liability insurance; construction risk; geographical unrest; terrorist attacks; war; health epidemics, labour negotiations; capital market and economic conditions; changes in laws; adverse regulatory developments or proceedings; lawsuits; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents.

The forward-looking statements contained in this MD&A represent the GTAA's expectations as of the date of this report and are subject to change. Except as required by applicable law, the GTAA disclaims any intention or obligation to update or revise any forward-looking statements included in this MD&A whether as a result of new information, future events or for any other reason.

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.

L. McCoomb

President and Chief Executive Officer
February 28, 2007

Vice President and Chief Financial Officer

To the Board of Directors of the
Greater Toronto Airports Authority

We have audited the consolidated balance sheets of Greater Toronto Airports Authority as at December 31, 2006 and 2005 and the consolidated statements of operations, changes in net assets (deficiency) and cash flows for the years then ended. These 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 Greater Toronto Airports Authority as at December 31, 2006 and 2005 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

Toronto, Ontario
February 20, 2007

As at December 31 (in thousands)	**2006**	2005
ASSETS		
Current		
Cash and cash equivalents	**$ 83,487**	$ —
Accounts receivable	**91,830**	84,848
Prepaid expenses	**3,576**	3,292
Inventory	**6,235**	9,192
	185,128	97,332
Reserve and other funds (Note 6)	**1,085,626**	916,727
Deferred charges (Note 8)	**67,897**	60,280
Capital assets (Note 9)	**5,030,452**	4,922,179
Work in progress (Note 10)	**1,065,999**	1,003,479
Accrued benefit asset (Note 14)	**10,477**	7,402
	$ 7,445,579	$ 7,007,399
LIABILITIES		
Current		
Bank indebtedness	**$ —**	$ 57,710
Accounts payable and accrued liabilities	**226,569**	237,486
Security deposits and deferred credits	**15,739**	18,610
Deferred gain on interest rate swaps (Note 19)	**1,069**	1,069
Deferred ground rent (Note 3 and 20)	**4,156**	4,156
Current portion of long-term debt (Note 11)	**895,706**	9,250
	1,143,239	328,281
Deferred gain on interest rate swaps (Note 19)	**11,368**	12,437
Deferred ground rent (Note 3 and 20)	**33,251**	37,407
Long-term debt (Note 11)	**6,566,017**	6,858,792
	7,753,875	7,236,917
NET ASSETS (DEFICIENCY) (Note 12)		
Externally restricted	**84,659**	64,704
Internally restricted	**423,312**	319,419
Unrestricted	**(816,267)**	(613,641)
	(308,296)	(229,518)
	$ 7,445,579	$ 7,007,399

SIGNED ON BEHALF OF THE BOARD

WARREN C. HURREN, DIRECTOR

MARILYNNE E. DAY-LINTON, DIRECTOR

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (in thousands)	**2006**	2005
REVENUES		
Landing fees	**$ 440,807**	$ 405,874
General terminal charges	**172,453**	157,206
Airport improvement fees, net (Note 7)	**183,500**	175,425
Car parking and ground transportation	**102,283**	96,115
Concessions	**63,510**	58,790
Rentals	**54,631**	51,985
Other	**45,119**	8,279
	1,062,303	953,674
OPERATING EXPENSES		
Ground rent (Note 3)	**147,635**	144,423
Goods and services	**285,894**	262,281
Salaries, wages and benefits	**105,090**	98,701
Real property taxes and payments-in-lieu of real property taxes (Note 15)	**21,501**	22,587
	560,120	527,992
Revenues over expenses before interest and financing costs and amortization	**502,183**	425,682
Interest and financing costs (Note 13)	**355,027**	334,400
Amortization of capital assets	**225,934**	209,638
Revenues under expenses	**$ (78,778)**	$ (118,356)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (DEFICIENCY)

2006

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	**$ 57,971**	**$ —**	**$ 6,553**	**$ —**	**$ 64,524**
Renewal and replacement reserve	**3,000**	**—**	**—**	**—**	**3,000**
Debt service fund – principal	**3,733**	**—**	**22,361**	**(8,959)**	**17,135**
	64,704	**—**	**28,914**	**(8,959)**	**84,659**
INTERNALLY RESTRICTED					
Airport improvement fees collected, net	**111,796**	**—**	**182,318**	**(175,000)**	**119,114**
Notional principal of long-term debt	**152,600**	**—**	**88,036**	**(22,361)**	**218,275**
Debt service coverage requirement	**55,023**	**—**	**30,900**	**—**	**85,923**
	319,419	**—**	**301,254**	**(197,361)**	**423,312**
Restricted net assets	**384,123**	**—**	**330,168**	**(206,320)**	**507,971**
Unrestricted net deficiency	**(613,641)**	**(78,778)**	**(123,848)**	**—**	**(816,267)**
Total net deficiency	**$ (229,518)**	**$ (78,778)**	**$ 206,320**	**$ (206,320)**	**$ (308,296)**

2005

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	$ —	$ 7,165	$ —	$ 57,971
Renewal and replacement reserve	3,000	—	—	—	3,000
Debt service fund – principal	15,801	—	17,448	(29,516)	3,733
	69,607	—	24,613	(29,516)	64,704
INTERNALLY RESTRICTED					
Airport improvement fees collected, net	99,452	—	174,344	(162,000)	111,796
Notional principal of long-term debt	88,100	—	81,948	(17,448)	152,600
Debt service coverage requirement	22,403	—	32,620	—	55,023
	209,955	—	288,912	(179,448)	319,419
Restricted net assets	279,562	—	313,525	(208,964)	384,123
Unrestricted net deficiency	(390,724)	(118,356)	(104,561)	—	(613,641)
Total net deficiency	$ (111,162)	$ (118,356)	$ 208,964	$ (208,964)	$ (229,518)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (in thousands)	**2006**	2005
		(Restated – Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues under expenses	**$ (78,778)**	$ (118,356)
Items not affecting cash		
Amortization of capital assets	**225,934**	209,638
Amortization of deferred gain on interest rate swaps	**(1,069)**	(1,069)
Loss on disposal of capital assets	**190**	756
Increase in accrued benefit asset	**(3,075)**	(372)
Amortization of deferred charges (Note 8)	**7,556**	6,082
(Decrease) Increase in deferred ground rent	**(4,156)**	10,513
Changes in non-cash working capital		
Increase in accounts receivable	**(6,982)**	(14,309)
Increase in prepaid expenses	**(284)**	(554)
Decrease (Increase) in inventory	**2,957**	(4,472)
(Decrease) Increase in accounts payable and accrued liabilities	**(12,333)**	28,503
(Decrease) Increase in security deposits and deferred credits	**(2,871)**	185
	127,089	116,545
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	**(5,162)**	(3,705)
Proceeds on disposal of capital assets	**133**	38
Work in progress (Note 10)	**(396,072)**	(641,750)
Land acquisition costs (Note 8 and Note 17)	**(4,700)**	—
Reserve and other funds	**(168,899)**	(133,351)
	(574,700)	(778,768)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of medium term notes (Note 11)	**600,000**	1,210,000
Issuance of long term debt (Note 11)	**3,709**	95
Repayment of long-term debt	**(10,028)**	(609,501)
Draw on credit facility (Note 11)	**209,000**	294,000
Repayment of credit facility	**(252,000)**	(251,000)
Bank indebtedness	**(14,710)**	14,710
Deferred charges (Note 8)	**(4,873)**	(12,940)
	531,098	645,364
NET CASH INFLOW (OUTFLOW)	**83,487**	(16,859)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**—**	16,859
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 83,487**	$ —

At December 31, 2006, cash and cash equivalents consisted of short-term investments of $108.4 million less cash and outstanding cheques of $10.4 million and allocations to the Airport Improvement Fee Reserve Fund of $14.5 million. At December 31, 2005, cash and cash equivalents were nil as a result of the GTAA's bank indebtedness position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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.

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 GTAA is governed by a 15-member Board of Directors (the "Board"). In 2003, the GTAA changed the manner in which Directors are appointed to the Board. As a result of these changes, Directors serve a term of three years and are eligible to be re-appointed subject to a maximum limit of nine years. Five Directors are appointed from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto is entitled to provide, on a rotating basis, the names of three candidates and the Board appoints one of the three candidates for each available position as a Director. In addition, four Directors are appointed by the Board on a cyclical basis on the basis of 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. Finally, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director respectively, while the Board of Directors is entitled to appoint three 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 4,440 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, which has occurred, and Terminal 2 with a single unified terminal, increasing airside capacity to five runways, increasing cargo and aircraft facilities, and reconstructing the roadway system. On January 29, 2007, Terminal 2 was closed and its operations were relocated to Terminal 1.

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 17, 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 9, 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 17, 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 a 10 year period, commencing with the year ended December 31, 2006, the GTAA's annual ground rent payments will be increased by approximately $4.2 million per year (see Note 20, 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. These estimations and assumptions include the useful lives of capital assets 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 consists of natural gas and parts and supplies held for use at the Airport. Natural gas inventory is stated at cost, while all other inventory 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 straight-line over the terms of the respective debt instruments. The amortization of these charges is included in interest and financing costs. Leasehold inducements are deferred and amortized straight-line over the terms of the tenant leases.

As required under the terms of the Ground Lease, the title of any land acquired is transferred to the federal government while GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs and amortized on a straight-line basis over the remaining term of the Ground Lease.

Acquisitions

Assets acquired related to the development of the Airport are capitalized to work in progress or capital assets. Net revenues and costs 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. 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 Straight-line over remaining useful life 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

All leases entered into by the GTAA for the use or operation of equipment are classified as capital, to the extent they meet the criteria for capitalization in accordance with generally accepted accounting principles.

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 (see Note 7, Airport Improvement Fees). Concessions revenue is charged on a monthly basis and is 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. Rentals revenue is recognized straight-line over the duration of the respective agreements. Revenue derived from the cogeneration facility included in other revenue, is recognized as electricity is delivered to customers.

Salaries, Wages and Benefits
Reimbursements to service organizations for their salaries, wages and benefits have been included in this operating 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 benefit method prorated on service and best estimate assumptions. For the purpose of calculating the expected return on plan assets, those 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 average remaining service period of the active employees covered by one of the defined benefit pension plans is 8 years (2005 – 9 years) and the other plan is 4 years (2005 – 5 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment. 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
Derivative financial instruments, including interest rate swaps and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates. These financial instruments will be accounted for under the deferral method if the GTAA meets the hedging 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 Statements of Operations.

5. RESTATEMENT OF CONSOLIDATED STATEMENT OF CASH FLOW

The consolidated statement of cash flow for the year ended December 31, 2005 has been restated to recognize the following:

(i) the inclusion in cash flows from investing activities of movements in accounts payable and accrued liabilities that are specifically related to investing activities, previously included in cash flows from operating activities, and

(ii) the inclusion in cash flows from investing activities of the movement in reserve and other funds, previously included in cash flows from financing activities.

As a result of these restatements, cash flows generated by operating activities has increased by $38.5 million, cash flows used in investing activities has increased by $171.8 million and cash flows generated from financing activities has increased by $133.3 million.

6. 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 cash equivalents are as follows:

(in thousands)	**2006**	2005
Debt Service Fund		
Interest	**$ 95,338**	$ 78,812
Principal	**17,135**	3,733
	112,473	82,545
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	**35,421**	35,391
Series 1997-3 due December 3, 2027	**37,208**	37,216
Series 1999-1 due July 30, 2029	**40,511**	40,525
Medium Term Notes		
Series 2000-1 due June 12, 2030	**39,039**	39,029
Series 2000-2 due July 19, 2010	**40,047**	39,986
Series 2001-1 due June 4, 2031	**35,459**	35,473
Series 2002-1 due January 30, 2012	**31,449**	31,455
Series 2002-2 due December 13, 2012	**29,962**	29,933
Series 2002-3 due October 15, 2032	**38,697**	38,730
Series 2003-1 due June 2, 2008	**19,548**	19,585
Series 2004-1 due February 2, 2034	**39,142**	38,984
Series 2004-2 due February 4, 2009	**11,262**	11,413
Series 2005-1 due June 15, 2015	**17,732**	17,746
Series 2005-2 due May 18, 2007	**14,491**	14,497
Series 2005-3 due February 15, 2016	**16,577**	16,507
Series 2006-1 due February 28, 2011	**11,164**	—
Series 2006-2 due October 24, 2008	**15,150**	—
	472,859	446,470
Bank indebtedness secured by Series 1997 – A Bond	**9,458**	7,322
	482,317	453,792
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**64,524**	57,971
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund	**119,114**	111,796
Notional Principal Fund	**218,275**	152,600
Debt Service Coverage Fund	**85,923**	55,023
	490,836	380,390
	$ 1,085,626	$ 916,727

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 11, 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. The principal requirements of the Debt Service Fund were funded from the Notional Principal Fund during 2006 and had a balance of $17.1 million at December 31, 2006 (2005 – $3.7 million). Amounts in the Debt Service Fund 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 $9.0 million was paid from the Debt Service Fund in 2006 (2005 – $29.5 million). During 2006, $22.4 million was deposited to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1997-2, Series 1999-1 and Series 2005-2 bonds (2005 – $17.4 million). The deposit to the Principal Account of the Debt Service Fund to fulfill principal requirements 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 11, 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, 2006 this fund had a balance of $64.5 million (2005 – $58.0 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 (2005 – $3.0 million) is to be used for unanticipated repairs to, or the replacement of property and equipment as set out in the Trust Indenture.

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, 2006, this fund had an accumulated balance of $119.1 million (2005 – $111.8 million). During 2006, $175.0 million (2005 – $162.0 million) of accumulated Airport Improvement Fee Funds were utilized for some debt service payments.

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 any series of bonds or medium term notes. 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. The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2006 had a balance of $85.9 million (2005 – $55.0 million).

7. AIRPORT IMPROVEMENT FEES

Airport improvement fees, net of airline administration charges, reported in the Statement of Operations, totaled $183.5 million during 2006 (2005 – $175.4 million). Gross revenues and administration charges for 2006 were $191.0 million and $7.5 million respectively (2005 – $182.6 million and $7.2 million).

8. DEFERRED CHARGES

	December 31, 2006		
(in thousands)	**Cost**	**Accumulated Amortization**	**Net Book Value**
Bond issue costs	**$ 53,401**	**$ 22,728**	**$ 30,673**
Deferred leasehold inducements	**4,600**	**507**	**4,093**
Land acquisition costs	**10,303**	**136**	**10,167**
Deferred hedge loss on bond	**17,953**	**8,373**	**9,580**
Bond discount costs	**18,392**	**5,008**	**13,384**
	$ 104,649	**$ 36,752**	**$ 67,897**

	December 31, 2005		
(in thousands)	Cost	Accumulated Amortization	Net Book Value
Bond issue costs	$ 49,519	$ 17,850	$ 31,669
Deferred loss on commodity swap	196	196	—
Deferred leasehold inducements	4,600	101	4,499
Deferred hedge loss on bond	18,060	7,450	10,610
Bond discount costs	17,294	3,792	13,502
	$ 89,669	$ 29,389	$ 60,280

The aggregate amortization expense in respect of deferred charges for the year ended December 31, 2006 was $7.6 million (2005 – $6.1 million) and is included in interest and financing costs except for Deferred leasehold inducements and Land acquisition costs which are included in goods and services. Additions to deferred charges during the year totaled $15.2 million (2005 – $12.9 million). The Land acquisition costs were funded in part by $5.6 million which was recorded in Work in process at March 31, 2006 for the first parcel of the Boeing Lands (see Note 17, Commitments and Contingent Liabilities).

9. CAPITAL ASSETS

Capital assets are comprised of:

	December 31, 2006		
(in thousands)	**Cost**	**Accumulated Amortization**	**Net Book Value**
TERMINAL ASSETS			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	**$ 4,426,794**	**$ (470,421)**	**$ 3,956,373**
Baggage handling systems	**181,813**	**(31,259)**	**150,554**
	4,608,607	**(501,680)**	**4,106,927**
AIRSIDE ASSETS			
Improvements to leased land	**24,000**	**(4,033)**	**19,967**
Runways and taxiways	**362,738**	**(34,224)**	**328,514**
Deicing facilities	**29,906**	**(5,195)**	**24,711**
	416,644	**(43,452)**	**373,192**
OTHER ASSETS			
Utilities and stormwater management facilities	**342,252**	**(31,655)**	**310,597**
Operating assets	**579,308**	**(342,062)**	**237,246**
Capital leases	**11,935**	**(9,445)**	**2,490**
	933,495	**(383,162)**	**550,333**
	$ 5,958,746	**$ (928,294)**	**$ 5,030,452**

(in thousands)	December 31, 2005 Cost	Accumulated Amortization	Net Book Value
TERMINAL ASSETS			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	$ 4,126,682	$ (340,317)	$ 3,786,365
Baggage handling systems	169,726	(23,958)	145,768
	4,296,408	(364,275)	3,932,133
AIRSIDE ASSETS			
Improvements to leased land	24,000	(3,633)	20,367
Runways and taxiways	319,632	(26,940)	292,692
Deicing facilities	29,906	(4,562)	25,344
	373,538	(35,135)	338,403
OTHER ASSETS			
Utilities and stormwater management facilities	383,489	(21,943)	361,546
Operating assets	562,063	(273,893)	288,170
Capital leases	10,057	(8,130)	1,927
	955,609	(303,966)	651,643
	$ 5,625,555	$ (703,376)	$ 4,922,179

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

10. WORK IN PROGRESS

(in thousands)	Beginning of Year	Additions / Adjustments	Transfers to Capital Assets	**End of Year**
Airside Development Project	$ —	$ 548	$ (217)	**$ 331**
Terminal Development Project	829,413	288,096	(191,065)	**926,444**
Infield Development Project	287	(53)	(234)	**—**
Utilities and Area Support Facilities	3,762	1,124	—	**4,886**
	833,462	289,715	(191,516)	**931,661**
Restoration Projects	86,245	58,340	(59,978)	**84,607**
Cogeneration Plant	—	1,222	(1,222)	**—**
T3 Redevelopment	83,772	42,608	(76,649)	**49,731**
	$ 1,003,479	$ 391,885	$ (329,365)	**$ 1,065,999**

As at December 31, 2006, work in progress included capitalized interest and financing costs in the amount of $134.5 million (2005 – $115.2 million).

11. LONG-TERM DEBT

As at December 31, 2006 the long-term debt outstanding is comprised of:

(in thousands) Series	Coupon Rate	Maturity Date	**2006**	2005
	(Note 18)			
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	**474,719**	483,678
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
2004-1	6.47%	February 2, 2034	**600,000**	600,000
2004-2	4.45%	February 4, 2009	**250,000**	250,000
2005-1	5.00%	June 1, 2015	**350,000**	350,000
2005-2, *See below*	floating	May 18, 2007	**510,000**	510,000
2005-3	4.70%	February 15, 2016	**350,000**	350,000
2006-1	4.40%	February 28, 2011	**250,000**	—
2006-2, *See below*	floating	October 24, 2008	**350,000**	—
			7,434,719	6,843,678
Capital leases, *See below*			**3,004**	364
Province of Ontario				
Interest-free, payable in five equal annual installments commencing 2011			**24,000**	24,000
			7,461,723	6,868,042
Less current portion			**895,706**	9,250
			$ 6,566,017	$ 6,858,792

Interest arising from these debt instruments amounted to $428.6 million (2005 – $396.9 million).

For Series 2005-2 and 2006-2 the interest rates are adjusted quarterly at the 3-month Bankers' Acceptance rate plus 18 basis points and 14 basis points respectively. For series 2005-2 interest rates ranged from 3.52% to 4.53% (2005 – 2.80% to 3.52%). For Series 2006-2 the interest rate during the period from October 24, 2006 to December 31, 2006 was 4.49% (2005 – n/a).

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. The covenants that the GTAA must meet, include two specific coverage tests for operating expenses and debt payments. 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. As at December 31, 2006 the GTAA is not in default of its obligations under the Trust Indenture.

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	474,719	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 9, 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
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
2005-1	February 8, 2005	350,000	June 1, 2005
2005-2	May 20, 2005	510,000	August 18, 2005
2005-3	October 26, 2005	350,000	February 15, 2006
2006-1	February 28, 2006	250,000	August 28, 2006
2006-2	October 24, 2006	350,000	January 24, 2007

With the exception of Series 2005-2 and 2006-2, interest is payable semi-annually from the Interest Payable Commencement Date, based on fixed rates. Series 2005-2 and 2006-2, interest is payable quarterly from the Interest Payable Commencement Date, based on floating rates. With the exception of Series 2003-1, Series 2004-2, Series 2005-2 and Series 2006-1 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 $500 million facility for general corporate purposes and capital expenditures, and a $50 million facility for interest rate and foreign exchange hedging activities. The facility, due November 22, 2009, will have a term of three years, and can be extended annually for an additional year with the lenders' consent.

At December 31, 2006, no funds were drawn on the facility (2005 – $43 million). As at December 31, 2006, a letter of credit for $2.25 million was outstanding against the facility (2005 – $9.0 million) (see Note 17, Commitments and Contingent Liabilities). 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 3.72% to 6.00% (2005 – 2.95% to 5.00%).

Capital Leases

The GTAA has undertaken to lease certain operating equipment. Effective interest rates of the capital leases range from 0.74% to 7.93% (2005 – 0.59% to 4.71%).

Principal Repayments

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

(in thousands)	
2007	$ 895,706
2008	736,277
2009	261,327
2010	611,694
2011	267,046
Thereafter	4,689,673
	$ 7,461,723

During the year, the GTAA incurred interest costs, on a cash basis, of $421.1 million (2005 – $395.1 million).

12. NET ASSETS (DEFICIENCY)

The GTAA has established within its net assets (deficiency), funds for operational requirements and debt related obligations. The net assets consists of three components: externally restricted, internally restricted and unrestricted.

Externally Restricted
A portion of the net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund and the Debt Service Fund – Principal (see Note 6, Reserve and Other Funds) set out in the Trust Indenture (see Note 11, Long-Term Debt).

Internally Restricted
A portion of the 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 6, 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
The unrestricted net deficiency represents cumulative revenue under expenses, including amortization, which remains after reserve fund cash commitments have been made.

13. 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)	**2006**	2005
Interest and financing costs incurred	**$ 436,335**	$ 403,027
Less:		
Interest earned on the Debt Service Reserve Fund	**(23,383)**	(14,434)
Capitalized interest	**(57,925)**	(54,193)
	$ 355,027	$ 334,400

14. 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.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2006 and the next required valuation will be as of January 1, 2007.

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

(in thousands)	**2006**	2005
ACCRUED BENEFIT OBLIGATION		
Balance at beginning of year	**$ 90,390**	$ 74,321
Actuarial loss	**173**	8,119
Current service cost	**3,196**	3,407
Interest cost	**4,805**	4,561
Benefits paid	**(1,883)**	(996)
Employee contributions	**945**	978
Balance at end of year	**97,626**	90,390
PLAN ASSETS		
Fair value at beginning of year	**82,399**	71,694
Employee contributions	**945**	978
Employer contributions	**7,016**	4,316
Actual return on plan assets	**11,514**	6,407
Benefits paid	**(1,883)**	(996)
Fair value at end of year	**99,991**	82,399
Funded status – surplus/(deficit)	**2,365**	(7,991)
Unamortized net actuarial loss	**7,162**	14,155
Unamortized past service costs	**816**	1,089
Unamortized transitional obligation	**134**	149
Accrued benefit asset	**$ 10,477**	$ 7,402

As at December 31, 2006, one of the GTAA's two defined benefit pension plans is in a deficit position of $0.8 million (2005 – $10.9 million deficit), with an accrued obligation of $86.1 million (2005 – $79.5 million) and a fair value of plan assets of $85.3 million (2005 – $68.6 million). The other is in a surplus position of $3.2 million (2005 – $2.9 million surplus), with an accrued obligation of $11.5 million (2005 – $10.9 million) and a fair value of plan assets of $14.7 million (2005 – $13.8 million).

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

(in thousands)	**2006**	2005
Current service cost	**$ 3,196**	$ 3,407
Interest cost	**4,805**	4,561
Actual return on plan assets	**(11,514)**	(6,407)
Actuarial loss	**173**	8,119
Costs arising in the period	**(3,340)**	9,680
Difference between costs arising in the period and costs recognized in respect of:		
Return on plan assets	**6,410**	2,048
Actuarial loss (gain)	**583**	(8,072)
Past service costs	**273**	273
Transitional obligations	**15**	15
Net defined benefit pension plan expense	**$ 3,941**	$ 3,944

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the GTAA to its funded pension plans and cash contributed to the defined contribution plans was $7.9 million (2005 – $8.5 million).

The GTAA's plan assets consist of:

	Percentage of plan assets	
Asset Category	**2006**	2005
Equity Securities	**48%**	57%
Fixed Income	**32%**	26%
Real Estate	**20%**	15%
Cash	**—**	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, 2006):

	2006	2005
Discount rate	**5.25%**	5.25%
Expected long-term rate of return on plan assets	**6.02%**	6.50%
Rate of compensation increase	**4.00%**	4.00%

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)	**2006**	2005
Defined contribution pension plan expense	**$ 1,752**	$ 1,536

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

Some employees are 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.

15. TAXATION

The GTAA, and its wholly-owned subsidiary, are exempt from federal and provincial income 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.

16. RELATED PARTY TRANSACTIONS

Directors' Fees

Directors' fees expense for the year ended December 31, 2006 was $670,625 (2005 – $592,350).

17. COMMITMENTS AND CONTINGENT LIABILITIES

Ground Lease

The GTAA's commitment in respect of annual Ground Lease Base Rent, including ground rent deferral repayments, has been estimated at approximately $154.9 million for the year ending 2007; $158.8 million for the year ending 2008; $162.8 million for the year ending 2009, $166.8 million for the year ending 2010 and $171.0 million for the year ending 2011 (see Note 20, Ground Rent Agreement).

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2006 of approximately $140.1 million (2005 – $213.9 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 and $345 million by December 31, 2006, both of 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, 2011 and 2016 at $313 million and $835 million, respectively, with total target capital expenditures aggregating $1.92 billion.

Letters of Credit

A letter of credit for $2.25 million was outstanding at December 31, 2006 (see Note 11, Long-Term Debt), relating to the GTAA's Clean Energy Supply contract with the Ontario Power Authority. The letter of credit expires April 11, 2007.

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 responsible 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 Canada Operations Ltd. (formerly 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 by Boeing in stages. The first parcel representing 16.1 hectares of land was conveyed on May 29, 2006 and the remaining lands will be conveyed from time to time over a maximum period of 20 years from that date. While the GTAA retains use of the land, title to the first parcel has been transferred to the federal government as required under the terms of the Ground Lease. Deposits totaling $8.0 million which were recorded in Work in process at March 31, 2006 have been made, of which $3.3 million was credited to the purchase price of the first parcel and is included in Land acquisition costs (see Note 8, Deferred Charges). The remaining deposit of $4.7 million will be applied to the purchase price of 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 2007. 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 2007.

Cogeneration Facility

On February 1, 2006, the Clean Energy Supply Contract ("CES Contract") between the GTAA and the Ontario Power Authority commenced, pursuant to which the GTAA is obliged to have 90 MW of electrical energy available to the Ontario power grid. The term of the CES Contract is for 20 years, subject to early termination rights available to the GTAA. Payments by either party under the CES Contract will depend on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than the net revenue requirement, as defined in the CES Contract.

Also in conjunction with the cogeneration facility, the GTAA has entered into certain contracts in order to secure the supply and delivery of natural gas necessary for anticipated future operations of the cogeneration facility. Under these contracts, the GTAA will be required to make payments relating to both the delivery of natural gas based on standard rate agreements and the cost of natural gas as determined by market rates. The delivery contract establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of the anniversary date. The GTAA has the option to dispose of natural gas in excess of this maximum volume either through consumption or through the sale of natural gas to third parties.

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 June 9, 2006, the Supreme Court of Canada ruled that Section 9 of the Airports Transfers (Miscellaneous Matters) Act permits CAAs to seize and detain aircraft whether they are owned directly or leased by an air carrier, who owes the airport authority unpaid aeronautical fees and charges. This decision gives the GTAA the right to recover certain monies owing from the insolvency of Canada 3000. In October 2006, the motions judge issued an order settling the final amount of the claim of the GTAA and the CAAs in these proceedings. One group of aircraft lessors filed a motion which would have prevented the CAAs, including the GTAA, from realizing on certain security posted by the aircraft lessors at the time of the bankruptcy of Canada 3000 in lieu of the aircraft themselves. This motion was heard on December 20, 2006 and the motions judge dismissed the lessors' motion. Subsequent to the dismissed motion, the applicant lessors have filed an appeal to the Ontario Court of Appeal. No date for the hearing before the Court of Appeal has been set.

Jetsgo Corporation

On March 11, 2005 Jetsgo Corporation ("Jetsgo") ceased all operations and was granted protection from its creditors by the Quebec Superior Court under the Companies' Creditors Arrangement Act and subsequently filed for bankruptcy. The GTAA has filed a claim for $5.7 million, including G.S.T., for amounts due at the time the operations ceased, including airport improvement fees of $2.5 million. Given the preliminary status and uncertain outcome of Jetsgo's filing, the GTAA has taken a provision for $4.6 million against outstanding amounts.

Air France

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, was named as a defendant in two lawsuits. The first is a class action lawsuit, which the Court has certified, involving certain passengers and their family members. The second lawsuit was filed by an individual passenger. The GTAA's insurers are defending both lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

18. 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.

19. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Reserve and other 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)	**2006**		2005	
	Book Value	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 7,461,723**	**$ 8,212,365**	$ 6,868,042	$ 7,656,055

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 and Other Funds (see Note 6, Reserve and Other Funds). The GTAA received 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 and Other Funds in short-term floating rate investments.

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. 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, 2006, $12.4 million of this deferred gain remains unamortized.

Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its floating rate bank indebtedness and Medium Term Notes (see Note 11, Long Term Debt). The impact of a 1% change in interest rates applied to the average floating rate bank indebtedness and Medium Term Notes outstanding during 2006 would have amounted to approximately $6.2 million (2005 – $5.6 million). The Debt Service Reserve Fund for bank indebtedness (see Note 6, 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 and Other Funds would amount to approximately $10.6 million (2005 – $9.2 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 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 80% 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.

20. 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 a 10 year period, commencing with the year ended December 31, 2006, the GTAA's annual ground rent payment will be increased by approximately $4.2 million per year. The decrease in the liability for 2006 was approximately $4.2 million, bringing the total liability to $37.4 million.

21. SUBSEQUENT EVENT

Land Acquisition

In May 2006, the GTAA and Alstep GP Inc. ("Alstep") entered into a land purchase agreement under which Alstep could exercise its right to require the GTAA to purchase approximately 9.7 hectares of land adjoining the airport property for a total of $15.3 million. On December 19, 2006, Alstep exercised this right and the land was transferred on February 16, 2007. While the GTAA retains use of the land, title to the property was transferred from Alstep to the federal government as required under the terms of the Ground Lease. Deposits totaling $3.0 million, which were recorded in Work in process as at December 31, 2006, have been made and were credited to the purchase price of the property and included in Land acquisition costs upon completion of the transfer.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

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 49 to 75 and the summary of affairs (Management's Discussion and Analysis) is found on pages 32 to 48 of the Annual Report.

B) REPORT ON THE BUSINESS PLAN AND OBJECTIVES FOR 2006

The projected cash flows in any year constitute the business plan for that year. The business plan for 2006 is the 2006 summary of projected cash flows which is found below in Paragraph C (the "2006 Business Plan"). A report on the GTAA's performance relating to the 2006 Business Plan is discussed in Management's Discussion and Analysis ("MD&A").

Further, in the Annual Reports for the previous five years, comparisons to the respective business plans and the overall corporate performance are discussed in the respective MD&A.

C) VARIANCES AND CORRECTIVE MEASURES WITH RESPECT TO THE REPORT ON THE 2006 BUSINESS PLAN

The following table provides a comparison between the 2006 actual operating results and the 2006 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 but does include other items such as the funding of reserve accounts, notional principal, and the payment of deferred ground rent to the federal government which are not included as expenses in the statement of operations.

(in millions)	**2006 Actual**	2006 Business Plan	Variance
REVENUES			
Landing fees	**$ 440.8**	$ 457.7	$ (16.9)
General terminal charges	**172.5**	180.5	(8.0)
Airport Improvement Fee	**183.5**	183.9	(0.4)
Car parking and ground transportation	**102.3**	94.7	7.6
Concessions, rentals and other	**163.2**	154.3	8.9
	1,062.3	1,071.1	(8.8)
EXPENSES			
Ground rent	**151.8**	151.5	(0.3)
Goods and services	**285.9**	288.2	2.3
Salaries, wages and benefits	**105.1**	98.9	(6.2)
PILT	**21.5**	21.6	0.1
Debt Service	**443.1**	466.6	23.5
	1,007.4	1,026.8	19.4
Debt Service Coverage	**30.8**	30.8	—
Fund Deposits	**15.1**	13.5	(1.6)
Net Cash Surplus/(Deficit)	**$ 9.0**	$ 0.0	$ 9.0

A detailed discussion of the 2006 financial results is contained in the MD&A. While total revenues were less than planned, net cash for 2006 was greater than planned as lower expenses more than offset lower than planned revenues.

Total revenues were $8.8 million below the projected cash summary. Maximum Take-Off Weight ("MTOW") and the number of arrived seats, which are the basis for the calculation of landing fees and general terminal charges respectively, were below projections as a result of the high load factors experienced by many of the airlines operating at the Airport. Therefore, these two revenue sources were below projections. Passenger traffic was on target and consequently Airport Improvement Fee ("AIF") revenues were as planned. New non-aeronautical revenue initiatives, higher than planned revenues from the Cogeneration Plant and higher than anticipated interest income resulted in car parking and ground transportation and concessions, rental and other revenue exceeding plan by $16.5 million.

Total operating expenses, including debt service, were $19.4 million below plan. Goods and services were lower than projected by approximately $2.3 million. Higher than expected costs associated with the operation of the Cogeneration Plant and bussing were more than offset by savings in other areas including snow clearing, professional and contractual services and policing and security.

The deposits to the debt service coverage fund, the operations and maintenance fund and the AIF fund were as projected.

None of the variances to the 2006 Business Plan discussed above were of a nature that caused the GTAA to take specific corrective actions.

D) SUMMARY OF THE FIVE-YEAR BUSINESS PLAN

The five-year Business Plan (2007 to 2011) is based on assumptions underlying the GTAA's assessment of various external factors. During 2007, the GTAA will be focused on capitalizing on the recent investment in new facilities, especially Terminal 1, as the focus of the corporation changes from rebuilding Toronto Pearson to operating these new assets as efficiently and effectively as possible. Within this context, the following areas will be of strategic concern:

- Net revenue generation from non-aeronautical sources;
- Identifying and exploiting opportunities to improve operational efficiency;
- Life cycle management of capital assets;
- Prioritization of capital expenditures; and
- Obtaining an amendment to the Ground Rent formula that is fair and competitive all without compromising safety and security.

The economic and operating assumptions for 2007 include:

- Inflation as measured by the CPI index of 2.0%;
- 31.8 million total passengers;
- Landed MTOW of 12.9 million tonnes; and
- 21.3 million landed seats.

With the opening of Pier F in January 2007, there are no other significant changes to the Airport's operating assets anticipated over the forecast horizon. The opening of Pier F will impact revenues, operating costs and interest costs in 2007. Over the balance of the forecast horizon, the primary drivers for the GTAA's Business Plan are the growth in Airport activity and inflation. Specific revenue or cost containment initiatives carried out over this period may also impact revenues and expenses. The ground rent is based on the existing Ground Lease. If the GTAA is successful in its campaign for a more equitable ground rent, the payments and landing fees would both be adjusted. The forecast average annual passenger growth rate from 2007 to 2011 is 4.0%. Aircraft movements, landed MTOW and landed seats are expected to grow at a similar rate.

The projected Business Plan includes principal repayment amounts but does not include amortization. In some years it is anticipated that AIF revenue will be used to pay for both debt service expense and capital expenditures as allowed under the AIF Agreement with the airlines. Historically the GTAA has used AIF revenue to pay for debt service expense only. The reader is cautioned that some assumptions used may not materialize and unanticipated events and circumstances may occur subsequent to the date that this summary was prepared. Therefore, the actual results achieved on a cash basis during the period may vary and the variations may be material. For a more complete discussion of the risks and uncertainties and caution regarding forward-looking statements, see the MD&A and the Annual Information Form, copies of which may be accessed at www.sedar.com ("SEDAR").

Projected Business Plan
(in millions)

	2007	2008	2009	2010	2011
REVENUES					
Landing fees	$ 458.6	$ 477.2	$ 515.2	$ 555.7	$ 598.9
General terminal charges	193.5	217.0	222.7	228.5	234.5
Airport improvement fees, net	229.1	248.8	258.7	269.1	279.9
Car parking and ground transportation	102.6	106.9	111.1	115.6	120.2
Concessions, rentals and other	169.2	175.5	181.9	188.4	195.3
	1,153.0	1,225.4	1,289.6	1,357.3	1,428.8
EXPENSES					
Ground rent	154.9	158.8	162.8	166.8	171.0
Goods and services	312.4	320.2	328.2	336.4	344.8
Salaries, wages and benefits	108.6	111.9	115.2	118.7	122.3
Real property taxes and payments-in-lieu of real property taxes	25.2	27.7	28.8	30.0	31.2
Debt service (net of interest income)	538.5	580.7	582.5	596.2	602.3
	1,139.6	1,199.3	1,217.5	1,248.1	1,271.6
Debt Service Coverage Requirement	48.7	0	0	3.0	1.0
Fund Deposits & Capital Funding	(35.3)	26.1	72.1	106.2	156.2
Net Cash Surplus (Deficit)	$ —	$ —	$ —	$ —	$ —

Projected Capital Expenditures
(in millions)

	2007	2008	2009	2010	2011	Total
Operating, Maintenance & Restoration Capital	$ 50	$ 50	$ 50	$ 50	$ 50	$ 250
T3 Redevelopment	17	10	0	11	—	38
Land Acquisitions	15	6	0	11	0	32
Airport Development Program	119	1	1	—	—	121
Post ADP	103	147	15	59	51	375
Total	$ 304	$ 214	$ 66	$ 131	$ 101	$ 816

E) REMUNERATION TO BOARD AND SALARY OF SENIOR OFFICERS

In 2006, remuneration to the Board of Directors and salaries paid to Senior Officers were as follows:

Board of Directors' Remuneration – 2006

Archdekin, Stanley G.		$ 9,457 (1)
Badger, Gregg	(2)	22,793
Brigham, Patrick S.		27,750
Cole, Scott R.		30,750
Cosburn, B. Mac		39,000
Day-Linton, Marilynne E.		34,500
Hart, Christine E.		33,000
Hurren, Warren C.		114,000
Hutzel, Benjamin J.		33,250
Kanwar, Vijay J.	(1)	11,207
Knipe, Catherine J.		28,946
Loberg, Norman B.		28,000
McKelvey, Bruce A.		27,250
Parsons, Louis H.	(2)	17,597
Richmond, Dale E.		32,000
Soberman, Richard M.		31,000
Worrall, Lawrence D.		35,750

(1) New Board Members, term started May 10, 2006.

(2) Messrs. Badger's, and Parsons' terms ended May 10, 2006.

Senior Officers' Salaries – 2006

Kaldeway, John		$ 400,000
Fountain, Judy A.		232,146
Burke, James J.	(1)	173,854
Lackey, Brian R.		227,201
Lotito, Vito		195,726
Love, Douglas A.		224,024
McCoomb, Lloyd A.		239,449
Shaw, Stephen A.		204,970

(1) Mr. Burke resigned October 13, 2006.

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

F) ETHICAL BUSINESS CONDUCT

In December 2006, the Board of Directors approved a new "Code of Business Conduct and Ethics" (the "Code"). The Code complies with the requirements of the Canadian Securities Administrators' National Policy 58-201 and represents a comprehensive approach to addressing, among other matters, conflicts of interest and promoting fair, honest and ethical behaviour by all GTAA Directors, officers, employees and contracted staff. A copy of the Code may be accessed at www.sedar.com.

The Code will replace the current Conflict of Interest and Code of Conduct provisions found in Sections 6.12 and 6.13 of the GTAA's Amended and Restated General Operating By-law (the "By-laws"). In order to fully implement the Code, the GTAA must observe certain requirements imposed by the By-laws and the Ground Lease, including, for example, an amendment to the By-laws themselves. In addition, the GTAA will be undertaking the dissemination of the Code to all Directors, officers, employees and contracted staff. These matters will be completed in 2007.

The Board will be monitoring compliance with the Code and will require that each Director and officer sign an Annual Declaration advising that the Director or officer has read the Code and either declares that the Director or officer is in compliance or not in compliance with the Code and to declare the reasons for the non-compliance. In addition, the Board has implemented an "Ethics Line" which permits the anonymous reporting of an employee, officer or Director's unethical behaviour.

All Directors and officers indicated that they were in compliance with the Corporation's 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	Dell Computer Corporation	Altiris client management suite licenses.	A
	Blackwater Communications Inc.	Government relations consulting services.	A
	Electric Transportation Engineering Corporation	Purchase of liquid crystal display monitors.	C
	WPS North America Inc.	Auto-pay system at Terminal 3.	C
	Trecata Corporation	Integration of the Terminal 3 (TBI) employees into Oracle Human Resources and payroll systems.	C
	Medtronic of Canada Ltd.	Inspection services for LifePak 500 automated defibrillators.	A
	Microsoft Canada Corporation	Support service for active directory, Windows operating systems, SMS exchange.	C
	Groundside Inc.	Maintenance of waste receptacles.	C
	Velocity Management Solutions	Bill 198 consultant services.	B
	1473269 Ontario Inc.	Manpower for GTAA and CATSA baggage testing, T1 international baggage system.	B
	NETX Inc.	Cable cutover management.	A
$175,000 – $274,000	Planet Associates Inc.	Planet IRM software maintenance agreement.	C
	Cisco Systems Canada Co.	Implementation of a wireless local area network (WLAN) system in T3.	C
	W.G. Morrison Consulting	Economic analysis.	A
	Siemens Building Technologies Ltd. – Fire Safety Division	Annual inspection service for Terminal 3 fire alarm system, including emergency repair services for Terminals 3 and 1.	C
	ACGHS General Partner Inc. (in its capacity as general Partnership of ACGHS Limited Partnership)	Maintenance of outbound transborder baggage system at T2.	A
	Keyrus Canada	Pass and permit control office processes and systems review.	D

Contract Value Range	Contractor	Description of Contract	Reason for Award without Public Tender
$275,000 – $374,000	Cushman & Wakefield Lepage Inc.	Market opportunity assessment south 409 lands.	A
	Safegate Airport Systems Inc.	Upgrade and install new visual docking guiding systems (VDGS) and extend to gate operations systems (GOS).	C
$375,000 – $474,000	Paling Industries Ltd.	Repairs to 2 fire damaged Cobus 3000s.	B
$475,000 – $574,000	Energy Advantage Inc.	Transition period energy management services agreement (leading to definitive agreement).	A
$575,000 – $774,000	Hewlett Packard (Canada) Co.	Enterprise availability management.	C
$775,000 – $874,000	—	—	
$875,000 – $974,000	Powerwave Technologies Canada, Limited	Design, supply and testing of the Distributed Antenna System (T3, garage, CDF, AMF and AESC).	C
$975,000 +	SNC-Lavalin Profac Inc.	Operation and maintenance of Central Utilities Plant.	A
	Black and McDonald Limited	Labour to manage cable management services and network operators centre.	A
	Robko Communications Inc.	Communication infrastructure professional services.	A

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.

CORPORATE INFORMATION

HEAD OFFICE ADDRESS

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AIRPORTS AUTHORITY

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Fax: 416-776-3555
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SENIOR OFFICERS

JOHN KALDEWAY
President and Chief Executive Officer
(retired January 31, 2007)

JAMES J. BURKE
Vice President and
Chief Information Officer
(resigned October 13, 2006)

JUDY A. FOUNTAIN
Vice President and
Chief Financial Officer

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
(appointed President and Chief
Executive Officer February 1, 2007)

STEPHEN A. SHAW
Vice President, Corporate Affairs

ANNUAL PUBLIC MEETING

The GTAA's Annual Public Meeting
will be held on May 9, 2007
at 1:30 p.m. at the
Westin Bristol Place Hotel
Toronto Airport
950 Dixon Road
Toronto, Ontario

PUBLIC INFORMATION

Media inquiries, requests for
general information and copies of
publications should be directed to:
Vice President, Corporate Affairs
Telephone: 416-776-3580
Fax: 416-776-7593
email: corporate_affairs@gtaa.com

AUDITORS

Deloitte & Touche LLP
Toronto, Ontario
(until March 7, 2007)

LEAD BANK

Canadian Imperial Bank of Commerce
Toronto, Ontario

PRINCIPAL LEGAL COUNSEL

Osler, Hoskin & Harcourt
Toronto, Ontario

PUBLICATIONS AVAILABLE

NEWSLETTERS

GTAA Today Employee Newsletter

Toronto Pearson Today

BROCHURES AND MISCELLANEOUS PUBLICATIONS

Airport Development

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

Central Deicing Facility Annual Financial Report

Committed to Serving You Better

Customer Assistance Guide for Airport Employees

Customer Service at Toronto Pearson

Delivering Value – Aeronautical Fees

Environmental Management

IT&T Business Services

Noise Management (Annual) Report

Nominators' Report

Safety, Security and Airport Operations

Sustainability Report

Transportation and Parking

The Value of Building With a Vision

CREDITS

COVER:
Terminal 1, International Departures
Richard Serra, *Titled Spheres*,
2002-2004

INSIDE FRONT COVER/PAGE 1:
Centre of Terminal 1 apron
between Piers E and F

PAGES 2-3:
LINK Train and Terminal 3
expanded west pier

PAGES 4-5:
Terminal 1, U.S. check-in area

PAGES 6-7:
Time exposure – Cargo being loaded
onto Cathay Pacific at West Cargo

PAGES 8-9:
Terminal 1, Departures Level curb

PAGE 10:
Terminal 3, newly expanded
check-in area

PAGE 15:
Terminal 3, apron at Hammerhead C

PAGE 16:
Warren Hurren, Chairman,
GTAA Board of Directors

PAGE 17:
LINK Train station,
Terminal 1

PAGE 18:
GTAA Board of Directors

PAGE 20:
Dr. Lloyd McCoomb,
GTAA President and CEO

PAGE 21:
Deicing and glycol recovery
at Central Deicing Facility

PAGE 23:
Fire and Emergency
Services Training Institute

PAGE 24:
Gwynn Murrill, *Tiger #5*
and *Tiger #3*, 2002

PAGE 25:
Dereck Revington,
Skin of fLight, 2005

PAGE 27:
Glycol Processing Facility

PAGE 29:
GTAA Information Centre sign

PAGE 30:
Wayfinding sign at Terminal 1

INSIDE BACK COVER:
Hammerhead and apron,
Pier C, Terminal 3

ALL PHOTOS BY MICHAEL MAHOVLICH,
EXCEPT:
pages 8-9 by Timothy Hursley
pages 15, 23, 24, 25 by Elsa Mendes
page 16 by Lorella Zanetti
page 18 by Jean Desjardins

STRATEGIC DIRECTION:
S.D. Corporate Communications

DESIGN:
Rothwell & Co.

TYPESETTING:
Corporate Typesetting Services

PRINTING:
grafikom.MIL Toronto Printed in Canada

The GTAA incorporates sustainable development practices within our corporation. The cover and interior pages 1-30 of this Annual Report were printed on Signature 80lb. cover and 100lb. text. The interior pages 31-84 were printed on FSC (Forest Stewardship Council) certified 60lb. Plainfield. FSC certification is the world's highest endorsement for environmentally and socially responsible forestry practices.

Mixed Sources
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