Management's Discussion and Analysis and Financial Statements of the

Greater Toronto Airports Authority

December 31, 2010 and 2009

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Dated March 9, 2011

Forward-looking Information

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking information. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. Please refer to the section titled "Caution Regarding Forward-Looking Information" 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 information.

This report discusses the financial and operating results of the Greater Toronto Airports Authority ("GTAA") for the year ended December 31, 2010, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2010 and 2009, and the Annual Information Form for the year ended December 31, 2010. 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 Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's 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 south-central Ontario region, including 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 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 Ground Lease is available on SEDAR at www.sedar.com and on the GTAA's website at www.gtaa.com. 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 region.

BUSINESS STRATEGY

The GTAA is focussed on providing quality aviation facilities and services for air carriers, passengers and other users of Toronto Pearson, recognizing that the region's demand for air travel is expected to continue to grow. To meet this anticipated demand the GTAA undertook the Airport Development Program ("ADP"), completed in January 2007, as well as the expansion and redevelopment of Terminal 3, which was substantially completed as at December 31, 2010, and continues to plan for additional future development.

Throughout 2010, the GTAA continued to review its strategic direction. The Corporation has updated its vision statement - "Toronto Pearson will be North America's premier portal to a world of possibilities" and its mission statement - "Together, we will attract, serve, and delight our customers by consistently delivering value through innovative products and services". These statements have been specifically developed to guide corporate activities and emphasize the increased customer focus which the GTAA believes is required to meet its goals and the air transportation needs of the region.

The principal areas of strategic focus by the GTAA are:

- achieving long-term sustainability;
- achieving operational excellence;
- empowering employees to deliver value to GTAA's customers and other stakeholders;
- growing through innovation and leveraging assets; and
- developing an air and ground mobility hub.

The Airport now has sufficient capacity to meet projected air travel demands for several years and accordingly it is anticipated that, in the near term, there will be no significant capital programs undertaken. Any additional investment and associated indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and smaller scale capital investments to improve operations at the Airport or to generate additional non-aeronautical revenue, as described in the section on Capital Projects. However, as outlined in the GTAA's Airport Master Plan covering the 2008 to 2030 period (available on the GTAA's website at www.gtaa.com), significant new capital expenditures and financing activities will be required by the GTAA over the term of the plan to meet the anticipated air travel needs of the region.

SIGNIFICANT EVENTS

A number of significant events transpired in 2010, which had an impact on the GTAA's operations or financial results or which may impact future results.

Effective January 1, 2010, the GTAA revised its aeronautical fees, reducing landing fees and general terminal charges by 10.0 per cent and 10.2 per cent, respectively, from 2009 levels. The GTAA also introduced an additional air service incentive program offering rebates on landing fees to air carriers who provide new air service from Toronto to select unserved or underserved destinations, provided they achieve certain growth thresholds. The landing fee rebate under this program allows for a 60 percent and 40 per cent reduction in landing fees in the first and second years, respectively, of the new service.

On March 19, 2010, the GTAA filed a shelf prospectus qualifying up to $1.5 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. To date, $1.0 billion has been issued under this shelf prospectus.

On March 31, 2010, Skyservice Airlines Inc. ('Skyservice") was placed into receivership and ceased operations. At the time it ceased operations, Skyservice owed the GTAA approximately $0.2 million, net of prepayments. The GTAA is pursuing its remedies to recover amounts owed. Passenger traffic formerly carried by Skyservice has largely been absorbed by other air carriers operating at the Airport.

On April 8, 2010, the government of Canada announced an easing of security restrictions that had been put in place following the December 25, 2009, attempted terrorism incident involving a Detroit-bound flight from Amsterdam.

These revised security measures are believed to have had a positive impact on Airport operations.

On April 14, 2010, the Eyjafjallajȍkull volcano in Iceland erupted, sending volcanic ash into the atmosphere. Due to safety concerns, much of the airspace over Europe experienced a full or partial closure. Severe restrictions on flights across most of northern and central Europe remained in place until April 20, 2010, suspending trans-Atlantic and continental flights and disrupting passenger travel for six days. In the subsequent weeks, a number of limited flight restrictions were also enacted. During the period of the disruption, a number of flights to/from Toronto Pearson were cancelled. The financial impact on the Airport's operations was not material.

On April 22, 2010, the GTAA entered into an agreement to outsource a significant portion of its information technology services. This agreement is expected to result in lower operating expenses while maintaining or enhancing service levels. The transition of the outsourcing of the information technology services to the third-party service provider occurred on July 1, 2010.

On May 14, 2010, the $350.0 million Series 2007-2 Medium Term Notes ("MTNs") matured and were repaid using cash on hand and certain reserve funds.

On June 7, 2010, the GTAA issued $400.0 million of Series 2010-1 MTNs with a term of thirty years and a coupon rate of 5.63 per cent. Proceeds of the offering have been used to fund debt maturities, capital expenditures and to fund required reserve funds.

On June 28, 2010, the court approved the remaining portion of the settlement of six lawsuits, including a class-action lawsuit involving the GTAA resulting from the August 2005 incident where an Air France aircraft overshot the runway while attempting to land at the Airport. The settlement was covered by insurance policies held by the GTAA. The GTAA remains a defendant in four remaining actions relating to this incident. The GTAA's insurers are defending the GTAA in all of these lawsuits. It is the opinion of management that the GTAA's financial exposure will be limited to its insurance deductible.

Effective July 1, 2010, the GTAA implemented its new aeronautical rate structure, with the introduction of two new aeronautical fees: a turnaround fee and a check-in fee. These new fees replace a portion of the existing landing fee and general terminal charge; as such the landing fee and general terminal charge were adjusted downward by 7.9 per cent and 9.5 per cent, respectively, effective July 1, 2010.

On July 19, 2010, the $600.0 million Series 2000-2 MTNs matured and were repaid using cash on hand, which included proceeds from the June 2010 issuance of $400.0 million Series 2010-1 MTNs and certain reserve funds.

On August 9, 2010, the GTAA purchased 14.8 hectares of land from Boeing Canada Operations Ltd. ("Boeing") for $11.7 million. The GTAA entered into an agreement with Boeing in 2001 to purchase in stages 45.7 hectares of land adjacent to the Airport property. This represents the second parcel of land transferred under this agreement. The first parcel, 16.1 hectares, was transferred in 2006. The remaining 14.8 hectares of land will be transferred after environmental remediation is completed by Boeing. All lands purchased under this agreement by the GTAA will be transferred to the federal government as required under the terms of the Ground Lease.

On September 30, 2010, the GTAA announced its aeronautical fees for 2011. Effective January 1, 2011, the landing fees for cargo aircraft were reduced by 4.3 per cent. The general terminal charges and landing fees for passenger airlines were also reduced by 7.9 per cent and 4.5 per cent, respectively. At the same time, the turnaround fee charged for gating aircraft at the Airport was increased to $66.66 plus $2.41 per seat for each gating operation. This increase is part of a three-year phasing in of this fee, as determined by the GTAA in consultation with the air carriers serving Toronto Pearson. After adjusting for the impact of the new fees on the rate-setting methodology, the 2011 aeronautical rates are essentially unchanged from those in effect during 2010 on a per unit (MTOW and arrived seats) basis.

On September 30, 2010, the GTAA also announced that the Airport Improvement Fee ("AIF") for passengers connecting through Toronto Pearson would decrease from $8 to $4, effective January 1, 2011. The AIF for originating passengers remains at $25.

During the month of October 2010, the GTAA disposed of all of its remaining Master Asset Vehicle ("MAV") securities held as a result of the January 2009 restructuring of certain asset backed commercial paper ("ABCP"). The remaining MAV securities had a face value of $153.9 million and, at the time of disposition, an estimated fair value of $91.7 million and were disposed of for aggregate net proceeds of $90.6 million.

On October 29, 2010, the GTAA successfully negotiated an extension of its $550.0 million syndicated credit facility. The credit facility, which previously had a maturity date of November 22, 2012, will now mature on November 22, 2013.

Subsequent to December 31, 2010, on February 16, 2011, the GTAA announced that it has exercised its right to redeem all $325.0 million of the outstanding Series 2008-2 MTNs on March 21, 2011.

On February 23, 2011, the GTAA issued $600.0 million of Series 2011-1 MTNs with a term of thirty years and a coupon rate of 5.30 per cent. Proceeds of the offering will be used to fund the redemption of the $325.0 million, Series 2008-2 MTNs on March 21, 2011, fund required reserve funds, capital expenditures and prefund a portion of the Series 2002-1 MTNs which mature in January 2012.

On February 23, 2011, the GTAA announced that its President and Chief Executive Officer Lloyd McCoomb intends to retire on January 31, 2012. The GTAA's Board of Directors is currently undertaking a search to locate a suitable replacement for Dr. McCoomb.

On February 28, 2011, the $250.0 million Series 2006-1 MTNs matured and were repaid using cash on hand and certain reserve funds.

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 its financial results.

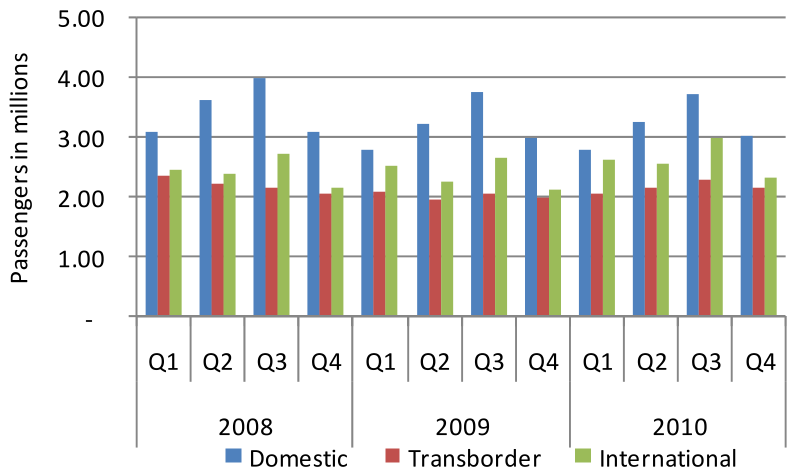
During 2010, air carriers serving Toronto Pearson increased service (on a net basis) on 57 routes, representing either completely new service or an increase in capacity on existing routes. It is believed that the existence of the GTAA's air service incentive programs was influential in the decision by air carriers to add several of the new services. During 2009 and 2010, 13 air carriers qualified for the air service incentive programs and collectively started or increased service on 43 routes from Toronto Pearson.

Total passenger traffic at the Airport in 2010, was 31.8 million passengers, an increase of 4.9 per cent from the 2009 level of 30.4 million passengers. Passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States. Domestic passenger traffic in 2010, was 12.7 million passengers, unchanged from 2009. Transborder traffic was 8.6 million passengers, a 7.0 per cent increase from 2009, and international passengers numbered 10.5 million, a 9.5 per cent increase over 2009. The following table summarizes passenger activity by sector for 2010 and 2009:

(in millions)	2010	2009	% Change
Domestic	12.7	12.7	0.0%
Transborder	8.6	8.1	7.0%
International	10.5	9.6	9.5%
Total	31.8	30.4	4.9%

The lack of growth in the domestic sector reflects the maturity of this market and the effect of reduced economic activity associated with the oil and gas sector in Alberta and Saskatchewan, the imposition of the Harmonized Sales Tax in Ontario on July 1, 2010, which increased the cost of domestic airfare, and competition from Billy Bishop Toronto City Airport ("City Centre Airport") on the high-volume routes to Ottawa and Montréal. Significant increases in the average base domestic airfares compared to 2009, may have also been a contributing factor. Growth in transborder passenger traffic was the highest experienced in several years and can be partially attributed to increased use of Toronto Pearson as a connection point for passengers travelling from the United States to Canadian and international destinations, and an increase in transborder services offered in response to the GTAA's air service incentive programs. A decrease in the average base transborder airfares compared to 2009, may have also been a contributing factor. The international sector, as it has for several years, continues to show the strongest growth as increased travel between Toronto and destinations in Asia, the Middle East and Latin America is driven by increasing economic and cultural linkages with these emerging markets. In addition, many of these markets were relatively less affected by the economic downturn. In June 2010, China granted Canada "Approved Destination Status" which is expected to have a positive impact on passenger travel between China and Canada. In addition, a number of new international services started at Toronto Pearson in 2009 and 2010. As indicated above, it is believed that the existence of the GTAA's air service incentive programs was influential in the decision by air carriers to add certain of these new services.

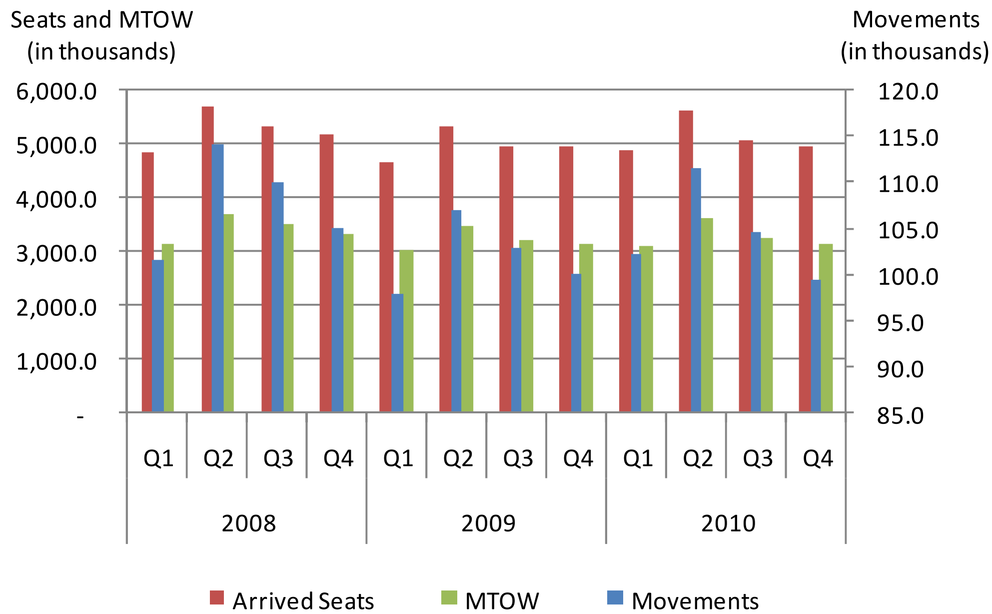
While passenger activity fluctuates from year to year, there is also some seasonal variation in travel patterns including increased activity during the summer months and holiday periods. The following graph illustrates the quarterly passenger levels (in thousands), by sector, for the past three years:



Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the total maximum take-off weight ("MTOW") and the total number of arrived seats. These measures are used to calculate airline charges for each flight. Total movements increased by 2.5 per cent, from 407.8 thousand movements in 2009 to 418.0 thousand movements in 2010. MTOW for 2010, was 13.1 million tonnes, an increase of 2.0 per cent as compared to 2009. Total arrived seats increased by 3.0 per cent from 19.9 million in 2009 to 20.5 million in 2010. The increases in movements, MTOW and arrived seats were due to the additional passenger demand in 2010 compared to 2009.

During the past several years airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in higher airline load factors, or the ratio of passengers to seats. The recent higher rates of growth in passenger activity, as compared to growth in movements, MTOW and seats are evidence of increasing airline load factors. It is expected that air carriers will continue to engage in capacity management techniques for the foreseeable future.

The following chart illustrates the arrived seats, MTOW, and movements for the past three years, by quarter:



The GTAA reviews and updates measures of Airport operating activity on an ongoing basis. Changes to these measures, although generally not material, do occur. For the most current operating activity statistics, please consult GTAA's website at www.gtaa.com.

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

The objective of the GTAA's annual aeronautical rate-setting approach is to break even on a modified cash basis after including projected operating costs and reserve and debt requirements as set out in the master trust indenture for the GTAA's debt program (the "Trust Indenture"). The Trust Indenture is available on SEDAR at www.sedar.com and on the GTAA's website at www.gtaa.com. 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 for those assets that 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. However, a notional amortization of debt, based on a 30-year amortization period, which is not included in the operating results, is included in the rate-setting calculation. This amortization of outstanding debt is reserved and used for future debt repayments.

The two largest 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 and groundside areas of the Airport, plus ground rent, payments-in-lieu of real property taxes ("PILT") and specific debt service costs, offset by the projected non-aeronautical revenue and a specified amount of AIF revenue. The general terminal charges are set at a rate per landed seat to recover the projected operating costs of the terminals.

The GTAA implemented new rates for landing fees and general terminal charges commencing January 1, 2010. The landing fee for passenger aircraft was reduced by $3.39 per tonne or 10.0 per cent when compared to the 2009 landing fee and the landing fee for cargo-only aircraft was reduced by $2.55 per tonne or 10.0 per cent. The general terminal charge was reduced by 10.2 per cent or $0.76 per seat for domestic arrivals and $0.95 per seat for non-domestic arrivals when compared to the 2009 charges. At the same time, the GTAA also introduced an additional air service incentive program offering rebates on landing fees to air carriers who provide new air service from Toronto to select unserved or underserved destinations, provided they achieve certain growth thresholds.

In 2009, the GTAA, in consultation with the air carriers serving the Airport, developed two new aeronautical fees. A turnaround fee is charged for the use of terminal facilities to gate aircraft. This fee is levied as a flat fee for each aircraft arrival at a terminal plus a rate per seat on the arriving aircraft and is designed to recover operating and debt service costs associated with the post-security portion of the terminals and the airside apron areas. A check-in fee is charged based on the usage of check-in counters in the terminals and is designed to recover the operating and debt service costs associated with the check-in areas of the terminals. These fees were implemented on July 1, 2010. As the new fees replace a portion of the existing landing fee and general terminal charge, the landing fee and general terminal charge were adjusted downward by a further 7.9 per cent and 9.5 per cent, respectively, effective July 1, 2010.

The introduction of these new fees is designed to increase transparency in the pricing of services and facilities, offer choices to air carriers as to the level of service they purchase, offer the opportunity for air carriers to reduce their cost of operations through the operational choices they make, reduce Airport operating and capital costs and send pricing signals that will lead to a more efficient use of Airport facilities.

Commencing on January 1, 2011, the general terminal charge was reduced by an average rate of 7.9 per cent (8.1 per cent or $0.49 per seat for domestic arrivals and 7.8 per cent and $0.59 per seat for non-domestic arrivals) when compared to the 2010 charges. Landing fees for passenger aircraft were reduced by 4.5 per cent. At the same time, the turnaround fee charged for gating passenger aircraft at the Airport was increased to $66.66 per flight as part of the three-year phase-in of this fee. The per seat portion of the turnaround fee increased to $2.41. The check-in fee for 2011 remains unchanged from the 2010 levels. The decrease in the landing fee and general terminal charge largely offsets the increase in the turnaround fee. After adjusting for the changes in rate-setting methodology, the 2011 aeronautical rates are essentially unchanged from those in effect during 2010 on a per unit (MTOW and arrived seats) basis. The landing fees for cargo-only aircraft were also reduced by 4.3 per cent when compared to the rates implemented on July 1, 2010.

Also effective January 1, 2011, the Airport Improvement Fee (“AIF”) for passengers connecting through Toronto Pearson decreased from $8 to $4. The AIF for originating passengers remained unchanged at $25. The reduction in the connecting AIF was implemented to encourage more connecting traffic through the Airport.

The GTAA’s continuing commitment to increase non-aeronautical revenues and manage operating expenses is reflected in the reductions in average air carrier cost per enplaned passenger (the amount that air carriers pay to the GTAA expressed as a per passenger rate), which began in 2008, and continues with the 2011 fees.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges which include the turnaround fee and the check-in fee), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other sources. The primary drivers for aeronautical revenue are aircraft movements. 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 is somewhat correlated to passenger activity. The following table summarizes the GTAA's revenues for the years ended December 31, 2010, 2009 and 2008:

(in thousands)	2010	2009	2008
Landing fees	$362,734	$415,320	$447,062
General terminal charges	176,812	170,801	180,674
Aeronautical Revenues	539,546	586,121	627,736
AIF, net	304,918	262,331	255,727
Car parking & ground transportation	122,234	117,491	126,450
Concessions & rentals	134,347	131,173	136,242
Other	11,129	17,423	26,400
Total	$1,112,174	$1,114,539	$1,172,555

Total aeronautical revenue for the year ended December 31, 2010, was $539.5 million, as compared to $586.1 million for the year ended December 31, 2009. This decrease in 2010, as compared to 2009 reflects the decrease in the rates for aeronautical fees introduced by the GTAA on January 1, 2010, which more than offset the increase in MTOW and arrived seats between the two years. The increase in general terminal charges during 2010, is attributable to the new gate turnaround fee and counter check-in fee introduced as of July 1, 2010, which is included in the general terminal charges. Prior to the introduction of these new fees, the related amounts were recovered through both the landing fees and general terminal charges.

AIF revenue, which is net of the commission paid to the air carriers for the collection of the AIF, increased from $262.3 million in 2009, to $304.9 million in 2010. This increase reflects higher passenger activity and the increase in the AIF for originating passengers from $20 to $25 which became effective on June 1, 2009. As set out in the AIF agreements with each of the air carriers, the GTAA has committed to use primarily all of the AIF revenue for capital programs, including the associated debt service (interest and principal). Historically, the GTAA has used AIF revenue to fund debt service, but retains the option of funding capital projects directly with AIF revenue. Recognizing that capital expenditures or payment of debt service and receipt of AIF revenue may not occur in the same period, AIF revenue earned and collected, but not used in a given period, is retained in the AIF Reserve Fund for future capital or debt service payments. In 2010, $304.9 million of AIF revenue was earned and $278.9 million was used for capital projects or debt service. This compares to $262.3 million earned and $260.0 million used during 2009.

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 $256.6 million in revenue in 2010, as compared to $248.7 million in revenue in 2009. This increase is primarily attributable to the higher passenger volumes, which resulted in higher demand for parking and ground transportation services at the Airport and an increase in concession revenues and non-terminal building rent. These increases were partially offset by a decrease in terminal rent.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, consulting services and natural gas sales, totalled $11.1 million in 2010 as compared to $17.4 million in 2009. The reduction is due to fluctuations in the price of natural gas and electricity which resulted in reduced Cogeneration Plant operations during 2010.

Expenses

The GTAA's expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment. As noted previously, these expenses as reported in the financial statements are determined in accordance to the 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 recovered in the setting of aeronautical rates and charges, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the rates and charges calculations.

The following table summarizes GTAA's expenses for the years ended December 31, 2010, 2009 and 2008:

(in thousands)	2010	2009	2008
Ground rent	$120,317	$140,615	$140,622
Goods and services	227,911	223,871	282,188
Salaries, wages and benefits	109,130	123,948	108,571
Real property taxes and PILT	26,293	25,041	23,857
Operating Expenses	483,651	513,475	555,238
Interest and financing costs, net	434,472	414,757	452,501
Amortization of property and equipment	197,862	205,547	210,730
Total	$1,115,985	$1,133,779	$1,218,469

Ground rent payments are calculated in accordance with the Ground Lease. The ground rent for 2008 and 2009 was recorded on the basis of a prescribed fixed rate per annum, whereas for 2010 and onward, ground rent expense is based on a percentage of the GTAA's revenues. Ground rent expense also includes the amortization of land acquisition costs. Ground rent expense during 2010 was lower by $20.3 million, when compared to 2009 ($120.3 million compared to $140.6 million for 2010 and 2009, respectively). This reduction is due to the change in the rent calculation formula, as set out in an amendment to the Ground Lease signed in February 2008.

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. The full ground rent expense was recorded for each period, with an offsetting liability recorded on the balance sheet. However, from 2006 to 2015, as the deferred amount is paid, the amount of ground rent actually paid to the federal government would 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.

Goods and services, which comprise the general operating expenses for the Airport, were $227.9 million and $223.9 million for 2010 and 2009, respectively. During 2010, when compared to 2009, expense savings occurred in such areas as snow removal, equipment repair and maintenance, and professional and contractual services, which were offset by certain one-time expenses related to transformation or outsourcing initiatives. The goods and services expense also increased as a result of a gain on the valuation of a derivative contract with the Ontario Power Authority related to the Cogeneration Plant that was lower than the prior year's gain.

The GTAA has both unionized and non-unionized employees and both groups are compensated with salaries and benefits, including pension plans, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits decreased by $14.8 million, from $123.9 million in 2009 to $109.1 million in 2010. The net decrease is primarily attributable to employee benefits related to a severance provision included in the GTAA's collective bargaining agreement recorded in 2009, and certain one-time expenses incurred in 2009 in connection with an early retirement program offered to certain employees. This early retirement program was part of the GTAA's restructuring program initiated in 2009.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act* (Ontario), and instead pays payments-in-lieu of taxes ("PILT") to each of the Cities of Toronto and Mississauga as prescribed by an Ontario regulation. The PILT amount due is based on passenger activity for a specified prior year. PILT paid in 2009 was $25.0 million based on passenger activity for 2006, and PILT paid for 2010 in the amount of $26.3 million was based on passenger activity in 2007. The increase in passenger activity in 2008 will be reflected in higher PILT payments in 2011, and similarly, the traffic downturn of 2009 will be reflected in lower PILT payments in 2012.

The year-over-year increase in interest and financing costs of $19.7 million is primarily attributed to higher outstanding debt levels during the 2010 period, as the GTAA pre-funded a portion of its 2010 debt maturities, and lower capitalized interest. The increase was partially offset by a higher gain on the valuation of restructured ABCP when compared to the prior year

Amortization of property and equipment decreased in 2010 to $197.9 million from $205.5 million in 2009. The GTAA uses the declining balance method to calculate depreciation on its most significant assets and absent any additions to the depreciable asset base, amortization of property and equipment will decrease on a year-over-year basis. Given that the GTAA has substantially completed its current major development programs or deferred certain other capital programs until such time as conditions warrant, depreciation of existing assets outpaces the impact of any new property and equipment added to the depreciable asset base.

Net Operating Results

The GTAA's revenues and expenses, as discussed in the previous sections, generated the following net operating results for the years ended December 31, 2010, 2009, and 2008:

(in thousands)	2010	2009	2008
Revenues	$1,112,174	$1,114,539	$1,172,555
Operating expenses	483,651	513,475	555,238
Revenues over operating expenses	628,523	601,064	617,317
Interest and financing costs, net	434,472	414,757	452,501
Amortization of property and equipment	197,862	205,547	210,730
Revenues (under) expenses	$(3,811)	$(19,240)	$(45,914)

The components of revenues, operating expenses, interest and financing costs and amortization of property and equipment in the respective periods were discussed previously. Revenues over operating expenses, before interest and financing costs and amortization of property and equipment increased to $628.5 million in 2010, from $601.1 million in 2009. The increase of $27.5 million reflects a combination of the $2.4 million decrease in total revenues which was more than offset by the $29.8 million reduction in operating expenses, which is attributable to lower ground rent and salaries, wages and benefits expenses, partially offset by higher goods and services related expenses. Interest and financing costs were $434.5 million for 2010, as compared to $414.8 million for 2009, driven by higher outstanding debt levels during the 2010, as the GTAA pre-funded a portion of its 2010 debt maturities, and lower capitalized interest.

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.

The financial results reported by the GTAA include certain non-cash items, such as amortization of property and equipment, 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 the amortization of property and equipment for a period of several years, which will result in total cash and non-cash expenses exceeding revenues.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the quarters ended March 31, 2009, through December 31, 2010, is set out in the following table:

	Quarter Ended							
	2010				2009			
(in millions)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Revenues	$270	$303	$271	$268	$273	$297	$273	$272
Operating expenses	129	119	117	119	146	116	119	133
Revenues over operating expenses	141	184	154	149	127	181	154	139
Interest and financing costs, net	110	105	111	108	114	101	98	102
Amortization	50	50	49	49	54	50	51	50
Revenues (under)/over expenses	$(19)	$29	$(6)	$(8)	$(41)	$30	$5	$(13)

The GTAA's quarterly results are influenced by passenger activity and aircraft movements which vary with travel demand associated with holiday periods and other seasonal factors. In addition, factors such as weather and economic conditions may affect operating activity, revenues and expenses. Changes in operating facilities at the Airport may impact operating costs which may result in quarterly results not being directly comparable. Due to these factors the historic quarterly results cannot be relied upon to determine future trends.

There were no exceptional events that occurred during the fourth quarter of 2010 which had a significant impact on Airport traffic or revenues.

The ground rent component of operating expenses experienced a reduction during the fourth quarter of 2010 as certain clarifications surrounding the ground rent calculation formula were obtained. The definition of Airport Revenue, as set out by the Ground Lease, is best characterized as a combination of generally accepted accounting principles and a number of specific inclusions or exclusions. The GTAA is working with Transport Canada to confirm GTAA's calculation and obtain clarification on the interpretation of certain inclusions and exclusions to Airport Revenue; however, several areas require further clarification.

CAPITAL PROJECTS

After the GTAA assumed responsibility for the Airport in 1996, it initiated an extensive redevelopment program to improve and redevelop the facilities to meet current and future demand. The ADP included the construction of terminal facilities, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. The total cost of the ADP, which was completed in January 2007, on time and on budget, was $4.4 billion.

Continued long-term growth in passenger demand will necessitate further expansion of Terminal 1. In order to facilitate this, the GTAA has developed a work plan, entitled the Post ADP Program, which includes the demolition of the inactive Terminal 2 and Terminal 2 parking garage; apron construction in the area once occupied by Terminal 2; replacing the Terminal 2 parking capacity and increasing the overall parking capacity at the Airport with the construction of the new Value Park Garage, a six-level parking facility in Area 6B on the east side of Airport Road; replacement of certain utilities infrastructure; and the preliminary design of Pier G at Terminal 1. The majority of this work was completed by the end of 2009. The exception was the preliminary design of Pier G, which has been deferred until future requirements warrant this work, and the demolition of the Terminal 2 parking garage and apron construction. The contract for the demolition of the Terminal 2 parking garage and construction of the associated apron was tendered and awarded at the end of 2010, and work has begun in 2011. The Post ADP Program has an authorized budget of $439.7 million of which $272.5 million has been expended. The timing of the final design and construction of Pier G and other future Airport expansion projects remain under review, and will be dependent on demand.

The GTAA has also undertaken a program to expand and redevelop certain areas in Terminal 3, including the baggage handling systems and passenger processing areas as well as other improvements. This work, which had been budgeted at $355.3 million, was substantially complete as of December 31, 2010 at a cost of $358.9 million.

In 2008, the GTAA approved another capital program, the Terminal 3 Master Plan, to improve Terminal 3. This $85.1 million project will see improvements to the food and beverage and other retail offerings in the terminal and changes to passenger processing and security areas designed to improve passenger connections and other passenger flows through the terminal. The majority of work under this program has been deferred and there were no material expenditures on this program during 2010. The GTAA is reviewing the Terminal 3 Master Plan to address new security, branding, pricing and capacity, retail and guest experience initiatives. Once the review has been completed and approved, it will be implemented when passenger traffic demand warrants.

The GTAA has an ongoing Maintenance and Restoration Capital Program for the Airport to maintain, improve or replace certain assets. During 2010, $38.9 million was expended on this program. A major project completed in 2010 was the construction of the Gate 193 Commuter Facility to replace the Terminal 1 satellite facility and bring all Terminal 1 operations into the main terminal thereby improving customer service and eliminating bussing operations. Other projects include the ongoing restoration and upgrading of airfield paved surfaces, upgrades to airfield lighting control and monitoring systems, improvements to the Etobicoke Creek flood plain, ongoing replacement of the Terminal 3 fire alarm system, Terminal 3 central processor roof repairs, various modifications and enhancements to the baggage handling systems in both Terminal 1 and 3, capital repairs and restoration and component replacements of roads, bridges, sidewalks, signage, parking lots, parking structures, area lighting and utility distribution systems.

The GTAA has historically funded, and expects to continue to fund, capital projects primarily through borrowing in the debt capital markets.

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2010, as compared to December 31, 2009, are set out in the following table:

(in millions)	2010	2009	2008
Total Assets	$7,089.6	$7,667.5	$7,302.0
Total Liabilities	$7,511.8	$8,085.8	$7,700.9

Total assets at December 31, 2010 declined to $7.1 billion from $7.7 billion at December 31, 2009. Similarly, there was a $0.6 billion reduction in total liabilities at December 31, 2010 when compared to December 31, 2009. The reduction in both total assets and total liabilities is primarily attributable to the use of cash and reserve funds to retire the $600.0 million Series 2000-2 MTNs and $350.0 million Series 2007-2 MTNs which matured during 2010, net of the proceeds of the issuance of the $400.0 million Series 2010-1 MTNs. The increase in total assets between 2008 and 2009 reflects an increase in cash and cash equivalents due to debt issues in 2009 to fund capital expenditures and to repay debt maturing in 2010; and an increase in reserve and other funds due to ongoing collections of AIF and notional principal funds, offset by a reduction in property and equipment due to their ongoing amortization. The increase in total liabilities between 2008 and 2009 reflects the increase in debt mentioned above.

Cash and cash equivalents decreased from $551.8 million in 2009 to $170.2 million in 2010, as certain of the 2009 balance was utilized toward repayment of debt maturities during 2010. The cash and cash equivalents increased from $193.9 million at December 31, 2008, to $551.8 million at December 31, 2009, as a result of the issuance of Series 2009-1 MTNs where some of the proceeds were held for future debt repayment and capital expenditures.

Total reserve and other funds as at December 31, 2010, were $0.9 billion as compared to $1.0 billion at December 31, 2009, generally unchanged on a year-over-year basis. Similarly, the total reserve and other funds were $1.0 billion and $0.9 billion at December 31, 2009 and 2008, respectively. These reserves, among others, represent funds for regular payments of interest and principal and amounts set aside with the Trustee as security for specific debt issues. The variability in the balances of these funds is caused by timing of interest and principal payouts by the Trustee and new debt issuance activity. There are also funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses, balances of which were generally stable; and funds set aside by the GTAA for future principal payments and other commitments such as the AIF Reserve Fund or the Notional Principal Fund, each of which is described below.

The AIF Reserve Fund, which accumulates net AIF revenue as it is collected, may be used by the GTAA for capital programs or related debt service payments. In 2010, $304.9 million of AIF revenue, net of commission paid to the air carriers for the collection of the AIF, was earned and $278.9 million was used for capital projects or debt service. This compares to $262.3 million earned, net of commission paid, and $260.0 million used during 2009.

The amounts deposited to the Notional Principal Fund are based on an estimated principal collected through aeronautical rates and charges. As noted previously, the GTAA includes in its projection of cash flow for rate-setting purposes 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 in the landing fee calculation 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 revenue bonds or to repay any debt issue on maturity in whole or in part. During 2010, $130.6 million was deposited to this fund and $195.5 million was utilized toward debt repayments; resulting in a year-over-year decrease of $64.9 million. The Notional Principal Fund increased to $130.2 million at December 31, 2009, as the balance was retained to be applied toward debt repayments during 2010. All amounts available in the Notional Principal Fund during 2008 were used to reduce outstanding debt, resulting in a balance of nil at December 31, 2008.

The primary component of total liabilities is debt. As at December 31, 2010, the balance sheet value totalled $7.3 billion of current and long-term debt obligations, as compared to $7.9 billion and $7.5 billion as at December 31, 2009 and 2008, respectively. The decrease between 2009 and 2010 of $0.6 billion represents the impact of the repayment of debt pre-funded in 2009 and pre-funding of a portion of the 2011 capital expenditures and debt repayments, net of 2010 debt repayments made using the Notional Principal Fund. The increase from 2008 to 2009, represents funding for capital expenditures in 2009 and the pre-funding of 2010 capital expenditures and a significant portion of 2010 debt repayments.

During 2010, the GTAA issued $400.0 million of new debt, details of which are set out in the following table:

(Principal in millions)

MTN Series	Issue Date	Maturity Date	Principal	Coupon	Yield
2010-1	June 7, 2010	June 7, 2040	$400.0	5.630%	5.637%

Two issues were repaid during 2010, the $600.0 million Series 2000-2 MTNs and $350.0 million Series 2007-2 MTNs.

The net deficiency reported on the balance sheet is a combination of the reserve funds which have been funded through operating revenue and cumulative revenues under or over expenses. Annually, revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization of property and equipment for several years. As a result the GTAA has recorded revenues under expenses. This has resulted in a cumulative net deficiency of $422.3 million as at December 31, 2010. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in a reserve fund and it is the GTAA's intention to use these funds for future debt repayment. 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 cumulative net deficiency. It is anticipated that when the principal component included in the landing fee increases to a level where it is equal to or exceeds the reducing amount of amortization of property and equipment, revenues will exceed all expenses including amortization of property and equipment, providing the potential for improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a corporation without share capital 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 Platform was established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions 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, 2010, there was an aggregate principal of $7.2 billion of revenue bonds and MTNs, issued and outstanding, under the Capital Markets Platform, excluding the bank facility. Any proceeds received from debt issues and not immediately required are invested in investment-grade debt instruments until such time as they are required.

On March 19, 2010, the GTAA filed a shelf prospectus qualifying up to $1.5 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.

On May 14, 2010, the $350.0 million Series 2007-2 MTNs matured and were repaid using cash on hand and certain reserve funds.

On June 7, 2010, the GTAA issued $400.0 million of Series 2010-1 MTNs with a term of thirty years and a coupon rate of 5.63 per cent. Proceeds of the offering were used to fund debt maturities, capital expenditures and to fund required reserve funds.

On July 19, 2010, the $600.0 million Series 2000-2 MTNs matured and were repaid using cash on hand, including proceeds from the Series 2010-1 MTN issue and certain reserve funds.

The GTAA has a $500.0 million credit facility and a $50.0 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2013 and can be extended annually for one additional year with the lenders' consent. The $500.0 million credit 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. These facilities rank *pari passu* with all other debt of the GTAA. Other than a $2.3 million letter of credit, the GTAA had no funds drawn under the $500.0 million credit facility and no amounts were utilized under the $50.0 million hedging facility, as at December 31, 2010.

Total reserve and other funds as at December 31, 2010, were $926.5 million, as compared to $1.0 billion at December 31, 2009. All of the reserve funds are cash funded and invested and depending on the nature of the fund, are held by the Trustee for specific purposes as required under the Trust Indenture, or held by the GTAA in accordance with its own policies.

At December 31, 2010, the GTAA had a working capital deficiency of $276.4 million. As of that date, the GTAA had available $926.5 million in reserves which are classified as long-term assets. In addition the GTAA had available $170.2 million in cash and cash equivalents, the majority of which is earmarked to partially repay the $250 million Series 2006-1 MTNs scheduled to mature on February 28, 2011 (classified as a current liability on the December 31, 2010, balance sheet), and $497.7 million of credit available under its credit facility. The GTAA believes that its reserve balances, available credit and cash balances, and its ability to access the capital markets provide sufficient liquidity to mitigate any potential impact of the reported working capital deficiency. The GTAA has no plans to raise additional working capital specifically to fund this deficiency.

The GTAA's principal payments for the next five fiscal years include the amortizing payments for MTN Series 1999-1, and the maturity of MTN Series 2002-1, Series 2002-2, Series 2005-1, Series 2006-1, and Series 2008-2. The GTAA has also entered into certain capital leases for equipment, but the annual payments are not significant.

The table below sets out the GTAA's financial liabilities by relevant maturity groupings based on the remaining period from December 31, 2010, to the contractual maturity date. It does not include pension and post-retirement liabilities as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows:

(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	$53,358	$28,801	$0	$0
Province of Ontario	0	4,800	19,200	0
Long-term debt	29,580	662,183	3,830,041	8,331,758
	$82,938	$695,784	$3,849,241	$8,331,758

Accounts payable and accrued liabilities will be funded through operations while the Province of Ontario land transfer tax deferral and long-term debt obligations, are expected to be funded through a combination of reserve funds and debt.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2010, of approximately $113.0 million, as compared to $124.4 million in 2009, primarily related to construction contracts.

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 capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given its current cash balance, the current available credit facility, reserves, access to the capital markets and projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls during 2011. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

Asset Backed Commercial Paper

During October 2010 the GTAA disposed of all of its remaining investments in restructured ABCP for proceeds of $90.6 million, representing 58.9 per cent of the face value of $153.9 million. The ABCP had been "frozen" in July 2007 while the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") negotiated a restructuring of these notes. Under the restructuring, the GTAA received a face value of $180.9 million of the MAV restructured ABCP notes. Since that time certain notes were cancelled, redeemed or sold, in whole or in part, resulting in the remaining face value of $153.9 million at the time of disposition.

As of December 31, 2009, the GTAA held restructured ABCP with an estimated fair value of $82.9 million (face value of $166.8 million). The estimated fair value was determined using a probability weighted discounted cash flow model, which estimated the fair value based on the expected interest rates and redemption dates of the various classes of MAV securities.

The following is a summary of the disposal of restructured ABCP which occurred during October 2010:

(in millions)

Series / Class of Notes	Face Value	Estimated Fair Value at September 30, 2010	Proceeds
MAV II Class A-1 Notes	$61.5	$43.5	$42.8
MAV II Class A-2 Notes	59.1	36.6	35.3
MAV II Class B	10.7	3.4	4.0
MAV II Class C	4.1	0.0	0.3
MAV II IA Tracking Notes	18.5	8.2	8.2
	$153.9	$91.7	$90.6

As of the date of this report, all of the GTAA's restructured ABCP holdings have been cancelled, redeemed or disposed of, resulting in net proceeds to the GTAA of $93.1 million, approximately 51.1 per cent of the $182.2 million face value of the GTAA's ABCP holdings prior to restructuring.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Clean Energy Supply contract with the Ontario Power Authority associated with the Cogeneration Plant contains an embedded derivative and is valued each reporting period. All financial instruments are recognized on the balance sheet and measured at fair value at initial inception. The GTAA has designated its reserve and other funds as available for sale and its cash balances as available-for-sale. As at December 31, 2010, the GTAA fair-valued all securities designated as available-for-sale. Unrealized gains and losses on financial instruments designated as available-for-sale will be recognized in unrealized changes in net assets. As at the date of this report the GTAA is not a party to any active hedges.

Reserve and other funds, other investments and security deposits are reflected in the financial statements at values which approximate fair values due to the short-term nature of these instruments.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies of the GTAA are set out in Notes 4 and 5 of the Financial Statements and Notes as of December 31, 2010 and 2009. There were no changes to accounting policies of the GTAA during 2010.

In preparing the 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.

Property and equipment for the Airport include items such as improvements to leased land, runways, terminal and other buildings, and roadways. These assets are recorded at cost and amortized over the useful life of the asset. 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 accrued upon the enplanement of the passenger. AIF revenues are based on passenger activity as reported by individual air carriers and may be subject to later adjustment. 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 licenses and permits and utilization fees. Rental revenue is recognized on a straight-line basis over the duration of the respective agreements. Revenue derived from the Cogeneration Plant, included in other revenue, is recognized as electricity is delivered to customers.

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefit method pro-rated 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 costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans. The assumptions used to estimate the pension plan assets and liabilities are further discussed in Note 14 of the Financial Statements of the GTAA for the years ended December 31, 2010 and 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian Generally Accepted Accounting Principles (“GAAP”) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the GTAA’s reporting for the first quarter of 2011, for which the current and comparative financial information will be prepared under IFRS. The GTAA has determined that the transition to IFRS will impact accounting, financial reporting, internal controls over financial reporting, information systems and processes as well as certain contractual arrangements.

Given the magnitude of the effort involved in this conversion, the GTAA prepared a formal conversion plan to implement IFRS which consisted of three phases:

Phase One: Scoping and Diagnostic

This phase consisted of a high-level assessment to identify key areas of Canadian GAAP – IFRS differences that were most likely to impact the GTAA. The assessment was integral in prioritizing issues identified to enable the subsequent steps in the process. Activities in this phase also included the recruitment and training of core technical resources to be deployed on the conversion project. This phase is complete.

Phase Two: Analysis and Development

This phase involved the detailed assessment of the changes that will be caused by the conversion to IFRS. It resulted in the design and development of detailed plans to address the differences identified during the Scoping and Diagnostic Phase. During the Analysis and Development Phase, the GTAA contemplated the determination of accounting policies, documented position papers on each standard, and identified required changes to accounting and reporting processes, information systems, internal controls and other business processes. Education, training and communication has taken place and will continue throughout the duration of the conversion project. This activity will involve not only key finance employees but also other staff and management as well as the Audit Committee, Board of Directors and external parties such as bondholders and analysts. With the exception of the ongoing education, training and communication, this phase is complete.

Phase Three: Implementation and Review

During this phase changes were made to accounting processes and supporting information systems to support the findings in the second phase. In addition, formal documentation of the final approved accounting policies and procedures compliant with IFRS were completed. Quantification of anticipated impacts have been undertaken, however the GTAA will continue to refine the draft pro-forma financial statements and notes that will exist under IFRS.

In accordance with the GTAA's approach to the certification of internal controls required under Canadian Securities Administrator's National Instrument 52-109, all entity level, information technology, disclosure and business process controls were reviewed and updated to reflect changes arising from the GTAA's conversion to IFRS. No material changes or material deficiencies were identified as a result of the GTAA's conversion to these new accounting standards. This process is complete.

During the fourth quarter of 2010, the GTAA made significant progress on the completion of the third phase of the project. The project work has identified that the most significant financial impact of the transition to IFRS on the future financial results will be in respect of the following:

a) IFRS 1, First-time Adoption of IFRS:

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion from Canadian GAAP to IFRS shall be directly recognized in net assets. However, IFRS 1 also provides a number of optional elections and exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. The GTAA has analyzed the various accounting policy choices available and has determined to implement those which are the most appropriate. The most significant elections and exemptions for the GTAA are summarized in the following table:

Area of IFRS	Summary of Elections/Exemptions Available
Property and Equipment	**Choices**: The GTAA may elect to report items of property and equipment in its opening balance sheet on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis. **Policy selection**: The GTAA will not elect to report any items of property and equipment in its opening balance sheet at the deemed cost but will instead report the items at cost after reflecting the impacts of componentization. **Expected transition impact:** None **Expected future impact:** None

Area of IFRS	Summary of Elections/Exemptions Available
Employee Benefits	**Choices:** The GTAA may elect to recognize all cumulative actuarial gains and losses through opening net assets (deficiency) at the date of transition to IFRS. Actuarial gains and losses would have to be recalculated under IFRS from the inception of each of the company's defined benefit plans if the exemption is not taken. The GTAA's choice must be applied to all defined benefit plans consistently. **Policy selection:** The GTAA will recognize all cumulative actuarial gains and losses in net assets (deficiency) at the date of transition. **Expected transition impact:** As at January 1, 2010, cumulative unamortized actuarial losses amounted to approximately $6.3 million. **Expected future impact:** None.
Borrowing Costs	**Choices:** This exemption allows the GTAA to elect to apply the transitional provisions of International Accounting Standard ("IAS") 23, *Borrowing Costs*. Under IAS 23 there is a requirement to disclose interest capitalized in the period and a requirement to capitalize borrowing costs related to qualifying assets. The IAS 23 transitional provisions allow an entity to choose the date to apply capitalization of borrowing costs relating to all qualifying assets. This date is either the later of January 1, 2009, or the date of transition to IFRS or an earlier date. **Policy selection:** The GTAA will elect to apply this exemption and capitalize borrowing costs related to qualifying assets prospectively. **Expected transition impact:** None **Expected future impact:** None

The remaining IFRS 1 elections and exemptions have limited or no application to the GTAA.

b) Property and equipment:

IFRS and Canadian GAAP generally contain the same basic principles for property and equipment, however there are some differences. Specifically, IFRS more clearly provides that property and equipment is measured at cost, allocating material items into components and amortizing each component separately. The GTAA expects that the componentization of property and equipment will result in a reduction of the opening balance sheet value. The reduction is expected to be in a range of 2.5 per cent to 3.0 per cent of the accounting cost of property and equipment, as at January 1, 2010, as certain components will have increased accumulated amortization compared to what was previously recorded under Canadian GAAP. Going forward, amortization of the depreciable asset base is expected to increase reflecting the need to allocating some components from the primary assets and amortize these assets over their expected shorter estimated useful lives.

c) Employee benefits:

IFRS imposes stricter limits on the amount an entity can record as an accrued benefit asset. IFRS requires an entity to consider when an economic benefit is available and how a minimum funding requirement, as prescribed by federal legislation, affects the calculation of available economic benefits.

As a result of the adoption of IFRS, portions of the accrued benefit asset are expected to be eliminated and the GTAA will be required to record a liability representing the minimum funding obligations related to certain of its pension plans. The GTAA is currently evaluating the impact to opening net assets (deficiency) as a result of this difference.

d) Borrowing costs:

Under Canadian GAAP, an entity can chose whether to expense or capitalize borrowing costs whereas IFRS requires qualifying borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized as part of the cost of that asset.

The GTAA has historically capitalized borrowing costs to the cost of qualifying assets under Canadian GAAP. Management has identified the differences in how capitalized interest is currently being calculated under Canadian GAAP from that required under IFRS and will adopt these differences prospectively as allowable under the transitional provisions of IAS 23.

e) Impairment of assets:

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying value with fair values. IAS 36 ("*Impairment of Assets*"), uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which is determined using discounted future cash flows). The difference in methodologies may result in additional asset impairments upon transition to IFRS.

The GTAA has determined the cash-generating units to be used for the purpose of impairment testing. Models have been developed, which will be used for testing of impairment going forward, if required. As at January 1, 2010, no impairment exists.

f) Other:

Management has executed implementation plans which include establishing systems and preparing financial data which allow the GTAA to report IFRS compliant financial statements for 2011 and also ensure that 2010 IFRS compliant comparative data is collected. A formal review of IFRS conversion work completed to date has been carried out by management and will continue to be reviewed to ensure ongoing compliance with IFRS standards.

Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"). The GTAA monitors the IASB's announcements on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. However, since all potential changes to IFRS that will be effective as at December 31, 2011, are not yet known, any conclusions drawn at this time must be considered preliminary. As a result, at this time, the GTAA cannot reasonably determine the full impact that adopting IFRS may have on its financial and future results.

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, 2010, of the design and operation of the disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, under the supervision of, 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 reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures. Management has determined that as at December 31, 2010, the design and operation of the disclosure controls and procedures continues to be effective.

GTAA management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the GTAA's reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. As required under National Instrument 52-109, the GTAA, under the supervision and with the participation of the CEO and the CFO, has carried out an evaluation of the effectiveness as at December 31, 2010, of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the Corporation maintained effective internal control over financial reporting as at December 31, 2010. While no material weaknesses with respect to internal controls over financial reporting have been identified as at December 31, 2010, any assessment may not detect all weaknesses nor prevent or detect all misstatements because of inherent limitations. Additionally, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the GTAA's policies and procedures. There were no changes in the GTAA's internal controls over financial reporting that occurred during the quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Environmental Matters

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 good environmental management practices, and with sensitivity to community and public concerns.

In April 1999, the GTAA obtained an ISO 14001 certification for its environmental management program, the first airport in North America to earn this distinction. The GTAA has achieved re-certification annually since 1999, including in 2010. Through the process of annual ISO certification renewals and regular internal audits, the GTAA's environmental management is being continuously improved. As a requirement of the ISO 14001 certification, the GTAA developed and implemented an Environmental Management Policy for the Airport that is updated annually. The impact of the GTAA's Environmental Management Policy is to reduce and control the risks of environmental contamination, and to promote continuous improvement and regulatory compliance.

The mandate of the GTAA's Board of Directors includes the responsibility to identify the principal risks associated with the GTAA's business and to ensure that the appropriate systems are in place to effectively monitor and manage those risks. Due to the nature of the GTAA's operations, the Board of Directors has delegated to its Environment, Safety, Security and Stakeholder Relations Committee the responsibility for the oversight of environmental risks and issues affecting the Airport. This Committee monitors and evaluates the GTAA's development and implementation of environmental policies, practices and activities following the ISO 14001 environmental standard to ensure that they are effective and meet or exceed legislative and regulatory requirements and best practices. The Committee reviews regular management reports relating to environmental risks, opportunities and matters.

Using the ISO 14001 Environmental Management Program, environmental risks at the Airport are identified and ranked by severity and likelihood. Mitigation plans are then developed, implemented, monitored and continuously improved. The GTAA's Environmental Department provides quarterly reports on environmental risks and mitigation plan monitoring to senior management and the Environment, Safety, Security and Stakeholder Relations Committee.

The principal environmental risks at the Airport are spills of jet fuel, glycol-based deicing fluid and other hazardous substances. Virtually all of these substances are owned and handled by third parties operating at the Airport. The distribution, storage and management of jet fuel are the responsibility of third party fuel suppliers and Pearson International Fuel Facility Corporation, an airline consortium. The storage, spraying and recovery of glycol-based deicing fluid and the operation of the Central Deicing Facility ("CDF") is the responsibility of Servisair, a third party contractor. The management and disposal of glycol is the responsibility of Ontario Clean Water Agency, also a third party contractor. Inland Technologies is contracted to process the high concentrate spent glycol for re-sale. The storage, use and transportation of hazardous substances are the responsibility of the owners of the hazardous substances, contractors, warehouse tenants, air carriers, and trucking firms. These parties are subject to applicable environmental laws and regulations, and, where applicable, contractual obligations with the GTAA.

Global climate change may manifest itself in more severe weather events. As part of its preparedness for more severe weather events, the GTAA is updating its stormwater-flood study in 2011 to determine what improvements, or changes to its operational practices could be considered to prevent Airport flooding during severe storms. The cost of this study is expected to be approximately $100,000.

Since global climate change is related to the release of greenhouse gases, the GTAA implemented its Greenhouse Gas Management Policy in 2010. The policy provides that rather than purchasing carbon credits, the financial instruments representing emission offsets or allowances, the GTAA will spend the equivalent amount on greenhouse gas reduction initiatives. This policy requires the GTAA, by 2020, to reduce its greenhouse gas emissions (including those from purchased electricity) by 20 percent below a 2006 baseline. The current emphasis is on energy use reduction, and projects that have been completed in 2010 include substituting LEDs for inefficient incandescent and florescent lighting, removing unnecessary lighting and installing solar panels to operate stop sign lighting. Approximately $0.3 million was spent in 2010, on energy reduction studies and trials. Substantial greenhouse gas reduction programs are targeted for 2011 that will cost approximately $3.2 million. Under current laws, the GTAA is not required to reduce its greenhouse gas emissions. The GTAA's greenhouse gas emissions reduction program is a voluntary program which is consistent with the GTAA's goal of achieving long term sustainability. In addition to lessening the impact on the environment, another advantage of reducing greenhouse gas emissions is the reduction in electricity consumption and cost.

The GTAA's Noise Management Program features preferential runways, prescribed approach and departure flight procedures, and restrictions on the hours that certain types of aircraft may use the Airport. The GTAA created a Community Environment and Noise Advisory Committee comprised of local residents, elected officials, representatives of the aviation industry and the GTAA. This Committee meets regularly to discuss and review issues and complaints relating to noise and other environmental impacts of Airport operations. In addition, the GTAA has worked with the neighbouring municipalities to create an Airport Operating Area (“AOA”) surrounding the Airport. The AOA, which is based on noise contours, delineates an area within which land uses that are incompatible with Airport operations, including residential development, are actively opposed by the GTAA. The AOA has been incorporated into the official plans of the cities of Toronto, Mississauga and Brampton, and the Region of Peel.

The two principal environmental protection programs implemented by the GTAA are its stormwater management master plan, and the glycol recovery program at the Central Deicing Facility (“CDF”).

The GTAA has adopted a stormwater management master plan for the Airport. This plan includes the construction of stormwater control facilities and related infrastructure to prevent runoff from existing runways and Airport lands from exceeding stormwater quality and quantity guidelines. The GTAA spent $53.4 million in connection with the stormwater management master plan in the 1996–2007 periods. The stormwater management master plan has been completed and will be expanded as needed when further airside facilities are developed. The operational impact of the stormwater management master plan is to ensure that the release of groundwater does not exceed environmental guidelines. In 2009, the GTAA upgraded its stormwater management electronics system at a cost of $70,000.

The second principal environmental protection measure implemented by the GTAA is the glycol recovery program at the CDF. This program includes a series of catch basins and underground tanks to collect glycol-based deicing fluid after being sprayed on aircraft. The captured deicing fluid is separated into low- and high-glycol concentrations. The low-glycol concentrations are piped to municipal sanitary waste water treatment plants. The high concentration glycol is processed on-site for off-Airport re-sale. As a further environmental protection measure, a high-density polyethylene liner and perforated pipe system have been installed beneath the CDF to collect any deicing fluid that may leak underground. This collected deicing fluid is then separated into low-or high-glycol concentrations for disposal. These environmental protection measures at the CDF were completed in 1999 at a capital cost of approximately $16 million.

During the 2009-2010 winter season, the CDF collected approximately 153 million litres of glycol-contaminated snow and rainwater, which had a disposal cost of approximately $1.0 million. The operational impact of the glycol recovery program is to ensure that the release of glycol-based deicing fluid does not exceed environmental guidelines.

Additional disclosure relating to the environmental matters is contained in the GTAA's Annual Information Form for the year ended December 31, 2010.

RISKS AND UNCERTAINTIES

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business. The Audit Committee and certain other standing committees of the Board are responsible for ensuring that management has appropriate policies and procedures to identify and manage specific risks and to ensure that such policies and procedures are effective.

In 2010, the GTAA's Board of Directors approved an Enterprise Risk Management ("ERM") program. The purpose of the ERM program is to instil a behavioural awareness among employees and provide a disciplined process to identify, mitigate and manage risks. The ERM program is incorporated into the GTAA's decision-making process.

The GTAA, its operations, and its financial results and condition are subject to certain risks. At the present time, these include, without limitation, the risks set out below. Other risks may be detailed from time to time in the GTAA's publicly filed disclosure documents, including its Annual Information Form.

Systemic Aviation Industry Risk: The GTAA's ability to derive revenues from its operation of the Airport depends on a variety of factors, many of which are not within the control of the GTAA. The health of the air transportation industry and future airline traffic at the Airport will be affected by, among other things, growth of the population and the condition of the economy of the GTA; unemployment rates; national, U.S. and international economic conditions; regulatory actions and legislative changes; international air transportation agreements; air carrier instability; the ability and willingness of airlines to provide air service; capital market conditions; air fare levels including taxes and surcharges; labour disputes; the availability and cost of aviation fuel; carbon emissions charges, taxes and restrictions; insurance costs; environmental regulation; the operation of the air traffic control system; competition from telecommunications, ground transportation and other airports; health epidemics (including, but not limited to, SARS and the avian flu) and related travel advisories; geopolitical risk; war; and the perceived threat of terrorist attacks and additional security measures put in place to guard against such attacks.

The terrorist attacks of September 11, 2001, and the attempted terrorist attacks on December 22, 2001, and December 25, 2009, had several impacts on Toronto Pearson. The rate of passenger growth slowed and new security measures increased the cost of air travel such as the federal government's Air Travellers Security Charge. Changing restrictions on carry-on items, together with new passenger screening processes made the departure process more disruptive and time consuming. Enhanced security screening and their actual or perceived delays may adversely impact passenger growth.

It became evident during the latter part of 2008 that passenger volumes were declining as the economic slowdown in the United States spread to Canada and the rest of the world. The airlines responded to the decrease in passenger volumes in a number of ways to reduce their aircraft and seat capacity. In some cases, less profitable routes were cancelled or reduced in frequency. Some air carriers have allocated smaller aircraft to lower volume North American routes, while at the same time some air carriers substituted larger aircraft on high-volume and long-haul international routes, and adjusted their frequencies to ensure reasonable load factors. Such changes in the fleet mix and air service patterns can impact the GTAA's planning of facilities and its projection of 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 in 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 there is a reduction in the number of aircraft movements or the size of aircraft compared to projections.

The following events illustrate some of the negative factors affecting levels of aviation activity. Passenger traffic at Toronto Pearson decreased by 6.2 per cent in 2009, compared to 2008, due to the economic recession. This decrease can be compared to the historic year-over-year decreases in passenger volumes experienced at the Airport of 3.1 per cent and 7.5 per cent respectively during 2001 and 2002, due to the terrorist attacks of September 11, 2001, and the decrease of 4.6 per cent in 2003, due to the Iraq war and SARS.

Partner Concentration Risk: Over dependence on a limited number of business partners may materially impact the operations and financial condition of the

GTAA should one of these "significant" partners substantially reduce or cease operations at Toronto Pearson or take actions that are harmful to the GTAA. If an airline serving the Airport were to cease operations or to reduce service at the Airport, some period of time could elapse before other airlines absorb its traffic. In addition, the GTAA is exposed to the risk of financial loss if any tenant or air carrier operating at the Airport files for creditor protection or declares bankruptcy. Since Air Canada, including its regional affiliate Georgian Airlines, and Jazz (with which Air Canada has a Capacity Management Agreement), carried 56.2 per cent of total Airport passengers in 2010, the GTAA has a particular exposure to this dominant air carrier. If a domestic airline ceases operations, the absorption of its domestic traffic would depend on the willingness and ability of other domestic carriers to reallocate aircraft to do so, since under current laws an airline foreign to Canada is not eligible to carry Canadian domestic traffic. The absorption of transborder and international traffic would depend on the willingness and ability of foreign and domestic airlines to reallocate aircraft to do so. The GTAA has taken measures to protect itself from defaulting air carriers by strengthening its payment terms with the air carriers and obtaining security deposits, where appropriate.

Funding Risk: As at December 31, 2010, the GTAA had outstanding debt securities including accrued interest and net of unamortized discounts and premiums of approximately $7.3 billion, the proceeds of which were used to fund the acquisition of Terminal 3, to rebuild and expand the Airport's infrastructure, and to fund the GTAA's reserve funds. The GTAA will need to continue to access the capital markets to refinance maturing debt and finance future capital projects. The GTAA has included in the calculation of its landing fees a notional principal component to enable portions of principal to be paid down when debt matures. This notional principal component will increase over time based on a thirty-year amortization.

There is always risk when raising funds in the capital markets, including risks relating to fluctuating 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. While the GTAA's debt program has historically been well received by the capital markets in Canada, any dislocation in the global capital markets could affect the GTAA's ability to meet its financing requirements. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of any debt issue so as to ensure continued access to the markets and to take advantage of opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

As part of the Corporation's debt program, the Trust Indenture sets out certain covenants that the GTAA must meet, including two specific coverage tests for operating expenses and debt service payments. If revenue or expenses are substantially different than projected, there is a risk of not meeting the coverage tests. The operating coverage test requires that the total revenue must at least cover all operating expenses, including interest and financing costs. The debt service coverage test requires that the net revenues, which for this purpose may also 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.

Economic Risk: There is a risk that the GTAA may become unable to maintain sustainable and profitable operations due to changes in economic conditions. This includes variability in commodity prices (oil), interest rates, currency exchange rates, and other economic forces that could impact the supply of or the demand for air travel, thus affecting the GTAA's operating and financial results. In recent years, air carriers faced a number of difficulties that resulted in reduced profitability and in some cases bankruptcy or corporate reorganization. Many of the surviving air carriers were able to reorganize themselves to operate within the new realities of volatile fuel prices, recovery from the economic slowdown, tightening credit and other challenges.

Security Risk: The Canadian government is responsible for passenger, baggage and cargo screening at the Airport. The GTAA is responsible for other aspects of security including maintaining secure access to restricted areas of the Airport and policing. Both terrorist and criminal organizations have targeted airports in the past. The inability to maintain a secure environment for the GTAA's employees and customers, and its physical and information technology assets may result in a loss of confidence by the travelling public or air carriers leading to a reduction in aviation activity at the Airport. A security breach may also result in additional regulation impacting air carriers, passengers or tenants and lost revenue or additional expense to the GTAA.

Major Incident Risk: Any airport, including Toronto Pearson, is subject to the risk of a loss of confidence by air travellers as a result of a major incident such as an airline crash or terrorist attack at the Airport or elsewhere, whether or not attributable directly or indirectly to the GTAA. A major incident could cause Toronto Pearson to cease operations for a period of time thereby reducing its revenues. The GTAA could also be blamed for the faults of others that could also result in a loss of confidence and a reduction in Airport passenger volumes.

Political Relationship Risk: The GTAA is subject to policy, regulation and legislation enacted by various levels of government including those governing airport safety, security and operational standards. The GTAA is also a tenant of the federal government under the Ground Lease. Unanticipated or adverse changes to such policies, regulations or legislation or the Ground Lease may adversely impact the operations of the Airport and the financial condition of the GTAA.

Culture Change Risk: The implementation of the GTAA's Strategic Plan and strategic imperatives will require a shift in the focus of the organization from Airport builder to efficient operator to customer-focused service provider. A failure to fully implement these required changes may impact the GTAA's ability to realize its strategic goals.

Resource Management Risk: The GTAA has undertaken a number of initiatives to implement its Strategic Plan. Should appropriate resources (skilled human and financial) not be appropriately identified, secured, aligned and prioritized, the GTAA may not be successful in implementing these plans and realizing its Strategic Plan objectives.

Brand & Reputation Risk: Any action or inaction or perceived action or inaction by the GTAA, its representatives or business partners may impair Toronto Pearson's image publicly resulting in the loss of public confidence, increased regulator intervention or harm to Toronto Pearson's brand.

Customer Orientation Risk: The implementation of the GTAA's Strategic Plan and strategic imperatives will require a shift in the focus of the organization to become more innovative, proactive and customer-focused in delivering value to its stakeholders. A failure to adequately identify and understand customer needs or to make the required changes in customer focus may result in the GTAA's inability to meet its business objectives.

Strategic Planning Risk: As the GTAA updates and evolves its Strategic Plan, there exist risks that the GTAA's corporate strategy may not be correct, planning processes may overlook critical operating design considerations, or incorrect strategic or investment choices are made, which may impact GTAA's ability to meet its business objectives.

Outsourcing Risk: The GTAA contracts third parties for a number of services including certain information technology services, baggage system operation and maintenance, and the repair and maintenance of certain other assets. These services impact Airport and air carrier operations and the travelling public. There may be risks to the GTAA's operations, financial results and reputation should the GTAA fail to adequately select, provide standards for, measure, evaluate and monitor these outside service providers.

Business Model Risk: The GTAA is currently organized as a not-for-profit non-share capital corporation operating the Airport under the Ground Lease. Certain limitations inherent in this business model may impact the organization's ability to realize strategic goals. The GTAA has undertaken financial modelling and scenario analysis and has concluded that the current business organization is compatible with its current strategic objectives.

Regulatory Compliance Risk: Airport operations are governed by a number of regulations and standards. The failure to meet regulatory requirements by the GTAA, air carriers or other operators may impact the GTAA's ability to operate the Airport or achieve strategic goals and objectives.

Asset Integrity Risk: The provision of services at the Airport is dependant on the availability of physical infrastructure such as terminal buildings, parking structures, runways and taxiways. Should any of these facilities become unavailable due to accident, incident or maintenance failures the ability to provide services and earn revenues may be impaired. The GTAA maintains insurance to protect against damage to property and business interruption. The GTAA operates a well developed asset management system including proactive inspections and repairs and maintenance.

Labour Risk: In 2009, the GTAA and CAW Local 2002, which represents the unionized employees of the GTAA (excluding firefighters), settled the terms of a consolidated collective agreement which expires on July 31, 2013. Also in 2009, the Airport's largest air carrier, Air Canada, settled with its unionized employees the terms of its collective agreements due to expire between February 28 and May 22, 2011. After the expiration of these collective agreements, there is a risk of a strike or lockout if the parties are unable to agree on the terms of a new collective agreement. Likewise it is anticipated that a strike or lockout of Air Canada's unionized employees could result in delays in accessing the Airport due to picketing activity and a decrease in the GTAA's revenues if Air Canada's operations are materially impacted. In the event of a strike by the unionized employees of an air carrier, the GTAA will implement its labour contingency plans to maintain continued airport operations.

In 2010, the GTAA and the Pearson Airport Professional Firefighters Association ("PAPFFA") agreed to extend the terms of their collective agreement from July 1, 2008 to June 30, 2011 with certain wage increases. The GTAA and PAPFFA will commence negotiations in Spring 2011 to determine the terms of a collective agreement for a period commencing July 1, 2011. If the parties are unable to come to an agreement by that time, outstanding items would be referred to Interest Arbitration. During that period, the firefighting and emergency response services of the GTAA's firefighters will continue to be provided at the Airport, as these services are deemed essential services and a labour strike is prohibited.

Litigation Risk: Due to the nature of its operations and the magnitude of its development projects, the GTAA is exposed to litigation risk from time to time in the normal course of business. The GTAA manages its litigation risk primarily through its Corporate Risk division, its Legal Services department, its claims settlement processes and insurance.

Litigation where GTAA is a defendant falls into three categories: claims covered by insurance, construction claims and other litigation. Litigation covered by insurance includes personal injury and property damage claims, such as the lawsuits arising from the Air France accident of August 2, 2005, where the GTAA's financial exposure is limited to its insurance deductible.

The GTAA is involved in four construction claims. Two of the construction claims have been settled and the GTAA is in the process of documenting the settlements. The GTAA is the plaintiff in one of the remaining construction claims and is the defendant in the other.

Other litigation includes an application by the City of Mississauga ("Mississauga") to review a decision by Public Works and Government Services Canada ("PWGSC") that determined the GTAA was required to pay Mississauga $841,360 in payments in lieu of development charges regarding airport development undertaken by the GTAA between 1996 and 2004. Mississauga seeks additional payments in lieu of development charges of $26 million.

Other litigation also includes a second application by Mississauga heard in September 2010, where Mississauga seeks, pursuant to the *Payments in Lieu of Taxes Act (Canada)* (the "Act"), a payment from PWGSC of approximately $985,000 for 2000 to 2002 property taxes that Mississauga alleges were not paid by two former tenants of the GTAA. Mississauga commenced its legal action against PWGSC after PWGSC denied Mississauga's application because the companies involved were not direct tenants of the federal government. The court released its decision in February 2011 holding that PWGSC has the authority under the Act to make payments in lieu of property taxes in situations involving the GTAA's tenants, who are subtenants of the federal government. The court order does not address whether PWGSC should make a payment in lieu of property taxes to Mississauga in the circumstances. Pursuant to the Ground Lease, the GTAA must reimburse PWGSC for any payments in lieu of property taxes which PWGSC makes pursuant to the Act.

Airport Competition Risk: Toronto Pearson competes with other airports for air passenger traffic. There is a risk of the diversion of passengers from Toronto Pearson to other airports. Toronto Pearson's main competitors for transborder and domestic traffic are Buffalo Airport and City Centre Airport.

In 2010, approximately 1.9 million passengers using Buffalo Airport were Canadians, who comprised approximately 36 per cent of that airport's passenger volume. It is estimated that approximately one million passengers who used Buffalo Airport in 2010 were from the Greater Toronto Area and Hamilton. U.S. low cost air carriers at Buffalo Airport such as JetBlue, Southwest Airlines and AirTran, offer reduced air fares due to their lower airline cost structure and the lower taxes that are imposed there. In addition, airport fees charged to air carriers are lower at Buffalo Airport than Toronto Pearson. In general, U.S. airports do not pay rent to the federal government as is the case in Canada, but instead receive government subsidies, and some U.S. airports, such as Buffalo Airport, have little or no customs and immigration administration costs.

In 2010, City Centre Airport handled approximately 1.2 million passengers, a 48 per cent increase over 2009, as a result of the expansion of Porter Airlines' route network of scheduled domestic and transborder flights. In 2010, the owner of City Centre Airport announced that Air Canada and Continental Airlines were granted operating slots at that airport for service commencing in 2011.

The Airport also competes with other major North American airports in cities such as New York, Chicago and Detroit for North American hub and gateway traffic. These airports or the air carriers operating out of them may undertake competitive responses to increased connecting traffic at Toronto Pearson.

Additional disclosure relating to the risk factors is contained in the GTAA's Annual Information Form for the year ended December 31, 2010, and Financial Statements and Notes for the years ended December 31, 2010 and 2009.

CONCLUSION

Despite an uneven economic recovery in 2010, there was a strong recovery in Airport activity in 2010 compared to the downturn of 2009. This is reflected in all measures of Airport activity and the financial results of the GTAA. While there continues to be some risk for the air travel industry due to continued economic uncertainty, the GTAA is cautiously optimistic about future growth in Airport activity. The GTAA also remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues and, working with our air carrier partners, to attract new air service.

The GTAA believes that continued prudent planning and strategy setting strengthen the GTAA and leave Toronto Pearson well positioned to capitalize on growth opportunities as the economy and air travel demand recover.

The GTAA is at a stage in its development where the Airport has sufficient capacity to meet passenger demand for several years. As a result, the demand for new capital development funds is greatly reduced from the period when the ADP was being implemented. This pause in the redevelopment of the Airport, together with the management focus expressed in its strategic plan, position the GTAA well to continue to meet the developing air travel needs of the south-central Ontario region.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate, that the assumptions may not be correct and that actual results may vary from the forward-looking information. The GTAA cautions readers of this MD&A not to place undue reliance on the forward-looking information 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 information.

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 information. Specific forward-looking information in this MD&A includes, among others, statements regarding: demand for air travel in the GTA; budgets and expenditures relating to capital programs; terminal, airside, infield and other capital developments at the Airport; 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 mix; the commencement of operations of facilities currently under construction at the Airport; the GTAA's capital borrowing requirements and its ability to access the capital markets; passenger projections; the impact of incentive programs and reductions in aeronautical rates; the implementation of new aeronautical or other fees; cash flows and liquidity; the use of current cash and cash equivalent balances; the impact of China granting Canada the "Approved Destination Status" on transborder and international activity; the impact of terrorism or the threat of terrorism and enhanced security screening on passenger activity; the GTAA's financial exposure to lawsuits; the transfer of the remaining Boeing lands; the impact of a strike or lockout of GTAA or Air Canada's unionized employees; and the impact of the transition to IFRS.

The forward-looking information is based on a variety of material 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 GTA; the Canadian, U.S. and global economies will recover and grow at expected levels; air carrier capacity will meet the demand for air travel in the GTA; the growth and sustainability of low cost and other air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract domestic, transborder and international travellers; the commercial aviation industry will not be directly affected by terrorism or the threat of terrorism; the cost of additional aviation security will not overly burden air carriers, passengers, shippers or the GTAA; no significant event will occur that impacts the ordinary course of business such as a natural disaster or other calamity; the GTAA will be able to access the capital markets at competitive terms and rates; and there are no significant cost overruns or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other things: volatility in the economic recovery and growth; high rates of unemployment; levels of aviation activity; air carrier instability; aviation liability insurance; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; war; health epidemics; labour disputes; capital market conditions; changes in laws; adverse amendments to the Ground Lease; competition from other airports, telecommunications and ground transportation; the availability and cost of jet fuel; carbon emission costs and restrictions; adverse regulatory developments or proceedings; environmental issues;

lawsuits; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents.

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

Financial Statements of the

Greater Toronto Airports Authority

December 31, 2010 and 2009

PRICEWATERHOUSECOOPERS

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March 9, 2011

Independent Auditor's Report

To the Board of Directors of the
Greater Toronto Airports Authority

We have audited the accompanying financial statements of the Greater Toronto Airports Authority, which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of operations, changes in net assets (deficiency) and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Greater Toronto Airports Authority
Balance Sheets

As at December 31 (in thousands)		**2010**		2009
Assets				
Current				
Cash and cash equivalents	**$**	**170,188**	$	551,803
Accounts receivable (Note 7)		**36,604**		40,081
Prepaid expenses		**11,351**		3,677
Inventory		**8,204**		8,502
		226,347		604,063
Reserve and other funds (Note 6)		**926,503**		1,000,391
Other assets (Note 9)		**83,487**		69,937
Property and equipment (Note 10)		**5,821,844**		5,965,047
Accrued benefit asset (Note 14)		**31,376**		28,086
	$	**7,089,557**	$	7,667,524
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**82,159**	$	72,295
Security deposits and deferred credits		**66,958**		66,132
Current portion of deferred ground rent (Note 3)		**4,156**		4,156
Current portion of long-term debt (Note 11)		**349,516**		1,062,172
		502,789		1,204,755
Deferred credit and other liabilities (Notes 9 and 14)		**41,584**		41,917
Deferred ground rent (Note 3)		**16,625**		20,782
Long-term debt (Note 11)		**6,950,825**		6,818,378
		7,511,823		8,085,832
Net Assets (Deficiency) (Note 20)				
Externally restricted		**75,490**		79,279
Internally restricted		**304,325**		330,057
Unrestricted		**(802,081)**		(827,644)
		(422,266)		(418,308)
	$	**7,089,557**	$	7,667,524

Commitments and contingent liabilities (Notes 17 and 18)

Signed on Behalf of the Board

Marilynne E. Day-Linton, Director

Signed on Behalf of the Board

Lawrence D. Worrall, Director

The accompanying notes are an integral part of these financial statements.

Greater Toronto Airports Authority
Statements of Operations

Years Ended December 31 (in thousands)		**2010**		2009
Revenues				
Landing fees	**$**	**362,734**	$	415,320
General terminal charges		**176,812**		170,801
Airport improvement fees, net (Note 8)		**304,918**		262,331
Car parking and ground transportation		**122,234**		117,491
Concessions		**79,863**		78,638
Rentals		**54,484**		52,535
Other		**11,129**		17,423
		1,112,174		1,114,539
Operating Expenses				
Ground rent (Note 3)		**120,317**		140,615
Goods and services		**227,911**		223,871
Salaries, wages and benefits		**109,130**		123,948
Real property taxes and payments-in-lieu of real property taxes (Note 15)		**26,293**		25,041
		483,651		513,475
Revenues over expenses before interest and financing costs, net and amortization		**628,523**		601,064
Interest and financing costs, net (Notes 6 and 13)		**434,472**		414,757
Amortization of property and equipment		**197,862**		205,547
Revenues under expenses	**$**	**(3,811)**	$	(19,240)

The accompanying notes are an integral part of these financial statements.

Greater Toronto Airports Authority
Statements of Changes in Net Assets (Deficiency)

2010 Year Ended December 31 (in thousands)	**Balance, Beginning of Year**	**Unrealized Changes in Net Assets**	**Revenues Under Expenses**	**Transfers/ Allocations and Other**	**Use of Funds**	**Balance, End of Year**
Externally restricted						
Operating and maintenance reserve	**$ 62,925**	**$ -**	**$ -**	**$ 350**	**$ -**	**$ 63,275**
Renewal and replacement reserve	**3,000**	**-**	**-**	**-**	**-**	**3,000**
Debt service fund – principal	**13,354**	**-**	**-**	**25,426**	**(29,565)**	**9,215**
	79,279	**-**	**-**	**25,776**	**(29,565)**	**75,490**
Internally restricted						
Airport improvement fees collected, net	**106,458**	**-**	**-**	**299,871**	**(278,904)**	**127,425**
Notional principal of long-term debt	**130,175**	**-**	**-**	**130,627**	**(195,502)**	**65,300**
Debt service coverage requirement	**93,424**	**-**	**-**	**18,176**	**-**	**111,600**
	330,057	**-**	**-**	**448,674**	**(474,406)**	**304,325**
Total Restricted net assets	**409,336**	**-**	**-**	**474,450**	**(503,971)**	**379,815**
Unrestricted						
Unrestricted net deficiency	**(830,059)**	**-**	**(3,811)**	**29,521**	**-**	**(804,349)**
Accumulated unrealized changes in net assets:						
Loss on hedge	**(6,815)**	**922**	**-**	**-**	**-**	**(5,893)**
Gain on interest rate swap	**9,230**	**(1,069)**	**-**	**-**	**-**	**8,161**
Unrestricted net deficiency	**(827,644)**	**(147)**	**(3,811)**	**29,521**	**-**	**(802,081)**
Total Net deficiency	**$ (418,308)**	**$ (147)**	**$ (3,811)**	**$ 503,971**	**$ (503,971)**	**$ (422,266)**

2009 Year Ended December 31 (in thousands)	Balance, Beginning of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Year
Externally restricted						
Operating and maintenance reserve	$ 50,299	$ -	$ -	$ 12,626	$ -	$ 62,925
Renewal and replacement reserve	3,000	-	-	-	-	3,000
Debt service fund – principal	19,280	-	-	4,881	(10,807)	13,354
	72,579	-	-	17,507	(10,807)	79,279
Internally restricted						
Airport improvement fees collected, net	142,112	-	-	224,346	(260,000)	106,458
Notional principal of long-term debt	-	-	-	130,175	-	130,175
Debt service coverage requirement	119,820	-	-	(26,396)	-	93,424
	261,932	-	-	328,125	(260,000)	330,057
Total Restricted net assets	334,511	-	-	345,632	(270,807)	409,336
Unrestricted						
Unrestricted net deficiency	(735,994)	-	(19,240)	(74,825)	-	(830,059)
Accumulated unrealized changes in net assets:						
Loss on hedge	(7,737)	922	-	-	-	(6,815)
Gain on interest rate swap	10,299	(1,069)	-	-	-	9,230
Unrestricted net deficiency	(733,432)	(147)	(19,240)	(74,825)	-	(827,644)
Total Net deficiency	$ (398,921)	$ (147)	$ (19,240)	$ 270,807	$ (270,807)	$ (418,308)

The accompanying notes are an integral part of these financial statements.

Greater Toronto Airports Authority
Statements of Cash Flows

Years Ended December 31 (in thousands)		2010		2009
Cash Flows from Operating Activities				
Revenues under expenses	$	**(3,811)**	$	(19,240)
Items not affecting cash				
Amortization of property and equipment		**197,862**		205,547
Loss on disposal of property and equipment		**3,965**		36
Loss (gain) on redemption and change in fair value of ABCP investments (Note 6 and 13)		**(7,751)**		(862)
Amortization of other assets (Note 9)		**1,332**		1,209
Excess of cash funding over pension expense		**(3,290)**		(4,691)
Change in fair value of derivative, net (Note 9)		**(1,313)**		(760)
Changes in non-cash working capital				
Decrease in accounts receivable		**3,477**		5,596
Increase in prepaid expenses		**(7,674)**		(247)
Decrease in inventory		**298**		341
Decrease in accounts payable, accrued liabilities and accrued interest		**(8,277)**		(1,838)
Increase in security deposits, deferred credits and other liabilities		**493**		34,056
		175,311		219,147
Cash Flows from Investing Activities				
Acquisition of property and equipment		**(56,672)**		(155,314)
Proceeds on disposal of property and equipment		**142**		65
Proceeds on redemption of ABCP investments (Note 6)		**90,627**		2,090
Land acquisition costs (Note 9)		**(13,569)**		-
Other investments		**-**		26,813
Reserve and other funds		**(8,988)**		(103,296)
		11,540		(229,642)
Cash Flows from Financing Activities				
Issuance of medium term notes and long-term debt (Note 11)		**397,581**		635,247
Repayment of medium term notes and long-term debt (Note 11)		**(961,891)**		(261,668)
Draw on credit facility		**-**		57,000
Repayment of credit facility		**-**		(57,000)
Bank indebtedness		**-**		(1,036)
Decrease in deferred ground rent payable (Note 3)		**(4,156)**		(4,156)
		(568,466)		368,387
Net Cash (Outflow) Inflow		**(381,615)**		357,892
Cash and Cash Equivalents, Beginning of Year		**551,803**		193,911
Cash and Cash Equivalents, End of Year	**$**	**170,188**	$	551,803

As at December 31, 2010, cash and cash equivalents consisted of short-term investments of $167.8 million, cash of $14.2 million less outstanding cheques of $11.8 million. At December 31, 2009, cash and cash equivalents consisted of short-term investments of $515.8 million, cash of $42.9 million less outstanding cheques of $6.9 million.

The accompanying notes are an integral part of these financial statements.

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 Bylaws of the GTAA were amended in 2009. The GTAA is governed by a 15-member Board of Directors (the "Board"). Directors serve a term of three years and are eligible to be re-appointed subject to a maximum limit of nine years. Seven Directors are appointed by the Board on a cyclical basis from a pool of candidates identified in a search process provided that at least three of these appointments are candidates who have been nominated by the Named Community Nominators comprised of The Board of Trade of the City of Brampton, The Board of Trade of the City of Mississauga, The Toronto Board of Trade, the Law Society of Upper Canada, Association of Professional Engineers Ontario, and the Institute of Chartered Accountants of Ontario. The Board appoints five Directors from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates and the Board appoints one of the three candidates for each available position as a Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively.

The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA manages and operates Toronto Pearson International Airport (the "Airport"). Under the terms of a ground lease (see Note 3, Airport subject to ground lease), the Airport was transferred to the GTAA in 1996. The Airport operates on 1,882 hectares of land which includes Terminals 1 and 3, airside assets including five runways, taxiways and aprons,

2. Corporate Profile of the Greater Toronto Airports Authority (continued)

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 continued redevelopment of the terminals, increasing airside capacity, increasing cargo and aircraft facilities, and reconstructing the roadway system.

3. Airport Subject to Ground Lease

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

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

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

In February 2008, the GTAA and Transport Canada executed an amendment to the Ground Lease that replaced the previous calculation for ground rent. The new formula was phased in such that in 2008 and 2009, ground rent was set at fixed amounts. Beginning in 2010, ground rent is being calculated as a percentage of revenue, as defined in the Ground Lease ("Airport Revenue"), using an escalating percentage of Airport Revenue which has the following ranges: 0% for revenue below $5.0 million, 1% for revenue between $5.0 million and $10.0 million, 5% for revenue between $10.0 million and $25.0 million, 8% for revenue between $25.0 million and $100.0 million, 10% for revenue between $100.0 million and $250.0 million, and 12% for revenue in excess of $250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

3. Airport Subject to Ground Lease (continued)

In July 2003, the Government of Canada announced a program to allow for a deferral in the ground rent for a two-year period commencing July 1, 2003, in the amount of $41.6 million. This amount is being repaid over a 10-year period, commencing in 2006, through increased annual ground rent payments of approximately $4.2 million per year. The decrease in the liability for 2010 was approximately $4.2 million, bringing the total remaining liability to $20.8 million.

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 property and equipment, valuation allowances, certain revenue amounts and fair value measurements. Actual results could differ from estimates.

Ground Lease

The Ground Lease is accounted for as an operating 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. Inventory is stated at the lower of cost and net realizable value.

Other Assets

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 on the balance sheet and amortized on a straight-line basis over the remaining term of the Ground Lease. These costs are tested for impairment annually. An impairment loss is recognized when the assets carrying value is no longer recoverable from its future estimated undiscounted cash flows and exceeds its fair value.

4. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost. Property and equipment 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.

Property and equipment are amortized at the following annual rates:

Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works ("Terminal and Airside assets")	2.5% declining balance for terminal facilities 2.5% to 20% declining balance for non-terminal facilities
Baggage handling systems	Straight-line over 25 years
Improvements to leased land	Straight-line over the remaining term of the Ground Lease
Runways and taxiways	2.5% declining balance 15 years straight-line for runway and taxiway surfaces
Operating assets	10% to 30% declining balance
Capital leases	10% to 30% declining balance

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.

Construction in Progress

Construction in progress is transferred to property and equipment when the asset is placed in service. Interest associated with borrowing funds for construction 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 accrued upon the enplanement of the passenger and are subject to reconciliation with the air carriers (see Note 8, Airport improvement fees, net). Concessions revenue is

4. Significant Accounting Policies (continued)

earned 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.

Salaries, Wages and Benefits

Employee salaries, wages and benefits are accrued as earned by employees.

Employee Future Benefit Plans

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefit method pro-rated 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 eight years (2009 – eight years) and the other plan is two years (2009 – two 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. A curtailment loss is recognized in the statement of operations when it is probable that the curtailment will occur and the net effects can be reasonably estimated. A curtailment gain is recognized in the statement of operations when an event giving rise to a curtailment has occurred. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans.

Certain 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. Certain employees also have a severance entitlement plan under the terms of the labour agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries based on years of service and vesting restrictions. The average remaining service period of the active employees covered by this plan is twelve years. The cost of this obligation is recorded in deferred credit and other liabilities on the balance sheet.

4. Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs or debt issuance premiums or discounts are included in the debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense, where the amount to be recognized varies over the life of the debt based on the principal outstanding.

Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the items being hedged.

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. 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.

Currently, the GTAA has no derivative instruments outstanding that have been designated as hedges. However, certain accumulated unrealized changes in net assets relating to discontinued cash flow hedges are being amortized into income over the term to maturity of the previously hedged item.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value with changes in fair value recognized in interest and financing costs, net on the statement of operations. These embedded derivatives are measured at fair value with changes therein recognized in interest and financing expenses, net on the statement of operations.

As at December 31, 2010, the GTAA does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

4. Significant Accounting Policies (continued)

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below.

Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the GTAA's designation of such instruments.

All financial assets must be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity ("HTM"), or loans and receivables. All financial liabilities must be classified as either HTM or other liabilities ("OL"). Subsequent to initial recognition, the standards require that all financial assets and financial liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, securities classified as HTM and liabilities classified as OL.

Any changes in unrealized gains or losses related to AFS securities that are considered temporary and certain unrealized gains and losses relating to cash flow hedging activities are disclosed as separate components of Accumulated unrealized changes in net assets.

Classification of Financial Instruments

The following is a summary of the accounting model the GTAA has applied to each of its significant categories of financial instruments:

Cash and cash equivalents	Available-for-sale
Accounts receivable	Loans and receivables
Asset backed commercial paper ("ABCP")	Held-for-trading
Reserve and other funds (excluding ABCP)	Available-for-sale
Derivative	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Security deposits	Other liabilities
Long-term debt	Other liabilities

Held-for-Trading

HFT financial assets are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the statement of operations.

Loans and Receivables

Loans and receivables are accounted for at amortized cost.

4. Significant Accounting Policies (continued)

Available-for-Sale

AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT. AFS financial assets are carried at fair value with unrealized gains and losses that are considered temporary being included in unrealized changes in net assets until realized, when the cumulative gain or loss is transferred to interest and financing costs, or if the assets become impaired on an other-than-temporary basis.

Other liabilities

OL are recorded at amortized cost and include all liabilities other than derivatives to which the fair value section has been applied.

5. Changes in Accounting Standards

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board ("AcSB") has set the transition date for financial reporting under International Financial Reporting Standards ("IFRS") to be January 1, 2011. The transition will require the restatement, for comparative purposes, of amounts reported by the GTAA for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The GTAA has adopted IFRS effective January 1, 2011.

The GTAA prepared a formal conversion plan to implement IFRS which included an extensive analysis of accounting differences between GAAP and IFRS and the assessment of the expected impact of the accounting differences on the GTAA's financial statements. To date, the project work has identified that the most significant financial impact on the future financial results of the GTAA will relate to the accounting for property and equipment as a result of the need to expand asset componentization and to segregate intangible assets as defined by new standards

Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"). The GTAA monitors the IASB's activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. However, since all potential changes to IFRS that will be effective as at December 31, 2011, are not yet known, any conclusions drawn at this point must be considered preliminary. As a result, at this time the GTAA cannot reasonably determine the full impact that adopting IFRS may have on its financial and future results.

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 other investments are as follows:

(in thousands)	**2010**	2009
Debt Service Fund		
Interest	**$ 75,534**	$ 90,862
Principal	**9,215**	13,354
	84,749	104,216
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**36,971**	36,735
Series 1999-1 due July 30, 2029	**40,303**	40,048
Medium Term Notes		
Series 2000-1 due June 12, 2030	**38,827**	38,544
Series 2000-2 due July 19, 2010	**-**	39,531
Series 2001-1 due June 4, 2031	**35,254**	35,034
Series 2002-1 due January 30, 2012	**31,246**	31,037
Series 2002-2 due December 13, 2012	**29,674**	29,518
Series 2002-3 due October 15, 2032	**38,459**	38,234
Series 2004-1 due February 2, 2034	**38,912**	38,643
Series 2005-1 due June 1, 2015	**17,616**	17,521
Series 2005-3 due February 15, 2016	**16,551**	16,420
Series 2006-1 due February 28, 2011	**11,090**	11,012
Series 2007-1 due June 1, 2017	**21,931**	21,824
Series 2007-2 due May 14, 2010	**-**	15,013
Series 2008-1 due April 17, 2018	**26,397**	26,223
Series 2008-2 due December 6, 2013	**19,137**	19,022
Series 2009-1 due November 20, 2019	**35,860**	35,631
Series 2010-1 due June 7, 2040	**22,657**	-
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	**10,269**	10,203
	471,154	500,193
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**63,275**	62,925
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund	**127,425**	106,458
Notional Principal Fund	**65,300**	130,175
Debt Service Coverage Fund	**111,600**	93,424
	370,600	395,982
	$ 926,503	$ 1,000,391

6. Reserve and Other Funds (continued)

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, Credit facility and 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.

(i) Debt Service Fund (principal and interest)

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 during 2010, and this fund has a balance of $9.2 million at December 31, 2010 (2009 – $13.3 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as it becomes due.

Principal of $29.6 million was paid from the Debt Service Fund in 2010 (2009 – $10.8 million). During 2010, $25.4 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1, Series 2000-2, and Series 2007-2 bonds (2009 – $4.9 million).

(ii) Debt Service Reserve Fund

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 bondholders 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.

Included among these trust funds is a debt service reserve fund related to the $550.0 million pledge bond (Series 1997-A) securing the credit facility with a syndicate of six Canadian banks. The minimum required reserve balance is adjusted annually based on the prevailing Bankers' Acceptance rate plus applicable margin. At the maturity or

6. Reserve and Other Funds (continued)

cancellation of this series of bonds, 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. 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, 2010, this fund had a balance of $63.3 million (2009 – $62.9 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 (2009 – $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, 2010, this fund had an accumulated balance of $127.4 million (2009 – $106.5 million). During 2010, $278.9 million (2009 – $260.0 million) of accumulated Airport Improvement Fee Funds were utilized for certain 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. As at December 31, 2010, the balance in the Notional Principal Fund was $65.3 million (2009 – $130.2 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2010, this fund had a balance of $111.6 million (2009 – $93.4 million).

During October 2010, the GTAA disposed of all of its remaining investments in restructured ABCP for proceeds of $90.6 million, representing 58.9% of face value of $153.9 million. The ABCP had been "frozen" since July 2007, while the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") negotiated a restructuring of these notes. Under the restructuring, the GTAA received a face value of $180.9 million of the MAV restructured ABCP notes. Since that time certain notes were cancelled, redeemed or sold, in whole or in part, resulting in the remaining face value of $153.9 million at the time of disposition.

6. Reserve and Other Funds (continued)

As of December 31, 2009, the GTAA held restructured ABCP with an estimated fair value of $82.9 million (face value of $166.8 million). The estimated fair value was determined using a probability weighted discounted cash flow model, which estimated the fair value based on the expected interest rates and redemption dates of the various classes of MAV securities.

The following is the summary of the restructured ABCP (MAV II securities) that were disposed of in October 2010:

(in millions)

Series / Class of Notes		Face Value		Proceeds
MAV II Class A-1 Notes	$	61.5	$	42.8
MAV II Class A-2 Notes		59.1		35.3
MAV II Class B		10.7		4.0
MAV II Class C		4.1		0.3
MAV II IA Tracking Notes		18.5		8.2
	$	153.9	$	90.6

As at December 31, 2010, all of the GTAA's restructured ABCP holdings have been cancelled, redeemed or disposed of, resulting in net proceeds to the GTAA of $93.1 million, approximately 51.1% of the $182.2 million face value of the GTAA's ABCP holdings prior to restructuring.

7. Accounts Receivable

(in thousands)		**2010**		2009
Trade accounts receivable	**$**	**34,985**	$	38,334
Less: allowance for doubtful accounts		**(354)**		(187)
Trade accounts receivable, net		**34,631**		38,147
Other receivables		**1,973**		1,934
		36,604		40,081
Less: non-current portion		**-**		-
Total accounts receivable	**$**	**36,604**	$	40,081

The fair values of accounts receivables approximate their book values as at December 31, 2010.

There are no balances due from related parties.

Before accepting a new air carrier, the GTAA uses an external credit scoring system to assess the potential customer's credit quality as well as an internal credit rating system.

7. Accounts Receivable (continued)

The GTAA performs a detailed review of accounts on a customer-by-customer basis when assessing impairments. Each account is assessed based on factors surrounding the credit risk of specific customers including historical trends, the influence of the current economic environment and other information.

Customers are subject to credit checks and require a prepayment or a deposit in the form of cash, a letter of credit or a letter of guarantee. Operational and credit related reviews for aeronautical customers are seasonally reviewed for appropriateness. Should the requirements for security change, new payment terms or deposit requirements will be established. A security deposit is required for most non-aeronautical customers as well. Credit checks for these customers are performed at the time of the agreement negotiations, renewal and amendments.

The allowance for doubtful accounts is specific in nature. No amount is subject to write-off until all possible collection action has been taken by the GTAA. Interest is charged on overdue balances unless otherwise stipulated in terms agreed upon by both parties of the contract.

As of December 31, 2010, accounts receivable of $0.9 million (2009 – $0.5 million) were considered past due but not considered impaired. These amounts relate to a number of customers with no recent history of default. The aging of these receivables past due at December 31, 2010 and 2009, are as follows:

(in thousands)	**2010**	2009
1 to 5 days	**$ 109**	$ 10
6 to 15 days	**15**	39
16 to 30 days	**446**	271
31 to 60 days	**315**	107
61+ days	**24**	120
Total balance past due	**$ 909**	$ 547

As of December 31, 2010, total accounts receivable of $0.4 million (2009 – $0.2 million) were considered impaired and are not included in the table above. A provision of $0.4 million (2009 – $0.2 million) has been made against these related impaired accounts receivable balances. These impaired receivables mainly relate to customers where collection is uncertain or amounts are being disputed by the GTAA's customers. Amounts included in the provision account are generally written off when there is no expectation of recovering amounts owing.

7. Accounts Receivable (continued)

Movements in the allowance for doubtful accounts are as follows:

(in thousands)		2010		2009
Balance, beginning of year	$	187	$	701
Additions (Deductions) to provision		202		(394)
Amounts written off during the period		(13)		(120)
Amounts recovered during the period		(22)		-
Balance, end of year	$	354	$	187

Bad debt expense (recovery) has been included in goods and services expense in the statement of operations.

8. Airport Improvement Fees, Net

Airport improvement fees ("AIF") reported in the statement of operations are recorded net of airline administration charges of $12.7 million during 2010 (2009 – $10.9 million).

AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers.

9. Other Assets

(in thousands)	December 31, 2010					
		Cost		Accumulated Amortization		Net Book Value
Deferred leasehold inducements	$	6,107	$	3,285	$	2,822
Land acquisition costs		39,708		2,317		37,391
	$	45,815	$	5,602	$	40,213
Fair value of the OPA derivative						43,274
					$	83,487

(in thousands)	December 31, 2009					
		Cost		Accumulated Amortization		Net Book Value
Deferred leasehold inducements	$	6,107	$	2,596	$	3,511
Land acquisition costs		26,139		1,674		24,465
	$	32,246	$	4,270	$	27,976
Fair value of the OPA derivative						41,961
					$	69,937

9. Other Assets (continued)

The aggregate amortization expense in respect of other assets for the year ended December 31, 2010, was $1.3 million (2009 – $1.2 million) and is included in goods and services expense and concessions revenue on the statement of operations. Additions to other assets for the year ended December 31, 2010, include $13.6 million (2009 – $nil) for the second parcel of Boeing Lands acquired during the year (see Note 17, Commitments and contingent liabilities).

In 2006, the GTAA entered into a Clean Energy Supply contract ("CES Contract") with the Ontario Power Authority ("OPA"), pursuant to which the GTAA is obligated 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. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The contract has been determined to be a derivative to be carried at fair value. The fair value of the derivative as at December 31, 2010 was $43.3 million (December 31, 2009 – $42.0 million). The GTAA realized an increase in the fair value of the derivative during the year of $6.5 million which was recorded in goods and services expense, and received cash proceeds of approximately $5.2 million which reduced its carrying value.

The GTAA also recorded a deferred credit of $42.0 million at the inception of the contract which is being amortized over the term of 20 years. The unamortized balance at December 31, 2010, was $33.2 million (2009 – $35.4 million) and is recorded in deferred credit and other liabilities on the balance sheet.

10. Property and Equipment

Property and equipment are comprised of:

(in thousands)	December 31, 2010		
	Cost	**Accumulated Amortization**	**Net Book Value**
Terminal and Airside assets	**$ 5,943,270**	**$ 1,024,602**	**$ 4,918,668**
Baggage handling systems	**282,136**	**75,425**	**206,711**
Improvements to leased land	**9,480**	**2,205**	**7,275**
Runways and taxiways	**415,718**	**83,110**	**332,608**
Operating assets	**615,112**	**351,363**	**263,749**
Capital leases	**6,743**	**6,224**	**519**
Construction in progress	**92,314**	**-**	**92,314**
	$ 7,364,773	**$ 1,542,929**	**$ 5,821,844**

(in thousands)	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Terminal and Airside assets	$ 5,874,503	$ 888,695	$ 4,985,808
Baggage handling systems	278,035	64,147	213,888
Improvements to leased land	9,480	2,047	7,433
Runways and taxiways	408,004	70,864	337,140
Operating assets	609,192	342,109	267,083
Capital leases	7,593	6,749	844
Construction in progress	152,851	-	152,851
	$ 7,339,658	$ 1,374,611	$ 5,965,047

As at December 31, 2010, $92.3 million (2009 – $152.9 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $11.9 million (2009 – $23.9 million) of capitalized interest and financing costs. During the year ended December 31, 2010, $115.0 million was transferred from construction in progress to property and equipment.

11. Credit Facility and Long-Term Debt

During 2010, the GTAA issued the 2010-1 medium term note with a face value of $400.0 million for net proceeds of $397.6 million. In addition the GTAA redeemed the 2007-2 medium term note with a face value of $350.0 million and the 2000-2 medium term note with a face value of $600.0 million.

As at December 31, 2010, long-term debt including accrued interest and net of unamortized discounts and premiums consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	2010	2009
				(in thousands)	
Revenue Bonds, *See below*					
1997-3	6.45%	December 3, 2027	$ 375,000	**$ 371,851**	$ 371,692
1999-1	6.45%	July 30, 2029	432,720	**440,824**	452,369
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	**550,124**	550,086
2000-2	6.70%	July 19, 2010	600,000	**-**	618,955
2001-1	7.10%	June 4, 2031	500,000	**497,971**	497,873
2002-1	6.25%	January 30, 2012	500,000	**512,846**	512,497
2002-2	6.25%	December 13, 2012	475,000	**475,547**	475,128
2002-3	6.98%	October 15, 2032	550,000	**558,238**	558,250
2004-1	6.47%	February 2, 2034	600,000	**609,610**	609,494
2005-1	5.00%	June 1, 2015	350,000	**348,956**	348,538
2005-3	4.70%	February 15, 2016	350,000	**354,540**	354,348
2006-1	4.40%	February 28, 2011	250,000	**253,610**	252,793
2007-1	4.85%	June 1, 2017	450,000	**449,303**	449,099
2007-2, *See below*	floating	May 14, 2010	350,000	**-**	350,089
2008-1	5.26%	April 17, 2018	500,000	**503,379**	503,103
2008-2	5.89%	December 6, 2013	325,000	**325,281**	324,966
2009-1	5.96%	November 20, 2019	600,000	**628,564**	630,511
2010-1	5.63%	June 7, 2040	400,000	**398,112**	-
				7,278,756	7,859,791
Capital leases (see Note 12, Leases)				**152**	540
Province of Ontario					
Interest-free loan, payable in five equal annual installments commencing 2011				**21,433**	20,219
				7,300,341	7,880,550
Less current portion (including accrued interest)				**349,516**	1,062,172
				$ 6,950,825	$ 6,818,378

11. Credit Facility and Long-Term Debt (continued)

Interest expense from the GTAA's debt instruments for the year ended December 31, 2010, amounted to $443.0 million (2009 – $420.6 million) net of capitalized interest of $6.7 million (2009 – $20.0 million). Cash paid for interest during 2010, amounted to $465.6 million (2009 – $445.9 million).

For Series 2007-2, which matured on May 14, 2010, interest rates were adjusted quarterly at the three-month Bankers' Acceptance rate plus 11 basis points. From January 1, 2010 to May 14, 2010, interest rates ranged from 0.54% to 0.55% (January 1, 2009 to December 31, 2009 – 0.54% to 2.11%).

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

Interest on each series of revenue bond and medium term note is payable semi-annually from the interest payable commencement date, based on fixed rates. For Series 2007-2, interest was payable quarterly based on floating rates.

Set out below is a comparison of the amounts that would be reported if long-term debt amounts were reported at fair values. Fair values were based on quoted market rates for GTAA bonds as at December 31:

(in thousands)	**2010**		2009	
	Book Value	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 7,300,341**	**$ 8,194,502**	$ 7,880,550	$ 8,426,036

With the exception of Series 2006-1 medium term notes, which is not redeemable, the notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price which is the greater of (i) the face value amount plus accrued and unpaid interest and (ii) the 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 $550.0 million pledge bond (Series 1997-A) 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 $500.0 million facility for general corporate purposes and capital expenditures, and a $50.0 million facility for interest rate and foreign exchange hedging

11. Credit Facility and Long-Term Debt (continued)

activities. The facility matures on November 22, 2013, and can be extended annually for an additional year with the lenders' consent.

As at December 31, 2010, $2.3 million was drawn on the $500.0 million facility by way of a letter of credit (2009 – $2.3 million) (see Note 17, Commitments and contingent liabilities). No amounts were drawn against the $50.0 million facility (2009 – $nil). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility in the year, interest rates would have ranged from 2.29% to 4.00% (2009 – 0.59% to 3.25%).

12. Leases

Capital Leases

The GTAA leases certain equipment as part of its operations. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Amounts payable under these capital leases are as follows:

(in thousands)		**2010**		2009
2010	**$**	**-**	$	390
2011		**118**		173
2012		**41**		-
		159		563
Less: interest included in minimum lease payments		**(7)**		(23)
Present value of minimum lease payments	**$**	**152**	$	540
Included in the balance sheet as:				
Current liabilities		**112**		376
Long-term debt		**40**		164
	$	**152**	$	540

As at December 31, 2010, the effective interest rates of the capital leases range from 0.0% to 7.8% (2009 – 0.0% to 7.8%).

Ground Lease

The GTAA's commitment in respect of annual ground lease airport rent (see Note 3, Airport subject to ground lease), including ground rent deferral repayments, is estimated based on GTAA's current forecast of expected revenues to be approximately $132.0 million for the year ending 2011, $137.0 million for the year ending 2012, $146.0 million for the year ending 2013, $153.5 million for the year ending 2014 and $160.6 million for

12. Leases (continued)

the year ending 2015. The lease continues until 2054 and ground rent expense is subject to actual revenues in each year.

13. Interest and Financing Costs, Net

Interest and financing costs for long-term debt and bank facilities, net of interest earned on the Debt Service Reserve Fund, reserve and other funds and capitalized interest is as follows:

(in thousands)		**2010**		2009
Interest expense on all debt instruments	**$**	**449,721**	$	440,613
Capitalized interest		**(6,725)**		(20,020)
Interest earned on reserve and other funds		**(6,158)**		(7,262)
Gain on redemption and change in fair value of ABCP investments (Note 6)		**(7,751)**		(862)
Other financing fees		**5,385**		2,288
	$	**434,472**	$	414,757

14. Employee Benefits

Defined Benefit Pension Plans

The GTAA maintains three pension plans with defined benefit provisions. 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, 2010, and the next required valuation will be as of January 1, 2011.

14. Employee Benefits (continued)

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

(in thousands)	**2010**	2009
Accrued Benefit Obligation		
Balance, beginning of year	**$ 98,180**	$ 80,178
Actuarial loss	**19,064**	12,451
Current service cost	**1,965**	1,613
Interest cost	**6,713**	6,018
Benefits paid	**(3,432)**	(3,524)
Employee contributions	**857**	828
Plan amendments	**-**	138
Curtailment loss	**119**	478
Balance, end of year	**123,466**	98,180
Plan Assets		
Fair value, beginning of year	**119,777**	102,369
Employee contributions	**857**	828
Employer contributions	**5,571**	6,679
Actual return on plan assets	**12,434**	13,425
Benefits paid	**(3,432)**	(3,524)
Fair value, end of year	**135,207**	119,777
Funded status – surplus	**11,741**	21,597
Unamortized net actuarial loss	**19,590**	6,348
Unamortized past service costs	**-**	69
Unamortized transitional obligation	**45**	72
Accrued Benefit Asset	**$ 31,376**	$ 28,086

As at December 31, 2010, each of the GTAA's defined benefit pension plans were in a surplus position. One plan was in a surplus position of $8.3 million (2009 – $16.2 million), with an accrued obligation of $108.7 million (2009 – $85.9 million) and a fair value of plan assets of $117.0 million (2009 – $102.1 million). The other plan was in a surplus position of $3.4 million (2009 – $5.4 million), with an accrued obligation of $14.8 million (2009 – $12.3 million) and a fair value of plan assets of $18.2 million (2009 – $17.7 million).

As a result of certain restructuring activities (see Note 21, Restructuring charges), the GTAA recorded a curtailment charge of $0.1 million (2009 – $0.5 million), included in salaries, wages and benefits in the statement of operations.

14. Employee Benefits (continued)

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

(in thousands)		2010		2009
Current service cost	**$**	**1,965**	$	1,613
Interest cost		**6,713**		6,018
Actual return on plan assets		**(12,434)**		(13,425)
Actuarial loss		**19,064**		12,451
Plan amendments		**-**		138
Curtailment loss		**119**		478
Costs arising in the year		**15,427**		7,273
Difference between costs arising in the period and costs recognized in respect of:				
Return on plan assets		**5,381**		6,703
Actuarial gain		**(18,623)**		(12,217)
Past service costs		**69**		201
Transitional obligations		**27**		28
Net defined benefit pension plan expense	**$**	**2,281**	$	1,988

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the GTAA to its funded pension plans and payments made to the defined contribution plans was $8.0 million (2009 – $9.2 million).

The GTAA's plan assets consist of:

	Percentage of Plan Assets	
Asset Category	**2010**	2009
Equity securities	**56%**	56%
Fixed income	**43%**	43%
Cash	**1%**	1%
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, 2010):

	2010	2009
Discount rate	**5.50%**	6.75%
Expected long-term rate of return on plan assets	**5.83%**	6.48%
Rate of compensation increase	**4.00%**	4.00%

14. Employee Benefits (continued)

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to certain of its employees. The expense for the defined contribution pension plans in 2010 was $2.7 million (2009 – $2.8 million)

The GTAA's contribution to the registered defined contribution pension plans is a maximum of 6% of the employee's gross earnings. For designated employees of one supplemental plan, the GTAA's contribution equals 16% of the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA.

Severance Entitlement Plan

The GTAA has a severance entitlement plan for certain employees under the terms of the labour agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries based on years of service and vesting restrictions. The GTAA records the cost of this obligation based on an independent actuarial valuation updated annually.

Aggregate information about this plan as at December 31, 2010, is as follows:

(in thousands)		**2010**
Accrued Benefit Obligation		
Balance, beginning of year	$	**6,588**
Actuarial loss		**930**
Current service cost		**657**
Interest cost		**437**
Benefits paid		**(513)**
Balance, end of year	$	**8,099**
Plan Assets		
Fair value, beginning of year		**-**
Employer contributions		**513**
Benefits paid		**(513)**
Fair value, end of year		**-**
Funded status – deficit		**(8,099)**
Unamortized net actuarial loss		**930**
Accrued Benefit Liability	**$**	**(7,169)**
Accrued Benefit Liability, 2009	**$**	**(6,588)**

14. Employee Benefits (continued)

The GTAA's net expense for the year ending December 31, 2010 is as follows:

(in thousands)		2010
Current service cost	$	657
Interest cost		437
Actuarial loss		930
Costs arising in the year		2,024
Difference between costs arising in the period and costs recognized in respect of:		
Actuarial loss		(930)
Net severance entitlement plan expense	$	1,094

The significant actuarial assumptions used in measuring the GTAA's accrued severance entitlement obligation are as follows (weighted-average assumptions as at December 31, 2010):

Discount rate	5.50%
Rate of compensation increase	4.00%

15. Taxation

The GTAA is 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 as calculated in accordance with regulations under the *Assessment Act* (Ontario) as a payment-in-lieu of real property taxes.

16. Related Party Transactions

Directors' fees expense for the year ended December 31, 2010, was $1.0 million (2009 – $0.8 million).

17. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2010, of approximately $113.0 million (2009 – $124.4 million).

17. Commitments and Contingent Liabilities (continued)

Letters of Credit

A letter of credit for $2.3 million was outstanding at December 31, 2010 (see Note 11, Credit facility and long-term debt), relating to the GTAA's CES Contract with the OPA. The letter of credit expires April 11, 2011.

Environmental

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.

The GTAA performs environmental assessments as part of its ongoing environmental management program and has achieved ISO 14001 certification.

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011 (see Note 11, Credit facility and long-term debt), the GTAA agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The GTAA has undertaken significant transportation infrastructure work and believes to have met 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 45.7 hectares of land adjoining the Airport property for a total of $30.0 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. The second parcel representing 14.8 hectares of land was conveyed on August 9, 2010. The remaining 14.8 hectares of land will be transferred after environmental remediation is completed. Commitments related to the third parcel are included under capital commitments. All lands purchased under this agreement by the GTAA will be transferred to the federal government as required under the terms of the Ground Lease. Deposits totalling $4.7 million, which were recorded in construction in progress, were applied to the purchase price of the second parcel during the year.

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

17. Commitments and Contingent Liabilities (continued)

war and terrorism insurance. The *Order in Council* has been approved for the years 2011 to 2013. As part of the original *Order in Council* of September 2001, the GTAA was required to purchase a $50.0 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place until June 2011.

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 GTAA has also entered into a delivery contract that 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.

Contingent Liabilities

The GTAA is subject to legal proceedings and claims from time to time which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions or reserves while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA’s financial position, results of operations, or cash flows, no provisions have been recorded.

Air France

As a result of the Air France incident on August 2, 2005, the GTAA together with a number of other parties were named as defendants in several lawsuits including a class action lawsuit involving most passengers and their family members. During the year the class action lawsuit which named the GTAA has since been settled. The settlement did not involve any admission of liability by the GTAA. The GTAA’s insurers are responsible for paying the GTAA’s share of the settlement amount to the class action plaintiffs. The GTAA’s insurers continue to defend the GTAA in four remaining 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

18. Guarantees (continued)

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 Hierarchy

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Observable inputs other than quoted prices included in Level 1 such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; or
c) Level 3 – Significant unobservable inputs which are supported by little or no market activity.

Reserve and other funds and security deposits are categorized as Level 1 as the GTAA uses quoted prices in active markets for identical assets or liabilities to fair value this group except for ABCP holdings (see Note 6, Reserve and other funds) and the OPA derivative which are categorized as Level 3 as no observable market existed for these financial assets. See Note 9, Other assets, for additional information on the valuation technique used to fair value the OPA derivative.

The following table presents the changes in Level 3 instruments that are measured at fair value on a recurring basis:

19. Financial Instruments (continued)

(in thousands)	December 31, 2010		
	ABCP	**OPA Derivative**	**Total**
Balance, beginning of year	**$ 82,876**	**$ 41,961**	**$ 124,837**
Fair value adjustments included in statement of operations	**8,882**	**6,471**	**15,353**
Loss on redemption	**(1,131)**	**-**	**(1,131)**
Redemptions and cash receipts	**(90,627)**	**(5,158)**	**(95,785)**
Balance, end of year	**$ -**	**$ 43,274**	**$ 43,274**

(in thousands)	December 31, 2009		
	ABCP	OPA Derivative	Total
Balance, beginning of year	$ 92,257	$ 41,201	$ 133,458
Fair value adjustments included in statement of operations	447	6,997	7,444
Redemptions and cash receipts	(9,828)	(6,237)	(16,065)
Balance, end of year	$ 82,876	$ 41,961	$ 124,837

There were no additional financial instruments categorized as Level 3 during the year. All ABCP investments were redeemed in the year and therefore transferred out of Level 3 (see Note 6, Reserve and other funds).

Risk Management

In the normal course of business, the GTAA is exposed to a number of financial risks that can affect its operating performance. The GTAA's overall risk management program seeks to minimize potential adverse effects on the GTAA's financial performance.

The GTAA's treasury function is responsible for the procurement of the GTAA's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are within the requirements set out in the Trust Indenture dated December 2, 1997, as supplemented or amended from time to time. Compliance with these policies is monitored by the regular reporting of treasury activities to the Audit Committee of the Board.

The GTAA's operating activities result in financial risks that may arise from changes in market risk, credit risk and liquidity risk.

19. Financial Instruments (continued)

Market Risk

(a) Interest rate risk

The GTAA's exposure to interest rate risk relates to its medium term notes bank indebtedness as described in Note 11, Credit facility and long-term debt. It should be noted that as at December 31, 2010, all of GTAA’s debt at the current time is fixed rate debt and therefore changes in interest rates do not impact interest payments but may impact the fair value of this debt. An increase of 100 bps in Bankers’ Acceptance interest rates applied to the average balance of the medium term notes outstanding during 2010, would have increased interest expense by approximately $1.3 million.

The GTAA also has exposure to interest rate risk through its short-term investments in reserve and other funds (see Note 6, Reserve and other funds). As at December 31, 2010, all of the GTAA’s short-term investment holdings carry a fixed rate during their term and therefore changes in interest rates do not impact interest income.

The Debt Service Reserve Fund securing bank indebtedness is adjusted annually on December 2, based on the prevailing Bankers' Acceptance rate.

(b) Commodity price risk

The GTAA's exposure to commodity price risk relates to its CES Contract with the OPA. The impact of a 1% increase/decrease in the 2010 average price of electricity holding natural gas prices constant would result in a $1.0 million decrease/increase in the fair value of the OPA derivative. The impact of a 1% increase/decrease in the 2010 average price of natural gas holding the price of electricity constant would result in a $1.5 million increase/decrease in the fair value of the OPA derivative.

(c) Foreign currency rate risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. The GTAA’s exposure, however, to any foreign currency risk is not significant.

Credit Risk

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about the customer.

19. Financial Instruments (continued)

(in thousands)		2010		2009
Accounts receivable				
Customers with external credit rating:				
AA+	**$**	**519**	$	585
AA		**200**		2,439
A+		**192**		-
BBB		**606**		736
BBB-		**-**		208
BB+		**194**		-
BB-		**729**		448
B		**2,676**		1,375
B-		**1,807**		1,780
CCC+		**-**		4,040
CCC		**713**		309
		7,636		11,920
Customers without external credit rating:				
Existing customers with no history of default		**28,678**		28,161
Existing customers with history of default		**290**		-
	$	**36,604**	$	40,081
Cash and cash equivalents				
AA-	**$**	**131,975**	$	-
A+		**38,213**		551,803
	$	**170,188**	$	551,803
Reserve and other funds				
AAA	**$**	**121,000**	$	416,500
AA		**65,900**		108,700
AA-		**407,450**		197,485
A+		**267,778**		154,155
A		**64,375**		40,675
ABCP (see Note 6, Reserve and other funds)		**-**		82,876
	$	**926,503**	$	1,000,391
OPA derivative				
AA+	**$**	**43,274**	$	41,961
(see Note 9, Other assets)	**$**	**43,274**	$	41,961

19. Financial Instruments (continued)

None of the financial assets that are fully performing have been renegotiated during the year (see Note 6, Reserve and other funds).

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. There is a concentration of service with two air carriers which represents approximately 66% (2009 – 62%) of these fees and 23% (2009 – 32%) of the accounts receivable balance at December 31, 2010.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, reserves and available credit facilities. Quarterly cash flow projections are prepared and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates thereby ensuring that the Corporation is not exposed to excessive refinancing risk in any one year. The GTAA maintains a line of credit and executes a capital markets platform to meets cash needs as debt maturities occur (see Note 11, Credit facility and long-term debt and Note 20, Capital risk management).

The table below analyses the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. It does not include pension and post-retirement liabilities as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows.

(in thousands)	December 31, 2010			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	$ 53,358	$ 28,801	$ -	$ -
Province of Ontario	-	4,800	19,200	-
Long-term debt	29,580	662,183	3,830,041	8,331,758
	$ 82,938	$ 695,784	$ 3,849,241	$ 8,331,758

19. Financial Instruments (continued)

(in thousands)	December 31, 2009			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	$ 47,203	$ 25,092	$ -	$ -
Province of Ontario	-	-	19,200	4,800
Long-term debt	50,051	1,365,840	3,728,746	8,060,476
	$ 97,254	$ 1,390,932	$ 3,747,946	$ 8,065,276

Additional disclosure about the GTAA's credit facility, long-term debt, and OPA derivative can be found in Note 11, Credit facility and long-term debt and Note 9, Other assets.

20. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion, borrowings, if any, under the GTAA's credit facility (see Note 11, Credit facility and long-term debt) cash and cash equivalents, short-term investments and reserve and other funds.

The GTAA's objectives when managing capital are to:

a) Maintain a capital structure and an appropriate rating that provides financing options to the GTAA when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;

b) Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt service payments; and

c) Satisfy covenants set out in the Trust Indenture.

The GTAA is a non-share corporation and, accordingly, is funded through operating revenues, AIF revenue, reserve funds, the debt capital markets and its syndicated bank credit facility. 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, funds generated by the GTAA are used to cover costs within its mandate.

As at December 31, 2010, the net deficiency amounted to $422.3 million (2009 – $418.3 million). The GTAA has established, within its net assets (deficiency), funds for

20. Capital Risk Management (continued)

operational requirements and debt-related obligations. The net assets (deficiency) consist of three components: externally restricted, internally restricted and unrestricted funds.

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, Credit facility and long-term debt).

Internally Restricted

A portion of the fees that have been collected in revenue has been allocated for capital projects and for 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 are disbursed in accordance with its policies or commitments for these funds.

Unrestricted

Unrestricted net assets (deficiency) represents the cumulative revenue under expenses, including amortization, interest expense incurred and required to fund the Debt Service Fund – Interest, and the cumulative unrealized changes in net assets, which remains after externally and internally restricted reserve fund cash commitments described above have been made.

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing capital requirements are financed through the issuances of debt. The GTAA developed a financing program 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 the Trust Indenture dated December 2, 1997, as supplemented or amended 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 Debt Service Reserve Funds are funded from

20. Capital Risk Management (continued)

the net proceeds of each bond or medium term note issuance (see Note 6, Reserve and other funds). 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. At December 31, 2010, the GTAA was in compliance with the above covenants and was not in default of the Trust Indenture as defined therein.

21. Restructuring Charge

In 2009, the GTAA implemented a restructuring plan to align its cost structure to the current economic and market conditions. In the year, the GTAA recorded a charge of $1.9 million (2009 – $7.7 million) relating to voluntary retirement packages and severance expenses for employees. These charges are included in the salaries, wages and benefits expense in the statement of operations for the year ended December 31, 2010. As at December 31, 2010, the liability for remaining severance within accounts payable and accrued liabilities amounted to $4.3 million (2009 - $7.9 million).

The following table summarizes changes in the restructuring accrual:

(in thousands)		**2010**		2009
Balance, beginning of year	**$**	**7,858**	$	760
Additions		**1,950**		7,654
Payments		**(5,463)**		(556)
Balance, end of year	**$**	**4,345**	$	7,858

22. Comparative Figures

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

23. Subsequent Events

On February 16, 2011, the GTAA announced that it has exercised its right to redeem all $325.0 million of the outstanding Series 2008-2 MTNs on March 21, 2011.

On February 23, 2011, the GTAA issued $600.0 million under Series 2011-1 MTNs for total proceeds of $599.8 million.

On February 28, 2011, the $250.0 million Series 2006-1 MTNs matured and were repaid using cash on hand and certain reserve funds.