Management's Discussion and Analysis and Financial Statements of the

Greater Toronto Airports Authority

September 30, 2008

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED SEPTEMBER 30, 2008
Dated November 4, 2008

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 quarter ended September 30, 2008 and should be read in conjunction with the Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the year ended December 31, 2007 and the Annual Information Form for the year ended December 31, 2007. 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, the Financial Statements and the MD&A 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 responsible for the operation, management and development of Toronto Pearson International Airport (the "Airport" or "Toronto Pearson") as set out in its ground lease with the federal government (the "Ground Lease"). The GTAA is authorized to operate airports within the Greater Toronto Area ("GTA") on a commercial basis, to set fees for their use and to develop and improve the airport facilities. The priorities for the GTAA are to operate a safe and secure airport, and to ensure that the facilities

will provide the necessary services, amenities and capacity for the GTA's current and future air travel requirements.

Significant Events

The following third quarter and subsequent events had an impact on the GTAA's operations or financial results or may impact future results.

On August 28, 2008, Zoom Airlines ceased operations and filed for bankruptcy protection. At the time of the bankruptcy, the GTAA was owed approximately $2.0 million in aeronautical charges and Airport Improvement Fees ("AIF"), the full amount of which was recovered subsequent to quarter end.

Subsequent to the end of the third quarter, on October 10, 2008, the GTAA announced its aeronautical rates and charges for 2009. Beginning January 1, 2009, landing fees will be reduced $0.15 per tonne to $33.87 per tonne and general terminal charges will be reduced $0.05 per seat to $7.47 and $9.34 per seat for domestic and international flights respectively. In addition, the 2009 landing fee for all-cargo flights will be reduced to $25.47 per tonne from $32.02 per tonne in 2008.

On October 24, 2008, the $350 million Series 2006-2 Medium Term Notes ("MTNs") matured. The MTNs were repaid using a combination of cash and investments and a draw on the GTAA's syndicated bank credit facility.

Operating Activity

During the first nine months of 2008, 25.0 million passengers were processed through the Airport, as compared to 24.0 million for the same period in 2007, representing an increase of 4.2%. During the three-month period ended September 30, 2008, 8.9 million passengers were processed through the Airport, a 1.6% increase over the comparable 2007 period. As has been the trend for several years, the strongest passenger growth continues to be in the international sector where there has been increased demand and capacity for travel, especially to Asia and the Middle East.

The following table summarizes passenger activity by sector for the three- and nine month periods ended September 30, 2008 and 2007.

	Three Months			Nine Months		
(in thousands)	2008	2007	% change	2008	2007	% change
Domestic	3,958	3,930	0.7%	10,645	10,426	2.1%
Transborder	2,170	2,242	(3.2%)	6,749	6,700	0.7%
International	2,757	2,578	7.0%	7,619	6,869	10.9%
Total	8,885	8,750	1.6%	25,013	23,995	4.2%

In addition to passenger activity, the measures of operating activity which impact aeronautical revenue are the total maximum takeoff weight ("MTOW") and the total number of seats on aircraft arriving at the Airport. Both measures are determined by the number of aircraft movements and the type of aircraft. For the nine months ended September 30, 2008, MTOW was 10.3 million tonnes as compared to 10.0 million tonnes for the same period in 2007. For the three months ended September 30, 2008, MTOW was 1.2% higher than the same period in 2007. Sixteen million arrived seats were recorded in the first three quarters of 2008 as compared to 15.4 million in the same period in 2007. In the third quarter, arrived seats were 2.9% higher than in the same period in 2007. The rate of growth of airport activity in the third quarter was slower than experienced in the first half of the year as the slowing economy and high fuel prices negatively affected air travel demand. This slowdown in airport activity is expected to continue for the balance of the year and throughout 2009.

Aircraft movements increased 2.0% in the first nine months of 2008 over the same period in 2007. The year-over-year increase in aircraft movements in the third quarter of 2008 was 1.4%. Air carriers continue to focus on fleet mix and capacity in an effort to manage high fuel prices and other costs.

RESULTS OF OPERATIONS

Rate Setting

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.

The objective of the GTAA's rate setting approach is to break even on a modified cash basis after including the reserve and debt requirements as set out in the Master Trust Indenture governing the GTAA's indebtedness. Aeronautical rates and charges are set by the GTAA annually to cover the projected operating costs on a break-even cash basis for each year. To calculate the rates and charges for a given year, projections are developed for measures of Airport operating activity such as passengers, MTOW and arrived seats, non-aeronautical revenue and operating costs. Operating costs used in the rate setting calculation include those reflected on the financial statements of the GTAA with the exception of certain non-cash items such as amortization of property and equipment. 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.

The GTAA implemented new rates for landing fees and general terminal charges commencing January 1, 2008 which were 3.1% and 4.7% lower than the respective 2007 rates. The GTAA's commitment to increase non-aeronautical revenues and manage operating expenses is reflected in the 2008 aeronautical rates and charges and in the results for the first nine months of 2008. The rates for landing fees and general terminal charges to become effective January 1, 2009 have been set 0.4% and 0.6% lower than the 2008 rates, respectively.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other revenues from the GTAA's Cogeneration Plant and other sources. The primary drivers for aeronautical revenue are aircraft movements, since 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 highly correlated to passenger activity.

The following table summarizes the revenue for the three- and nine-month periods ended September 30, 2008 and 2007.

	Three Months		Nine Months	
(in thousands)	2008	2007	2008	2007
Landing fees	$122,632	$124,495	$344,624	$343,578
General terminal charges	49,358	50,210	139,491	140,480
AIF, net	68,891	84,949	195,325	196,610
Car parking & ground transportation	32,697	29,230	96,297	84,349
Concessions & rentals	34,856	32,416	102,726	94,920
Other	10,330	12,873	29,974	36,788
	$318,764	$334,173	$908,437	$896,725

For the first nine months of 2008, aeronautical revenue totaled $484.1 million, unchanged from the same period in 2007 as the increase in activity levels discussed above was offset by the rate reductions implemented at the beginning of 2008. For the three months ended September 30, 2008, aeronautical revenues decreased by $2.7 million compared to the same period in 2007 due to the combination of slower traffic growth during the period and lower aeronautical rates.

AIF revenue earned, net of the commission paid to the air carriers, for the nine months ended September 30, 2008 was $195.3 million as compared to $196.6 million for the same period in 2007. In the third quarter of 2007 the GTAA collected an additional $16.2 million in net AIF revenues as part of the annual reconciliation of passenger volumes. As a result of this payment, AIF revenue in the nine-month period ended September 30, 2008 declined by $1.3 million when compared to the same period in 2007. After adjusting for this payment, AIF revenue was up significantly in the 2008 period compared to the 2007 period due to increased passenger volumes. AIF revenue earned during the third quarter of 2008 was $68.9 million as compared to $84.9 million for the comparable 2007 period. As discussed above, the year-over-year decrease is due to the $16.2 million net payment received in the third quarter of 2007. As set out in the AIF agreements with each of the air carriers, the GTAA has committed to using primarily all of the AIF revenue for capital programs, including the associated debt service (interest and principal). Capital expenditures paid for by AIF revenue may not necessarily occur in the same period as the AIF revenue is received. Any AIF revenue collected and not utilized in a given period is set aside in the AIF Reserve Fund for future capital or debt service payments.

The increase in revenue from car parking and ground transportation from $84.3 million to $96.3 million for the nine months ended September 30, 2007 and 2008,

respectively, reflects the increase in passenger volumes and an increase in parking rates implemented in November 2007. For the third quarter of 2008, car parking and ground transportation revenue totaled $32.7 million compared to $29.2 million for the same period in 2007. Concession and rental revenues increased from $94.9 million to $102.7 million for the nine months ended September 30, 2007 and 2008, respectively, primarily as a result of improved concession operations reflecting increased passenger activity and a number of new advertising initiatives. For the three-month period ended September 30, concession and rental revenue increased from $32.4 million to $34.9 million for the 2007 and 2008 periods, respectively.

Other revenues is primarily composed of revenues from the Cogeneration Plant and interest income. Electricity sales from the Cogeneration Plant and the amortized revenue from a Clean Energy Supply Contract ("CES") with the Ontario Power Authority ("OPA") resulted in revenues of $18.2 million in the first three quarters of 2008 as compared to $18.5 million in the comparable period in 2007. Interest on reserve funds and investments will fluctuate depending on changes in interest rates, timing of debt issues and the use of capital. A reduction in short-term interest rates and the inability to collect interest on certain Asset Backed Commercial Paper ("ABCP") held by the GTAA has contributed to a decline in interest income from $16.6 million in the first nine months of 2007 to $10.4 million in the same period in 2008.

Operating Expenses

Operating expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment. The following table summarizes the total operating expenses for the three- and nine-month periods ended September 30, 2008 and 2007.

	Three Months		Nine Months	
(in thousands)	2008	2007	2008	2007
Ground rent	$ 35,515	$ 37,405	$106,545	$112,129
Goods and services	63,832	63,273	208,178	194,463
Salaries, wages and benefits	25,332	25,707	80,078	80,972
Real property taxes and PILT	5,964	5,678	17,893	17,013
	130,643	132,063	412,694	404,577
Interest and financing costs	110,513	117,681	333,203	325,317
Amortization of property and equipment	52,522	55,162	157,058	170,292
	$293,678	$304,906	$902,955	$900,206

Ground rent payments are calculated according to the Ground Lease. Pursuant to the Ground Lease amendment entered into on February 11, 2008, annual ground rent payments for 2008 and 2009 will be fixed at $141.5 million and $138.7 million, respectively. The reduction in ground rent expense in 2008, as compared to 2007, reflects the new terms of the Ground Lease. Ground rent expense was $106.5 million and $35.5 million for the first nine months and the third quarter of 2008, respectively. This compares to $112.1 million and $37.4 million for the comparable 2007 periods. In each quarter actual ground rent payments made to the federal government were $1.0 million higher than the expense recorded in the period as the GTAA paid rent that had been deferred by the federal government in 2003 and 2004.

Expenditures for goods and services were $208.2 million for the nine months ended September 30, 2008 as compared to $194.5 million for the same period in 2007. The increase in goods and services expenses between these periods is primarily attributable to the number and severity of winter weather events in 2008 resulting in an $8.8 million increase in snow removal expense in the first nine months of 2008 as compared to the same period in 2007. Another factor which increased goods and services expense was an increase in fuel and utility expense due to higher fuel prices. The cost increases described above were partially offset by savings in professional and contractual services, building and equipment repair and maintenance and inter-terminal bussing. In addition, in 2007 the GTAA recovered approximately $12.9 million arising primarily from the bankruptcy of Canada 3000 and Jetsgo Corporation which reduced goods and services expense in the 2007 period. For the three-month period ended September 30, 2008, goods and services expense was $63.8 million as compared to $63.3 million for the same period in 2007.

Salaries, wages and benefits decreased by $0.9 million in the nine-month period ended September 30, 2008 compared to the same period in 2007. The decrease is largely due to reduced pension expense resulting from an updated actuarial valuation of the GTAA's pension plans. For the three-month period ended September 30, 2008 the decrease in salaries, wages and benefits was $0.4 million when compared to the same period in 2007.

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 is based on passenger volumes in a prior year and therefore the increase of $0.9 million for the nine months ended September 30, 2008 over the same 2007 period reflects the increased annual passenger volumes

in the underlying year (2005 as compared to 2004) used in the calculation. The year-over-year increase in PILT for the third quarter of 2008 was $0.3 million. The continued increase in passenger activity will be reflected in higher PILT payments in future years.

Interest and financing costs were $333.2 million for the nine months ended September 30, 2008, as compared to $325.3 million for the same period in 2007 as lower interest incurred due to lower financing rates was offset by reduced interest income earned on reserve funds required for the debt program under the Trust Indenture, a reduction in capitalized interest and the fair value adjustment of the ABCP owned by the GTAA. For the three-month period ended September 30, interest and financing costs were $110.5 million and $117.7 million in 2008 and 2007 respectively.

Amortization of property and equipment decreased from $170.3 million to $157.1 million for the first three quarters of 2007 and 2008, respectively, as the pool of depreciable assets was reduced year-over-year through ongoing depreciation. This reduction in amortization expense more than offset the increase in amortization associated with new assets becoming operational. For the three-month period ended September 30, 2008, amortization of property and equipment was $52.5 million compared to $55.2 million in the same 2007 period.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three- and nine-month periods ended September 30, 2008 and 2007.

	Three Months		Nine Months	
(in thousands)	2008	2007	2008	2007
Revenues	$318,764	$334,173	$908,437	$896,725
Operating expenses	130,643	132,063	412,694	404,578
Revenue over operating expenses	188,121	202,110	495,743	492,147
Interest and financing costs	110,513	117,681	333,203	325,317
Amortization of property and equipment	52,522	55,162	157,058	170,292
Revenues over/(under) expenses	$ 25,086	$ 29,267	$ 5,482	$(3,462)

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 $495.7 million in the nine months ended September 30, 2008, from $492.1 million for the same period in 2007. For the three-month period ended September 30, 2008,

revenues over operating expenses, before interest and financing costs and amortization of property and equipment decreased $14.0 million compared to the same 2007 period.

For the nine-month period ended September 30, 2008 total revenues were $5.5 million greater than total expenses. This compares to revenues under expenses of $3.5 million in the same 2007 period. Airport activity exhibits certain seasonality with the busier summer travel period typically resulting in higher revenues than the winter months. Also, expenses associated with winter operations such as snow removal and heating typically result in higher operating expenses during the winter. For the three-month period ended September 30, 2008, total revenues were $25.1 million greater than total expenses. For the same period in 2007, total revenues were $29.3 million greater than total expenses.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the quarters ended December 31, 2006 through September 30, 2008 is set out in the following table.

(in millions)	2008			2007				2006
Quarter ended	Sept	June	Mar	Dec	Sept	June	Mar	Dec
Revenues	$319	$296	$292	$286	$334	$289	$274	$260
Operating expenses	131	131	152	147	132	127	146	144
Revenues over expenses[1]	188	167	140	139	202	162	128	116
Interest and financing costs	111	108	115	123	118	109	98	92
Amortization	52	52	52	57	55	56	59	58
Revenues over (under) expenses	$ 25	$ 7	$(27)	$(41)	$ 29	$ (3)	$(29)	$(34)

Notes: [1]Revenues over expenses before interest and financing costs and amortization of property and equipment

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 in many ways 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.

AIRPORT DEVELOPMENT PROGRAM AND 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 Airport Development Program ("ADP") included the construction of terminal facilities, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. The ADP was designed as a demand driven program that would be undertaken while the Airport continued to operate and would provide the GTAA with some flexibility on the timing of certain stages. On January 30, 2007, with the opening of Pier F, the ADP was essentially completed. The total cost of the ADP, which was completed 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 eventuality, the GTAA has developed the post-ADP work plan which includes: the demolition of Terminal 2 and the Terminal 2 parking garage; constructing apron in the area that Terminal 2 once occupied; replacing the Terminal 2 parking capacity and increasing the overall parking capacity at the Airport with the construction of a new 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. This work commenced in 2007 and is scheduled to be completed in 2010 and has an authorized budget of $439.7 million. The design and construction timing of Pier G is still under review, and will be dependent on demand.

As part of the post-ADP work, the demolition of Terminal 2 was completed in the second quarter of 2008 and significant progress has been made on apron construction. Construction of the Area 6B parking facility, which commenced in 2007, continued throughout the first nine months of 2008.

In addition to the ADP and post-ADP work, the GTAA has undertaken a program to expand and redevelop certain areas in Terminal 3, including the baggage handling systems and passenger processing areas. This program, with an expected cost of $352.0 million was begun in 2000 and is currently over 90% complete. Work is ongoing in the west end of the terminal where expansions to the Canada Customs processing areas, connection baggage system and the transborder security areas are scheduled to be completed in 2009.

The GTAA has recently approved another capital program to improve Terminal 3. This $85.1 million project, to be completed by 2014, will see improvements to the food and beverage and other retail offerings in the terminal and improvements to passenger processing and security areas designed to improve passenger connections and other passenger flows through the terminal.

Given the current economic climate and the resulting expected reduction in air travel demand over the remainder of 2008 and in 2009, the GTAA now expects that the construction of Pier G on Terminal 1, the next major project in the Airport Master Plan, to be delayed until air travel demand warrants the investment in this new passenger processing capacity.

Other capital projects were undertaken during the year to upgrade, refurbish or replace existing facilities. During the third quarter of 2008, a total of $12.5 million was expended primarily on runway and other infrastructure rehabilitation projects and information technology improvements.

ASSETS AND LIABILITIES

Total assets and liabilities as at September 30, 2008 as compared to December 31, 2007 are set out below.

(in millions)	September 30, 2008	December 31, 2007
Total Assets	$7,390.8	$7,256.3
Total Liabilities	$7,738.3	$7,609.2

At September 30, 2008 total assets were $7.40 billion as compared to $7.26 billion at December 31, 2007. Changes in assets in the third quarter of 2008 include an increase in cash and cash equivalents of $33.2 million due to improved operating results and a portion of the proceeds of the Series 2008-1 MTN being held for future capital development purposes. Offsetting the increase in cash was a decrease in property and equipment of $134.0 million due to ongoing amortization of property and equipment. Additionally, there was an increase of $99.6 million in reserve funds primarily due to deposits to the Debt Service Fund and ongoing deposits to the AIF Fund, partially offset by a reduction in the Notional Principal Fund to repay the maturing Series 2003-1 MTNs and the provisions for ABCP fair value taken during 2008. An increase in work in progress of $131.1 million reflects ongoing work on capital projects at the Airport.

Total liabilities at September 30, 2008 were $7.74 billion as compared to $7.61 billion at December 31, 2007. Changes in liabilities include a decrease in the current portion of long-term debt of $109.1 million and an increase in long-term debt of $238.8 million as the Series 2003-1 MTNs were repaid, the Series 2008-1 MTNs were issued and the Series 2004-2 MTNs due February 4, 2009 were reclassified from long-term to current liabilities.

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 deficit position of $347.5 million as at September 30, 2008. 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 current deficit position. 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 non-share corporation and accordingly is funded through aeronautical and non-aeronautical revenues, 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.

On April 17, 2008 the GTAA issued 10-year Series 2008-1 MTNs in the amount of $500 million. This issue carries a fixed coupon of 5.26%. A portion of the

proceeds was used to fund the reserve requirements and to repay debt with the remainder of the proceeds to be used to fund future capital expenditures.

On June 2, 2008 the Series 2003-1 MTNs matured. The debt was repaid using a combination of funds raised through the Series 2008-1 MTN issue and certain reserve fund balances.

Subsequent to the end of the third quarter, on October 24, 2008, the $350 million Series 2006-2 MTNs matured. The MTNs were repaid using a combination of cash and investments and a $180 million draw on the GTAA's syndicated bank credit facility.

The GTAA has a $500 million credit facility and a $50 million facility for interest rate and foreign exchange hedging activities, both with the same Canadian banking syndicate. These facilities mature on November 22, 2010 and can be extended annually for one additional year with the lenders' consent. Due to the current conditions in the credit markets, the GTAA elected not to request an extension of the credit facility this year and instead will maintain the existing terms and maturity date of the facility. The banking facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets in the future. This facility ranks *pari passu* with all other debt of the GTAA. As at September 30, 2008, the GTAA had no funds drawn under either facility, however, $2.3 million was drawn on the $500 million facility by way of a letter of credit.

Total reserve funds at the end of September 2008, were $1.0 billion, as compared to $907.1 million at December 31, 2007. 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.

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 the current available credit facility, reserves and projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls during 2008. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

Asset Backed Commercial Paper

As at September 30, 2008, the GTAA held $182.2 million, face value, of non-bank sponsored ABCP. Of this amount, $145.2 million was held in reserve and other funds and $37.0 million, which was originally held in cash and cash equivalents, was previously reclassified to non-current other investments on the balance sheet.

At the time of purchase, all of the trusts in which the GTAA's investments in ABCP are held were rated R-1 (high) by DBRS Limited ("DBRS"), which is the highest possible rating for commercial paper and a permitted investment under the terms of the GTAA's Master Trust Indenture (the "Trust Indenture") which governs the GTAA's reserve funds. The maturity dates of the ABCP held in these and other funds ranged from August 28, 2007 to September 25, 2007; however, none were redeemed at maturity.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee) announced an agreement in principle to restructure the ABCP issued by 20 trusts, including all of the issuing trusts which issued ABCP held by the GTAA.

On March 17, 2008, the Committee filed an application in the Ontario Superior Court of Justice (the "Court") under the Companies' Creditors Arrangement Act ("CCAA") asking the Court to call a meeting of ABCP noteholders to vote on a plan of restructuring broadly in-line with the December 23, 2007 plan proposed by the Committee.

As a result of the CCAA application, on March 19, 2008, DBRS withdrew its ratings on all of the affected ABCP. As a result, the ABCP held by the GTAA no longer meets the definition of qualified investments in the Trust Indenture, and as a result the GTAA is not in compliance with the requirement in the Trust Indenture that all money held in any account, fund or reserve fund established under the Trust Indenture be held in cash or invested in qualified investments. The notes that the GTAA expects to receive under the restructuring plan would not meet the definition of a qualified investment under the Trust Indenture by virtue of their expected credit rating and/or term to maturity. The GTAA is of the view that the non-compliance is not of a nature which would give rise to an event of default for purposes of the Trust Indenture, which requires among other things, that any non-compliance must materially adversely affect bondholders. As of the date of this report, no event of default has occurred.

On March 20, 2008, the Committee issued an information statement containing details about the proposed restructuring. The restructuring plan was voted on and approved by the noteholders on April 25, 2008. The Court approved the restructuring on June 5, 2008. However, several noteholders appealed the Court ruling. The Ontario Court of Appeal heard this appeal on June 25 and 26, 2008 and subsequently released its ruling upholding the original Court ruling. As a result of this ruling, a group of noteholders sought leave to appeal the ruling to the Supreme Court of Canada. On September 18, 2008 the Supreme Court of Canada denied leave to appeal, resulting in the original Court approval of the restructuring remaining in place.

Based on the restructuring plan and other public information, it is estimated that, of the face value of $182.2 million of ABCP in which the GTAA has invested:

- $2.1 million consists of traditional securitized assets for which the GTAA will, on restructuring, receive replacement Traditional Asset ("TA") tracking long-term floating rate notes with a term of approximately five years;

- $142.2 million consists of a combination of leverage collateralized debt, synthetic assets and traditional securitized assets for which the GTAA will, on restructuring, receive replacement Class A-1, Class A-2, Class B and Class C long-term floating rate notes with terms to maturity of approximately eight years.

The GTAA expects to receive replacement notes with par values as follows:

  - Class A-1: $66.1 million – rated AA by DBRS
  - Class A-2: $61.3 million – rated AA by DBRS
  - Class B: $10.5 million –not rated
  - Class C: $ 4.3 million – not rated

- $37.9 million consists of traditional securitized assets with exposure to the U.S. sub-prime mortgage market for which the GTAA will, on restructuring, receive replacement Ineligible Asset ("IA") tracking long-term floating rate notes with terms to maturity ranging five to twenty-two years.

The valuation technique used by the GTAA to estimate the fair value of its investment in ABCP at September 30, 2008, incorporates probability weighted discounted cash flows derived from several possible scenarios considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions

used in determining the estimated fair value reflect the details included in the information statement issued by the Committee and the risks associated with each of the long-term floating rate notes. Assumptions regarding the interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses used in estimating the fair value include:

	Class A-1	Class A-2	Class B	Class C	TA Notes	IA Notes
Interest rate	3.27%	3.27%	3.27%	3.27%	4.20%	4.20%
Discount rate(1)	7.48%	7.48%	50%	10%	7.48%	7.48%
Approximate term	8 years	8 years	8 years	8 years	5 years	5 to 22 years
Credit loss	nil	nil	nil	nil	nil	37.5%

(1) For Class B and C Notes the indicated rate is the fair value as a per cent of face value and not the discount rate. For IA Notes the discount rate is applied after the credit provision.

Two benchmarks were utilized to determine the discount rates used in estimating the fair value of the Class A-1 and A-2 Notes as at September 30, 2008. One method used bankers' acceptance rates plus expected spreads for "AA" rated financial institution debt with similar maturities. This benchmark was chosen as indicative of the market discount factor that would be applied to the restructured securities as financial institution credit spreads are at historically wide spreads relative to other similarly rated debt due to many of the same uncertainties that the restructured notes face, such as structured product and derivative exposure and counterparty risk. While the restructured notes are subject to credit enhancements such as restructured and remote margin call provisions, cross-collateralization and a dedicated margin funding facility which support a high credit rating, an additional 150 basis points was added to the discount rate of the Class A-1 and Class A-2 Notes to further reflect the uncertainties surrounding these specific instruments. This additional credit adjustment was increased from the June 30, 2008 valuation to reflect the recent events in the credit markets, including liquidity concerns with these and other structured notes. This benchmark was allocated a weighting of 25% in determining the discount rate. The second benchmark, weighted 75%, used to determine the appropriate discount rate utilized the spread or premium paid on the CDX.NA.IG five-year index to determine the appropriate spread over seven year government bond rates. The CDX index was chosen in addition to the financial institution spread as it is an alternate indicator of investment grade credit market conditions and provides a second measure of investor sentiment in what continue to be uncertain markets. The five-year index was utilized as it is the most liquid index and is considered to provide a more accurate indication of market levels than the less liquid seven-year index.

The Class B and C Notes were valued on an equity basis at 50% and 10% of face value, respectively, indicative of their subordination as to payment of both principal and interest under the restructuring proposal.

While the majority of the assets that will be placed in the IA Tracking Note pools continue to carry investment grade ratings, the IA Tracking Notes were given an initial credit provision of 37.5%, consistent with the default probability rates of an investment rating below "CCC". This reflects continued uncertainty surrounding the U.S. sub-prime mortgage market. Due to the substantial credit provision taken against the IA Tracking notes, the discount rate applied in the valuation methodology was determined using the approach described above and is consistent with that applied to the Class A Notes. It was not considered appropriate to apply a below investment grade credit discount rate as this would effectively double count the credit provision. The GTAA expects to receive three IA Tracking Notes, each with differing underlying credit quality. All three were valued using the same credit provision and discount rate which the GTAA believes is appropriate for the lowest credit quality amongst the IA Tracking Notes.

The TA tracking notes were discounted at the same rate as the Class A-1 notes, reflecting their high credit quality.

An increase of 1% in the weighted average discount rate would reduce the estimated fair value of the GTAA's investment in ABCP by approximately $7.7 million.
One of the cash flow scenarios considered is a liquidation scenario whereby, if the restructuring was not successfully completed, recovery of the GTAA's investment is through the liquidation of the underlying assets of the ABCP trusts. This scenario was assigned a probability of 2.0%, consistent with the June 30, 2008 valuation. Notwithstanding final Court approval of the restructuring, due to the current state of the credit markets there remains some risk that the restructuring may not be completed and a liquidation scenario may occur.

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's ABCP of $121.5 million as at September 30, 2008. This was a decrease of $8.3 million from the June 30, 2008 estimated fair value. Therefore, the GTAA has recorded an additional impairment charge in respect of its ABCP holdings for the quarter ended September 30, 2008 of $8.3 million. The total impairment charge recognized is approximately 33.3% of the original value.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to further material change in the value of the GTAA's investment in ABCP.

The GTAA has sufficient cash and other sources of liquidity available to meet its reserve requirements, and to fund its operating, capital and financing obligations, and does not expect that its operations will be materially affected by the current uncertainty over the carrying value of its ABCP investments.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies of the GTAA are set out in Note 4 of the Consolidated Financial Statements and Notes as of December 31, 2007 and 2006, and Note 2 of the unaudited Financial Statements as at September 30, 2008. Effective January 1, 2008, the Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3031 – Inventories. Section 3031 provides guidance on the method of determining the cost of materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 effective January 1, 2008 did not materially impact the GTAA's financial statements.

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 September 30, 2008 of the design and operation of the disclosure controls and procedures, as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, under the supervision and with the participation of the President and Chief Executive Officer ("CEO"), and the Vice President, Finance and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and

communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has previously reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures.

GTAA management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the company's reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As required under *Multilateral Instrument 52-109*, the GTAA, under the supervision and with the participation of the CEO and the CFO, has carried out a review of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the GTAA has designed, or caused to be designed under the GTAA's supervision, such internal controls over financial reporting so as to provide reasonable assurance regarding the reliability of the company's reporting and the preparation of financial statements for external purposes and that there were no changes in the GTAA's internal control over financial reporting that occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition. The overall demand for air travel is subject to external influences such as general economic conditions, government regulation, terrorist attacks, fuel prices, health epidemics and the financial uncertainty in the aviation industry, any of which may impact the GTAA's financial results. The impact that influences such as economic conditions, fuel prices or labour uncertainties have on airline operations or profitability may also impact the financial condition and results of the GTAA. It is expected that there will be reduced demand for air travel during the remainder of 2008 and in 2009.

In addition, the GTAA continues to face risks associated with the post-ADP construction program, Terminal 3 redevelopment and other capital projects. While the GTAA has continued to be successful in its funding program for these capital projects, access to the capital markets to fund development and to refinance existing debt balances is dependent on many factors outside GTAA control.

There is no guarantee of the future cash flows associated with the affected ABCP that the GTAA holds and the ultimate value of these investments may be less than management's current estimated fair value.

Other risks and uncertainties are discussed in the Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2007.

CONCLUSION

The third quarter of 2008 was characterized by continued, although slowing, growth in Airport activity. The year-to-date growth in Airport activity, coupled with a continued focus on new initiatives to generate non-aeronautical revenue and to control costs has resulted in financial performance that has exceeded that of both the comparable three- and nine-month periods of 2007. Given the current economic and industry climate, the GTAA will be closely monitoring activity through the fourth quarter of 2008 and into 2009. The GTAA continues to closely manage its operating and capital expenses and the anticipated air traffic slowdown was taken into consideration when setting the 2009 aeronautical rates and charges.

The financial and operating results recorded in the first nine months of 2008 are reflective of the implementation of the GTAA's current five-year strategic plan which is intended to further develop revenue, efficiency and customer service initiatives. While development at Toronto Pearson continues, the scale of the work expected over the next several years is considerably less than what was undertaken during the now-complete ADP and the GTAA has now fully shifted its strategic focus from the redevelopment of the Airport to ensuring that the Airport is operated efficiently and effectively to meet the needs of the travelling public, airlines and other users of our facilities. The new facilities at the Airport, together with the new management focus expressed in the strategic plan, position the GTAA well to continue to meet the increasing air travel needs of the Southern 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: future demand for air travel in the GTA; budgets and expenditures relating to capital programs; future capital development at the Airport; the GTAA's annual debt capital requirements; the relationship between the GTAA's revenues and reserve funds, and its operating expenses and interest and financing costs; non-aeronautical revenues; airline load factors and fleet mixes; the GTAA's liquidity; the GTAA's ability to continue to meet the increasing air travel needs of the Southern Ontario region; the estimated fair value of the GTAA's ABCP holdings; continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the ABCP restructuring process; the possibility of further material changes in the value of the GTAA's ABCP holdings and the effect of the current uncertainty regarding the GTAA's ABCP investments on its liquidity and operations.

This 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 long-term increased aviation demand in the GTA; the Canadian and U.S. economies will grow at expected levels in the near term; air carrier capacity will meet demand for air travel in the GTA; the growth and sustainability of low fare and other air carriers will contribute to aviation demand in the GTA; domestic, transborder and international travel will exhibit long-term growth; economic and air travel industry factors will result in a short-term decline in air travel at the Airport; the commercial aviation industry will not be directly affected by terrorism; the cost of enhancing aviation security will not overly burden air carriers or the GTAA; no significant event will occur which impacts the ordinary course of business such as a natural disaster or other calamity; and the GTAA will be able to access the capital markets at competitive terms and rates. 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: levels of aviation activity; air carrier instability; aviation liability insurance; fuel prices; construction risk; geographical unrest; terrorist attacks; war; health epidemics, labour negotiations; capital market and economic conditions; changes in laws; adverse regulatory developments or proceedings; lawsuits; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents.

The forward-looking information contained in this MD&A represent the GTAA's 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 included in this MD&A whether as a result of new information, future events or for any other reason.

Financial Statements of the

Greater Toronto Airports Authority

September 30, 2008

(unaudited)

Greater Toronto Airports Authority
Balance Sheet

(unaudited)(in thousands)		**September 30 2008**		December 31 2007
Assets				
Current				
Cash and cash equivalents	**$**	**183,051**	$	149,822
Accounts receivable		**59,996**		54,594
Prepaid expenses		**4,150**		2,864
Inventory		**9,494**		7,397
		256,691		214,677
Reserve and other funds (Note 3)		**1,006,742**		907,120
Other investments (Note 4)		**24,308**		28,802
Other assets (Note 6)		**68,403**		69,687
Property and equipment (Note 7)		**5,713,173**		5,847,182
Work in progress (Note 8)		**307,671**		176,559
Accrued benefit asset		**13,804**		12,265
	$	**7,390,792**	$	7,256,292
Liabilities				
Current				
Bank indebtedness	**$**	**651**	$	-
Accounts payable and accrued liabilities		**79,010**		77,678
Security deposits and deferred credits		**38,650**		36,363
Current portion of deferred ground rent		**4,156**		4,156
Current portion of long-term debt (Note 9)		**727,096**		836,228
		849,563		954,425
Deferred credit (Note 6)		**38,170**		39,822
Deferred ground rent		**25,977**		29,094
Long-term debt (Note 9)		**6,824,571**		6,585,811
		7,738,281		7,609,152
Net Assets (Deficiency) (Note 14)				
Externally restricted		**81,546**		72,857
Internally restricted		**360,030**		284,728
Unrestricted		**(789,065)**		(710,445)
		(347,489)		(352,860)
	$	**7,390,792**	$	7,256,292

Greater Toronto Airports Authority
Statement of Operations

(unaudited)(in thousands)	Three Months Ended September 30 2008	Three Months Ended September 30 2007	Nine Months Ended September 30 2008	Nine Months Ended September 30 2007
Revenues				
Landing fees	**$ 122,632**	$ 124,495	**$ 344,624**	$ 343,578
General terminal charges	**49,358**	50,210	**139,491**	140,480
Airport improvement fees, net (Note 5)	**68,891**	84,949	**195,325**	196,610
Car parking and ground transportation	**32,697**	29,230	**96,297**	84,349
Concessions	**21,097**	18,724	**61,030**	53,626
Rentals	**13,759**	13,692	**41,696**	41,294
Other (Note 10)	**10,330**	12,873	**29,974**	36,788
	318,764	334,173	**908,437**	896,725
Operating Expenses				
Ground rent	**35,515**	37,405	**106,545**	112,129
Goods and services	**63,832**	63,273	**208,178**	194,463
Salaries, wages and benefits	**25,332**	25,707	**80,078**	80,972
Real property taxes and payments-in-lieu of real property taxes (Note 11)	**5,964**	5,678	**17,893**	17,014
	130,643	132,063	**412,694**	404,578
Revenues over expenses before interest and financing costs and amortization	**188,121**	202,110	**495,743**	492,147
Interest and financing costs (Note 3 and 10)	**110,513**	117,681	**333,203**	325,317
Amortization of property and equipment	**52,522**	55,162	**157,058**	170,292
Revenues over (under) expenses	**$ 25,086**	$ 29,267	**$ 5,482**	$ (3,462)

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

Nine-month period ended September 30, 2008 (unaudited)(in thousands)	**Balance, Beginning of Year**	**Unrealized Changes in Net Assets**	**Revenues Over Expenses**	**Transfers/ Allocations and Other**	**Use of Funds**	**Balance, End of Period**
Externally restricted						
Operating and maintenance reserve	**$ 61,175**	**$ -**	**$ -**	**$ (5,114)**	**$ -**	**$ 56,061**
Renewal and replacement reserve	**3,000**	**-**	**-**	**-**	**-**	**3,000**
Debt service fund - principal	**8,682**	**-**	**-**	**13,803**	**-**	**22,485**
	72,857	**-**	**-**	**8,689**	**-**	**81,546**
Internally restricted						
Airport improvement fees collected, net	**106,387**	**-**	**-**	**188,572**	**(131,715)**	**163,244**
Notional principal of long-term debt	**49,878**	**-**	**-**	**60,000**	**(37,878)**	**72,000**
Debt service coverage requirement	**128,463**	**-**	**-**	**(3,677)**	**-**	**124,786**
	284,728	**-**	**-**	**244,895**	**(169,593)**	**360,030**
Total Restricted net assets	**357,585**	**-**	**-**	**253,584**	**(169,593)**	**441,576**
Unrestricted						
Unrestricted net deficiency	**(713,154)**	**-**	**5,482**	**(83,991)**	**-**	**(791,663)**
Accumulated unrealized changes in net assets:						
Loss on hedge	**(8,659)**	**691**	**-**		**-**	**(7,968)**
Gain on interest rate swap	**11,368**	**(802)**	**-**		**-**	**10,566**
Unrestricted net deficiency	**(710,445)**	**(111)**	**5,482**	**(83,991)**	**-**	**(789,065)**
Total Net deficiency	**$ (352,860)**	**$ (111)**	**$ 5,482**	**$ 169,593**	**$ (169,593)**	**$ (347,489)**

Nine-month period ended September 30, 2007 (unaudited)(in thousands)	Balance, Beginning of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Period
Externally restricted						
Operating and maintenance reserve	$ 64,524	$ -	$ -	$ 5,676	$ (4,300)	$ 65,900
Renewal and replacement reserve	3,000	-	-	-	-	3,000
Debt service fund - principal	17,135	-	-	12,122	(25,540)	3,717
	84,659	-	-	17,798	(29,840)	72,617
Internally restricted						
Airport improvement fees collected, net	119,114	-	-	192,943	(162,600)	149,457
Notional principal of long-term debt	218,275	-	-	89,100	(255,532)	51,843
Debt service coverage requirement	85,923	-	-	36,600	(3,000)	119,523
	423,312	-	-	318,643	(421,132)	320,823
Total Restricted net assets	507,971	-	-	336,441	(450,972)	393,440
Unrestricted						
Unrestricted net deficiency	(819,590)		(3,462)	114,531	-	(708,521)
Accumulated unrealized changes in net assets:						
Loss on hedge	(9,581)	691	-	-	-	(8,890)
Gain on interest rate swap	12,437	(802)	-	-	-	11,635
Unrestricted net deficiency	(816,734)	(111)	(3,462)	114,531	-	(705,776)
Total Net deficiency	$ (308,763)	$ (111)	$ (3,462)	$ 450,972	$ (450,972)	$ (312,336)

Greater Toronto Airports Authority
Statement of Cash Flows

(unaudited)(in thousands)	Three Months Ended September 30 2008	Three Months Ended September 30 2007 (Note 16)	Nine Months Ended September 30 2008	Nine Months Ended September 30 2007 (Note 16)
Cash Flows from Operating Activities				
Revenues over (under) expenses	**$ 25,086**	$ 29,267	**$ 5,482**	$ (3,462)
Items not affecting cash				
Amortization of property and equipment	**52,522**	55,162	**157,058**	170,292
Writedown of reserve and other funds and other investments (Note 3)	**8,300**	17,200	**23,600**	17,200
Loss on disposal of property and equipment	**501**	3,373	**820**	3,680
Amortization of other assets	**302**	333	**907**	935
Increase in prepaid pension assets	**(171)**	-	**(1,539)**	-
Change in fair value of derivative, net	**(493)**	(470)	**377**	313
Changes in non-cash working capital				
Decrease (Increase) in accounts receivable	**6,762**	10,833	**(5,402)**	29,775
Decrease (Increase) in prepaid expenses	**966**	1,161	**(1,286)**	(186)
Decrease (Increase) in inventory	**715**	1,777	**(2,097)**	(118)
Increase (Decrease) in accounts payable, accrued liabilities and accrued interest	**11,848**	(35,527)	**6,135**	(29,815)
(Decrease) Increase in security deposits and deferred credits	**(342)**	1,322	**636**	21,839
	105,996	84,431	**184,691**	210,453
Cash Flows from Investing Activities				
Acquisition of property and equipment	**(349)**	(19)	**(922)**	(1,766)
Proceeds on disposal of property and equipment	**103**	692	**117**	915
Work in progress (Note 8)	**(52,773)**	(12,979)	**(141,164)**	(131,909)
Land acquisition costs and other assets	**-**	-	**-**	(14,033)
Other investments	**-**	(37,000)	**-**	(37,000)
Reserve and other funds	**(44,941)**	(62,247)	**(118,728)**	106,603
	(97,960)	(111,553)	**(260,697)**	(77,190)
Cash Flows from Financing Activities				
Issuance of medium term notes and long-term debt	**-**	-	**497,960**	796,425
Repayment of medium term notes and long-term debt	**(10,525)**	(9,853)	**(386,259)**	(895,609)
Bank indebtedness	**(521)**	(23,252)	**651**	2,685
Decrease in deferred ground rent payable	**(1,039)**	(1,039)	**(3,117)**	(3,117)
	(12,085)	(34,144)	**109,235**	(99,616)
Net Cash Inflow	**(4,049)**	(61,266)	**33,229**	33,647
Cash and cash equivalents, beginning of period	**187,100**	178,400	**149,822**	83,487
Cash and cash equivalents, end of period	**$ 183,051**	$ 117,134	**$ 183,051**	$ 117,134

As at September 30, 2008, cash and cash equivalents consisted of short-term investments of $183.0 million (2007 - $117.1 million). Bank indebtedness is net of outstanding cheques of $14.3 million (2007 - $21.4 million).

1. Basis of Presentation

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as the statements in the 2007 annual report. As these interim financial statements do not include all information required for annual financial statements, these notes should be read in conjunction with the notes to the 2007 consolidated financial statements published in the 2007 annual report of the Greater Toronto Airports Authority ("GTAA").

The GTAA's operations can be affected by seasonal fluctuations due to changes in customer travel demands. This seasonality could impact quarter-over-quarter comparisons.

2. New Accounting Changes

Effective January 1, 2008, the Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3031 – *Inventories.* Section 3031 provides guidance on the method of determining the cost of materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 did not materially impact the GTAA's financial statements.

3. 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)	**September 30 2008**	December 31 2007
Debt Service Fund		
Interest	**$ 104,376**	$ 96,203
Principal	**22,486**	8,682
	126,862	104,885
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**37,642**	36,863
Series 1999-1 due July 30, 2029	**40,943**	40,001
Medium Term Notes		
Series 2000-1 due June 12, 2030	**39,556**	38,623
Series 2000-2 due July 19, 2010	**27,785**	32,037
Series 2001-1 due June 4, 2031	**36,062**	35,226
Series 2002-1 due January 30, 2012	**31,794**	31,120
Series 2002-2 due December 13, 2012	**30,256**	29,615
Series 2002-3 due October 15, 2032	**39,124**	38,270
Series 2003-1 due June 2, 2008	**-**	19,389
Series 2004-1 due February 2, 2034	**39,655**	38,790
Series 2004-2 due February 4, 2009	**11,369**	11,148
Series 2005-1 due June 1, 2015	**18,033**	17,584
Series 2005-3 due February 15, 2016	**16,796**	16,471
Series 2006-1 due February 28, 2011	**11,215**	11,000
Series 2006-2 due October 24, 2008	**10,826**	12,329
Series 2007-1 due June 1, 2017	**22,306**	21,848
Series 2007-2 due May 14, 2010	**10,777**	12,943
Series 2008-1 due April 17, 2018	**26,543**	-
	450,682	443,257
Bank indebtedness secured by Series 1997 - A Bond	**10,107**	10,075
	460,789	453,332
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**56,061**	61,175
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund	**163,244**	106,387
Notional Principal Fund	**72,000**	49,878
Debt Service Coverage Fund	**124,786**	128,463
	419,091	348,903
	$ 1,006,742	$ 907,120

3. Reserve and Other Funds (continued)

The following reserve funds are restricted funds under the Master Trust Indenture: Debt Service Fund – Principal, Debt Service Reserve funds, Operating and Maintenance Reserve Fund and Renewal and Replacement Reserve Fund.

Asset Backed Commercial Paper

As at September 30, 2008, the GTAA held $182.2 million, face value of non-bank sponsored asset backed commercial paper ("ABCP"). Of this balance, $145.2 million, was held in reserve and other funds and $37.0 million (see Note 4, Other investments), which was originally held in cash and cash equivalents, was previously reclassified to non-current other investments on the balance sheet.

At the time of purchase, all of the trusts in which the GTAA's investments in ABCP were rated R-1 (high) by Dominion Bond Rating Service ("DBRS") which is the highest possible rating for commercial paper and a permitted investment under the terms of the GTAA's Master Trust Indenture (the "Trust Indenture") which governs the GTAA's reserve funds. The maturity dates of the ABCP held in these trusts ranged from August 28, 2007 to September 25, 2007 however, none were redeemed at maturity.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") announced the approval of an agreement in principle to restructure the ABCP issued by 20 trusts, including all of the issuing trusts which issued ABCP held by the GTAA.

On March 17, 2008, the Committee filed an application in the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act ("CCAA") asking the Court to call a meeting of ABCP noteholders to vote on a plan of restructuring broadly in-line with the plan proposed by the Committee on December 23, 2007.

As a result of the CCAA application, on March 19, 2008, DBRS withdrew its ratings on all of the affected ABCP. As a result, the ABCP held by the GTAA no longer meets the definition of qualified investments in the Trust Indenture, and as a result the GTAA is not in compliance with the requirement in the Trust Indenture that all money held in any account, fund or reserve fund established under the Trust Indenture be held in cash or invested in qualified investments. The notes that the GTAA expects to receive under the restructuring plan would not meet the definition of a qualified investment under the Trust Indenture by virtue of their expected credit rating and/or term to maturity. The GTAA is of the view that the non-compliance is not of a nature which would give rise to an event of default for purposes of the Trust Indenture, which requires among other things, that any non-compliance must materially adversely affect bondholders. As of the date of this report, no event of default as defined in the Trust Indenture has occurred.

3. Reserve and Other Funds (continued)

On March 20, 2008, the Committee issued an information statement containing details about the proposed restructuring. The restructuring plan was voted on and approved on April 25, 2008. The Court approved the restructuring on June 5, 2008 however several noteholders appealed the Court ruling. The Ontario Court of Appeal heard this appeal on June 25 and 26, 2008 and subsequently released its ruling upholding the original Court ruling. As a result of this ruling, a group of noteholders sought leave to appeal the ruling to the Supreme Court of Canada. On September 18, 2008 the Supreme Court of Canada denied the leave to appeal, resulting in the original Court approval of the restructuring remaining in place.

Based on the proposed restructuring and other public information it is estimated that, of the face value of $182.2 million of ABCP in which the GTAA has invested:

- $2.1 million consists of traditional securitized assets for which the GTAA will, on restructuring receive replacement Traditional Asset ("TA") tracking long-term floating rate notes with a term of approximately five years;
- $142.2 million consists of a combination of leverage collateralized debt, synthetic assets and traditional securitized assets for which the GTAA will, on restructuring, receive replacement senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term floating rate notes with terms of maturity of approximately eight to nine years. The GTAA expects to receive replacement notes with par values as follows:
  - Class A-1: $66.1 million – expected AA rating by DBRS
  - Class A-2: $61.3 million – expected AA rating by DBRS
  - Class B: $10.5 million – unrated
  - Class C: $ 4.3 million – unrated
- $37.9 million of traditional securitized assets with an exposure to US mortgages and sub-prime mortgages for which the GTAA would, on restructuring, receive replacement Ineligible Asset ("IA") tracking long-term floating rate notes with terms of maturity ranging from five to twenty-two years.

The valuation technique used by the GTAA to estimate the fair value of its investment in ABCP at September 30, 2008, incorporates probability weighted discounted cash flows derived from several scenarios considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the information statement issued by the Committee and the risks associated with each of the long-term floating rate notes. Assumptions regarding the interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses used in estimating the fair value include:

3. Reserve and Other Funds (continued)

	Class A-1	Class A-2	Class B	Class C	TA Notes	IA Notes
Interest rate	3.27%	3.27%	3.27%	3.27%	4.20%	4.20%
Discount rate(1)	7.48%	7.48%	50.00%	10.00%	7.48%	7.48%
Approximate term	8 years	8 years	8 years	8 years	5 years	5 to 22 years
Credit loss	nil	nil	nil	nil	nil	37.5%

(1) For Class B and C Notes, the indicated rate is the fair value as a per cent of face value and not the discount rate. For IA Notes, the discount rate is applied after the credit provision.

Two benchmarks were utilized to determine the discount rates used in estimating the fair value of the Class A-1 and A-2 Notes as at September 30, 2008. One method used Bankers' Acceptance rates plus expected spreads for "AA" rated financial institution debt with similar maturities. This benchmark was chosen as an indicative of the market discount factor that would be applied to the restructured securities as financial institution credit spreads are considered to be at historically wide spreads relative to other similarly rated debt due to many of the same uncertainties that the restructured notes face, such as structured product and derivative exposure and counterparty risk. While the restructured notes are subject to credit enhancements such as restructured and remote margin call provisions, cross-collateralization and a dedicated margin funding facility which support a high credit rating, an additional 150 basis points was added to the discount rate of the Class A-1 and Class A-2 Notes, respectively to further reflect the uncertainties surrounding these specific instruments and liquidity premiums in the current credit market. This benchmark was allocated a weighting of 25% in determining the discount rate at September 30, 2008. The second benchmark, weighted 75%, used to determine the appropriate discount rate utilized the spread or premium paid on the CDX.NA.IG five-year index to determine the appropriate spread over seven year government bond rates. The CDX index was chosen in addition to the financial institution spread as it is an alternate indicator of investment grade credit market conditions and provides a second measure of investor sentiment in what continue to be uncertain markets. The five-year index was utilized as it is the most liquid index and is considered to provide a more accurate indication of market levels than the less liquid seven-year index. In periods prior to the second quarter of 2008, the GTAA did not incorporate the CDX index in the valuation methodology as disruptions in credit markets (primarily related to the U.S. sub-prime mortgage sector) resulted in low liquidity and high levels of volatility in the index which the GTAA believes made it a poor indicator in assessing the fair value of the restructured notes.

The Class B and C Notes were valued on an equity basis at 50% and 10% of face value, respectively, (resulting in a fair value provision of 50% and 90% respectively) indicative

3. Reserve and Other Funds (continued)

of their subordination as to payment of both principal and interest under the restructuring proposal.

While the majority of the assets that will be placed in the IA Tracking Note pools continue to carry investment grade ratings, the IA Tracking Notes were given an initial credit provision of 37.5% consistent with the default probability rates of an investment rating below "CCC." This fair value provision reflects continued uncertainty surrounding the U.S. sub-prime mortgage market. Due to the substantial credit provision taken against the IA Tracking notes, the discount rate applied in the valuation methodology was determined using the approach described above and is consistent with that applied to the Class A-2 Notes. It was not considered appropriate to apply a below investment grade credit discount rate to this category as this would effectively double count the credit provision. The GTAA expects to receive three IA Tracking Notes as part of the restructuring, each with differing underlying credit quality. All three were valued using the same credit provision and discount rate discussed above which the GTAA believes is appropriate for the lowest credit quality amongst the IA Tracking Notes.

The TA tracking notes were discounted at the same rate as the Class A-1 notes, reflecting their high credit quality.

An increase of 1.0% in the weighted average discount rate would reduce the estimated fair value of the GTAA's investment in ABCP by approximately $7.7 million.

One of the cash flow scenarios considered is a liquidation scenario whereby, if the restructuring was not successfully completed, recovery of the GTAA's investment is through the liquidation of the underlying assets of the ABCP trusts. This scenario was assigned a probability of 2.0% (consistent with the June 30, 2008 valuation). Notwithstanding final Court approval of the restructuring, due to the current state of the credit markets there remains some risk that the restructuring may not be completed and a liquidation scenario may occur.

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's ABCP of $121.5 million as at September 30, 2008. This was a decrease of $8.3 million from the June 30, 2008 estimated fair value. Therefore, the GTAA has recorded an additional impairment charge in respect of its ABCP holdings for the quarter ended September 30, 2008 of $8.3 million. The total impairment charge recognized is approximately 33.3% of the original value.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to further material change in the value of the GTAA's investment in ABCP.

3. Reserve and Other Funds (continued)

The GTAA has sufficient cash and other sources of liquidity available to meet its reserve requirements, and to fund its operating, capital and financing obligations, and does not expect that its operations will be materially affected by the current uncertainty over the carrying value of its ABCP investments.

4. Other Investments

As at September 30, 2008, the GTAA held $37.0 million in other investments which have been classified as available-for-sale. For the quarter ended September 30, 2008, the GTAA recognized a $1.5 million fair value impairment in respect of its ABCP holdings included in other investments (see Note 3, Reserve and other funds). The estimated fair value of the ABCP held in other investments is approximately $24.3 million.

5. Airport Improvement Fees

Airport improvement fees ("AIF") reported in the statement of operations, are recorded net of airline administration charges of $8.1 million for the nine-month period ended September 30, 2008 (September 30, 2007 - $8.1 million).

6. Other Assets

(in thousands)	September 30, 2008		
	Cost	**Accumulated Amortization**	**Net Book Value**
Deferred leasehold inducements	**$ 6,107**	**$ 1,736**	**$ 4,371**
Land acquisition costs	**26,139**	**1,022**	**25,117**
	$ 32,246	**$ 2,758**	**$ 29,488**
Fair value of OPA derivative			**38,915**
			$ 68,403

(in thousands)	December 31, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
Deferred leasehold inducements	$ 6,107	$ 1,219	$ 4,888
Land acquisition costs	26,139	631	25,508
	$ 32,246	$ 1,850	$ 30,396
Fair value of OPA derivative			39,291
			$ 69,687

The aggregate amortization expense in respect of other assets for the nine-month period ended September 30, 2008 was $0.9 million (September 30, 2007 - $0.9 million) and is included in goods and services expense on the statement of operations. There were no additions to other assets during the nine-month period ended September 30, 2008 (September 30, 2007 - $57.0 million).

On February 1, 2006, the GTAA entered into a Clean Energy Supply Contract ("CES") 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.

Upon adoption of financial instruments, the contract was determined to be a derivative to be carried at fair value. The fair value of the derivative as at September 30, 2008 was $38.9 million. For the nine-month period ended September 30, 2008, the GTAA realized an increase in the fair value of the derivative of approximately $3.4 million which was recorded in goods and services expense on the statement of operations, and received cash proceeds of $3.8 million which reduced the carrying value of the derivative.

Upon adoption, the GTAA also recorded a deferred credit of $42.0 million which is being amortized over 20 years. The unamortized balance at September 30, 2008 was $38.2 million.

7. Property and Equipment

Property and equipment are comprised of:

(in thousands)	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Terminal Assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	**$ 5,174,579**	**$ 582,235**	**$ 4,592,344**
Baggage handling systems	**276,414**	**50,135**	**226,279**
	5,450,993	**632,370**	**4,818,623**
Airside Assets			
Improvements to leased land	**9,480**	**1,849**	**7,631**
Runways and taxiways	**383,858**	**46,690**	**337,168**
Deicing facilities	**29,906**	**6,269**	**23,637**
	423,244	**54,808**	**368,436**
Other Assets			
Utilities and stormwater management facilities	**343,078**	**48,295**	**294,783**
Operating assets	**604,714**	**375,598**	**229,116**
Capital leases	**11,407**	**9,192**	**2,215**
	959,199	**433,085**	**526,114**
	$ 6,833,436	**$ 1,120,263**	**$ 5,713,173**

(in thousands)	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Terminal Assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	$ 5,173,809	$ 492,199	$ 4,681,610
Baggage handling systems	276,053	41,827	234,226
	5,449,862	534,026	4,915,836
Airside Assets			
Improvements to leased land	9,480	1,731	7,749
Runways and taxiways	383,431	41,349	342,082
Deicing facilities	29,906	5,813	24,093
	422,817	48,893	373,924
Other Assets			
Utilities and stormwater management facilities	342,003	40,901	301,102
Operating assets	589,682	336,740	252,942
Capital leases	11,329	7,951	3,378
	943,014	385,592	557,422
	$ 6,815,693	$ 968,511	$ 5,847,182

8. Work in Progress

(in thousands)	Beginning of Year	Additions/ Adjustments	Transfers to Property and Equipment	End of Period
Airside Development Project	$ -	$ 38	$ (38)	**$ -**
Terminal Development Project	96,388	141,406	(3,061)	**234,733**
	96,388	141,444	(3,099)	**234,733**
Restoration Projects	40,502	5,649	(12,351)	**33,800**
T3 Redevelopment	39,669	8,027	(8,558)	**39,138**
	$ 176,559	$ 155,120	$ (24,008)	**$ 307,671**

As at September 30, 2008, work in progress included capitalized interest and financing costs in the amount of $24.3 million (December 31, 2007 – $16.6 million).

9. Credit Facility and Long-Term Debt

During the nine-month period ended September 30, 2008, the GTAA redeemed the 2003-1 medium term note with a face value of $375 million. In addition, during the nine-month period ended September 30, 2008, the GTAA issued the 2008-1 medium term note with a face value of $500 million for total gross proceeds of $498 million.

As at September 30, 2008, long-term debt including accrued interest consisted of:

(in thousands) Series	Coupon Rate	Maturity Date	September 30 2008	December 31 2007
Revenue Bonds, *See below*				
1997-3	6.45%	December 3, 2027	**$ 377,464**	$ 371,404
1999-1	6.45%	July 30, 2029	**455,676**	473,363
Medium Term Notes				
2000-1	7.05%	June 12, 2030	**559,572**	550,019
2000-2	6.70%	July 19, 2010	**609,379**	619,965
2001-1	7.10%	June 4, 2031	**506,499**	497,698
2002-1	6.25%	January 30, 2012	**504,166**	511,859
2002-2	6.25%	December 13, 2012	**481,939**	474,364
2002-3	6.98%	October 15, 2032	**567,800**	558,270
2003-1	5.17%	June 2, 2008	**-**	375,762
2004-1	6.47%	February 2, 2034	**599,518**	609,285
2004-2	4.45%	February 4, 2009	**251,450**	253,734
2005-1	5.00%	June 1, 2015	**352,353**	347,763
2005-3	4.70%	February 15, 2016	**349,967**	353,990
2006-1	4.40%	February 28, 2011	**249,046**	251,269
2006-2, *See below*	floating	October 24, 2008	**352,260**	352,875
2007-1	4.85%	June 1, 2017	**454,229**	448,719
2007-2, *See below*	floating	May 14, 2010	**350,842**	351,178
2008-1	5.26%	April 17, 2018	**509,059**	-
			7,531,219	7,401,517
Capital Leases			**1,643**	2,527
Province of Ontario				
Interest-free loan, payable in five equal annual installments commencing 2011			**18,805**	17,995
			7,551,667	7,422,039
Less current portion (including accrued interest)			**727,096**	836,228
			$ 6,824,571	$ 6,585,811

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

Interest expense from the GTAA's debt instruments for the nine-month period ended September 30, 2008 amounted to $321.4 million (September 30, 2007 – $324.2 million). Cash paid during the nine-month period ended September 30, 2008 for interest amounted to $313.0 million (September 30, 2007 - $322.1 million).

For Series 2006-2 and 2007-2 the interest rates are adjusted quarterly at the three-month Bankers' Acceptance rate plus 14 basis points and 11 basis points, respectively. From January 1, 2008 to September 30, 2008, interest rates ranged from 3.37% to 4.90% (January 1, 2007 to September 30, 2007 – 4.49% to 4.87%) for Series 2006-2 and from 3.28% to 4.82% for Series 2007-2 (January 1, 2007 to September, 2007 – 4.48% to 4.96%).

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

As at September 30, 2008, the fair value of the long-term debt was $7.5 billion (December 31, 2007 - $7.9 billion).

With the exception of Series 2006-2 and 2007-2, interest is payable semi-annually from the interest payable commencement date, based on fixed rates. Series 2006-2 and 2007-2, interest is payable quarterly from the interest payable commencement date, based on floating rates.

With the exception of Series 2003-1, Series 2004-2, Series 2006-1, Series 2006-2, and Series 2007-2 medium term notes, which are not redeemable, the notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facility

The GTAA maintains a Credit Facility with a syndicate of six Canadian banks. The Credit Facility is secured by a $550 million pledge bond issued pursuant to the Trust Indenture. Indebtedness under the Credit Facility ranks *pari passu* with other indebtedness issued under the Trust Indenture. Under this Credit Facility, the GTAA is provided with a $500 million facility for general corporate purposes and capital expenditures, and a $50 million facility for interest rate and foreign exchange hedging activities. The facility was extended in the prior year and is due November 22, 2010. The facility can also be extended annually for an additional year with the lenders' consent.

As at September 30, 2008, no funds were drawn on the facility (December 31, 2007 – n/a). As at September 30, 2008, a letter of credit for $2.25 million was outstanding against the facility (December 31, 2007 - $2.25 million) (see Note 13, Commitments and contingent

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

liabilities). 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 during the nine-month period ended September 30, 2008 would have ranged from 3.23% to 6.00% (September 30, 2007 – 4.69% to 6.25%).

10. Interest and Financing Costs

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

	Three months ended September 30		Nine months ended September 30	
(in thousands)	**2008**	2007	**2008**	2007
Interest and financing costs incurred	**$ 118,153**	$ 126,612	**$ 355,719**	$ 357,879
Less:				
Interest earned on the Debt Service Reserve Fund	**(3,677)**	(5,865)	**(12,480)**	(19,105)
Capitalized interest	**(3,963)**	(3,066)	**(10,036)**	(13,457)
	$ 110,513	$ 117,681	**$ 333,203**	$ 325,317

Included in interest and financing costs incurred is a $23.6 million fair value impairment in respect of the GTAA's ABCP holdings for the nine-month period ended September 30, 2008 (September 30, 2007 – $17.2 million) (see Note 3, Reserve and other funds).

Included in other revenues on the statement of operations for the nine-month period ended September 30, 2008 is $10.4 million (September 30, 2007 - $16.6 million) in interest earned on cash and cash equivalents and other reserve funds.

11. 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.

12. Related Party Transactions

Directors' fees expense for the nine-month period ended September 30, 2008 was $617,312 (September 30, 2007 - $429,775).

13. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at September 30, 2008 of approximately $223.7 million (December 31, 2007 - $262.5 million).

Letter of Credit

A letter of credit for $2.25 million was outstanding at September 30, 2008 (see Note 9, Credit facility and long-term debt), relating to the GTAA's CES Contract with the OPA. The letter of credit expires April 11, 2009.

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 9, Credit facility and long-term debt), the GTAA has agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The GTAA has undertaken significant transportation infrastructure work in meeting this requirement.

Boeing Lands

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of $30 million. These lands will be transferred by Boeing in stages. The first parcel representing 16.1 hectares of land was conveyed on May 29, 2006 and the remaining lands will be conveyed from time to time over a maximum period of 20 years from that date. While the GTAA retains use of the land, title to the first parcel has been transferred to the federal government as required under the terms of the Ground Lease. Deposits totalling $4.7 million, which were recorded in work in process, have been made and will be applied to the purchase price of the future parcels.

13. Commitments and Contingent Liabilities (continued)

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for 2008. Official declarations of its status occur every 90 days to account for the potential of change in the insurance industry. As part of the original Order in Council of September 2001, the GTAA was required to purchase a $50 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place for 2008.

Cogeneration Facility

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

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 reserves have been recorded.

Air France

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, is a defendant in nine lawsuits, including a class action lawsuit involving most passengers and their family members. The GTAA's insurers are defending the lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

14. Capital Risk Management

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, any funds generated by the GTAA are used to cover costs within its mandate.

As at September 30, 2008, a net deficiency existed amounting to $347.5 million. The GTAA has established within its net assets (deficiency), funds for operational requirements and debt-related obligations. The net assets (deficiency) consist of three components: externally restricted, internally restricted and unrestricted.

Externally Restricted

A portion of the net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund and the Debt Service Fund – Principal (see Note 3, Reserve and other funds) set out in the Trust Indenture (see Note 9, 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 3, 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 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 with debt. The GTAA developed a financing plan referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under the Trust

14. Capital Risk Management (continued)

Indenture dated December 2, 1997, and supplemented from time to time, which establishes common security and a set of common covenants by the GTAA for the benefit of its lenders. The security comprises an assignment of the revenues of the GTAA, a specific charge on certain funds, reserve funds and accounts, an unregistered first leasehold mortgage of the GTAA's leasehold interest in the Airport and a guarantee and related collateral security of subsidiaries as designated from time to time. The Debt Service Reserve Funds are funded from the proceeds of each bond or medium term note issue (see Note 3, 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 September 30, 2008, the GTAA was not in default of the trust indenture as defined therein.

15. Subsequent Event

On October 24, 2008, the Series 2006-2 medium term note matured. This $350 million medium term note was repaid using a combination of cash and investments and a $180 million draw on the GTAA's syndicated bank credit facility.

16. Comparative Figures

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