GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
DATED MARCH 23, 2006

Forward-Looking Statements

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

This report discusses the financial and operating results for the Greater Toronto Airports Authority ("GTAA") for the year ended December 31, 2005 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2005 and 2004. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements are also available on its website at www.gtaa.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital, and recognized as a Canadian Airport Authority by the federal government in November 1994. The GTAA is authorized to operate airports within the Greater Toronto Area ("GTA") on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA is currently managing and operating Toronto Pearson International Airport (the "Airport" or "Toronto Pearson").

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

BUSINESS STRATEGY AND MISSION

The GTAA remains focused on providing quality aviation facilities at Toronto Pearson, recognizing that the region's current and future demand for air travel is expected to continue to grow. To meet this anticipated demand the GTAA has undertaken the Airport Development Program ("ADP"), as well as the redevelopment of Terminal 3. The GTAA is also pursuing methods to improve operational efficiencies. The GTAA has developed the following mission statement:

> "To develop and operate for the public benefit, an airport system which supports the economic development and cultural diversity of south central Ontario and Canada, providing aviation facilities and services that achieve:
> - The highest standards of safety and security;
> - Excellence in customer service;
> - Environmental stewardship and sustainability; and
> - Cost effectiveness and efficiency.
>
> This mission will be achieved through:
> - Developing a skilled and dedicated work force;
> - Maximizing technology innovation; and
> - Excellence in corporate governance."

The mission of the GTAA establishes its operational priorities and guides its capital decision making. Cost effectiveness, includes not only ensuring that the GTAA receives value for monies spent, but also an increasing focus on the generation of non-aeronautical revenue from various sources. The capital investment priorities of the GTAA are to replace aging infrastructure where required, design and construct facilities based on current and future travel demands, optimize the utility of the Airport's infrastructure through common use strategies, and ensure effective life cycle management and management of capital projects.

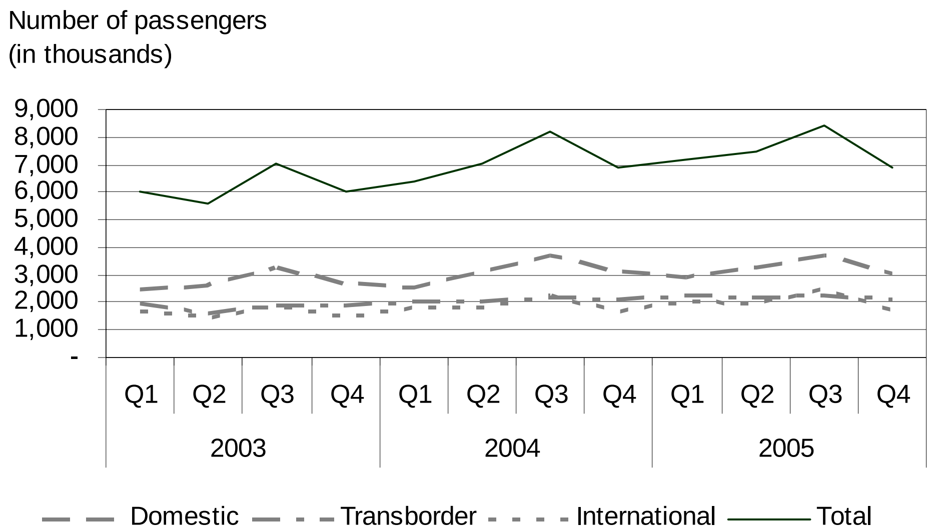
The ADP, a major capital program which includes the construction of passenger facilities, runways, taxiways, utilities, roadways and other facilities, and the redevelopment of Terminal 3 and other capital projects have required ongoing capital funding. The GTAA is a non-share capital corporation and therefore has established a program to access the debt capital markets on an ongoing basis to fund its various capital programs. The criteria, covenants and restrictions for financing by the GTAA are set out in the master trust indenture (the "Trust Indenture") and are described in the section on Liquidity and Capital Resources. With the ADP and redevelopment of Terminal 3 nearing completion, the GTAA's annual debt capital requirements for these projects are expected to reduce over time.

OPERATING ACTIVITY

The GTAA monitors passenger activity levels and aircraft movements, including the type and size of aircraft, as both passenger and aircraft activity have a direct impact on financial results. In 2004 and 2005, the Airport experienced a recovery from the significant negative impacts on activity levels caused by the terrorist attacks of September 11, 2001 and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Toronto in 2003.

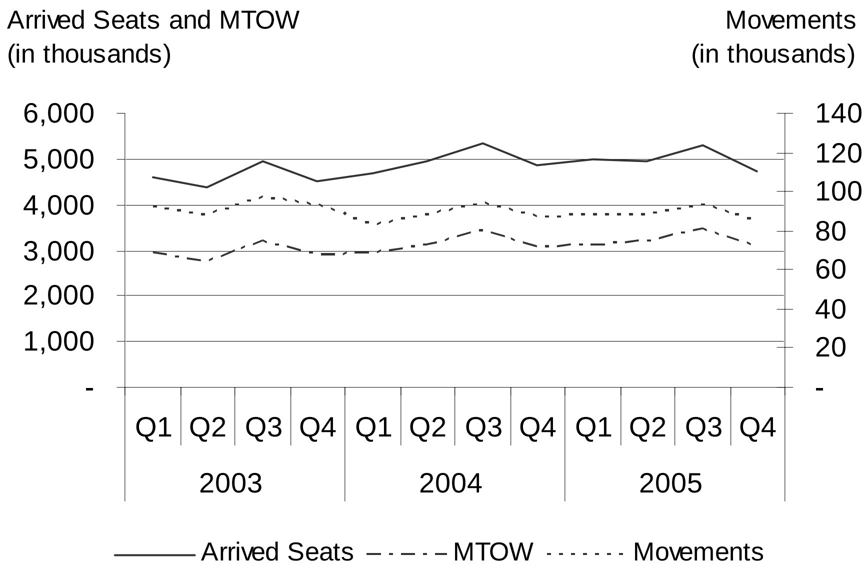
Total passenger traffic at the Airport in 2005 was 29.9 million passengers, an increase of 4.5% from the 2004 level of 28.6 million passengers. Each of the three traffic sectors at the Airport demonstrated different rates of passenger growth during 2005. The domestic sector, or passengers traveling within Canada, showed slight year-over-year growth of 2.1% in 2005. The transborder sector, or passengers traveling between Canada and the United States, showed stronger growth at 4.5% year-over-year. The greatest growth was in the international sector, or passengers traveling between Canada and destinations outside of Canada and the United States, which in 2005 was up 7.9% over 2004. Total passengers in each sector for 2004 and 2005 respectively, were: domestic, 12.6 million and 12.9 million; transborder, 8.4 million and 8.8 million; and international, 7.6 million and 8.2 million.

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



Flight activity is measured by aircraft movements, including the type and size of aircraft, which determines the Maximum Takeoff Weight ("MTOW") and the number of seats. These are used to calculate airline charges for each flight. Load factors, or the number of passengers on a plane, continued to be higher in 2005 than experienced in prior years as air carriers did not add flights at the same rate as passenger activity increased.

Consequently, MTOW did not increase as much as passenger traffic. MTOW for 2005 was 12.8 million tonnes, as compared to 12.6 million tonnes in 2004, an increase of 1.6%. The combination of high load factors and changes in the type of aircraft operated resulted in a minimal 0.3% decrease in total arrived seats in 2005 compared to 2004. Total movements increased 0.3% in 2005 over 2004. The following graph illustrates the arrived seats, MTOW and movements (in thousands) for the past three years, by quarter:



OPERATING EVENTS

There were several events during 2005 which impacted operational or financial results at the Airport. On March 11, 2005, Jetsgo Corporation ("Jetsgo") ceased operations and was granted protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"). Jetsgo has subsequently filed for bankruptcy. The GTAA has filed a claim for approximately $5.7 million for all amounts due from Jetsgo, including GST. The GTAA believes that Jetsgo ceasing operations had a slight negative impact on passenger levels during the year, particularly in the domestic sector. Portions of Jetsgo traffic was picked up by other domestic air carriers, although the full impact of Jetsgo ceasing operations on domestic activity is difficult to quantify.

As a result of the space formerly used by Jetsgo becoming available in Terminal 3, the GTAA and WestJet Airlines Ltd. ("WestJet") agreed to move WestJet's operations from Terminal 2 to Terminal 3 in June 2005. In addition to more efficient use of Airport facilities, this move enabled the acceleration of demolition of certain areas at the west end of Terminal 2.

On August 2, 2005, Air France Flight 358 overshot Runway 24L/06R and flight activity at the Airport was very limited for approximately 5.5 hours while emergency crews responded to the situation. All 309 passengers and crew on the flight survived, although some injuries were reported. The incident was investigated by the Transportation Safety Board and their report has not yet been filed. The investigation and subsequent repairs to the area, including runway lighting, resulted in Runway 24L/06R being closed for operations until August 12, 2005.

The Toronto area also experienced several days of severe weather in August, which combined with the impact of the Air France incident resulted in traffic for the month being approximately 1.0% below that experienced in August 2004.

During 2005 several air carriers expanded their operations at Toronto Pearson and several new air carriers commenced operations at the Airport.

On November 1, 2005, ten additional bridged gates on Pier E were opened for domestic and international arrivals and departures. The use of these new gates for some international departures has reduced the reliance on the Infield Terminal and consequently some of the bussing requirements. The remaining international operations will be moved from the Infield Terminal to Pier F in early 2007, when it becomes operational.

During the fall of 2005, the GTAA was commissioning and testing its new co-generation plant which was constructed to ensure a reliable source of electricity for the GTAA. The facility was substantially complete on December 31, 2005. The co-generation plant has the capacity to provide the required electricity and steam for the Airport and any excess electricity may be sold to the Provincial power grid. Nonetheless, the GTAA will continue to be able to purchase electricity from the Ontario power market thus ensuring redundant supply and a choice between purchasing and generating power depending on which source provides the lowest cost.

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach in setting its rates and charges, together with its financial results. In reviewing the financial results, it is important to note that the GTAA is a non-share corporation. Accordingly, the GTAA's financial model is based on the premise that all funds, whether generated through revenue or debt, will be used for Airport operations, ancillary aviation related activities, construction, repairs and maintenance, debt payments, reserve funds and other activities within the GTAA's mandate.

Rate Setting Approach

The objective of the GTAA's rate setting approach is to break-even on a modified cash basis after including the reserve and debt requirements as set out in the Trust Indenture. Aeronautical rates and charges are set by the GTAA annually to cover the projected operating costs on a break-even cash basis for each year. To calculate the rates and charges for the subsequent year, projections are developed for passenger activity, air traffic (number of movements and MTOW), non-aeronautical revenue, operating costs and capital costs, including debt service (interest and principal). In calculating these rates in a given year, certain capital expenses, such as debt service, reserve funds and reinvestment requirements for facilities that are operating or will be operating for a portion or all of the year, are included. The amortization of these operating assets is not included in the rate calculations. In addition, capital costs, including interest, for projects under construction are funded through debt. The debt payments are not included in the annual rates and charges until the assets become operational.

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

Net Operating Results

The GTAA's net operating results for the three years ended December 31, 2005, 2004 and 2003, are summarized in the following table:

(in thousands)	2005	2004	2003
Revenues	$ 953,674	$ 832,014	$ 646,863
Operating expenses	527,992	487,988	460,068
Revenues over expenses[1]	425,682	344,026	186,795
Interest and financing costs	334,400	267,973	157,086
Amortization	209,638	188,389	96,479
Revenues under expenses	$(118,356)	$(112,336)	$ (66,770)

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

Revenues over expenses before interest and financing costs and amortization increased from $344.0 million for the year ended December 31, 2004 to $425.7 million for the year ended December 31, 2005. This increase of 23.7% was primarily the result of increased landing fee revenues to cover the increased debt service costs associated with Terminal 1 and other new assets becoming operational, and increased passenger traffic generating more AIF revenue, offset by some additional expenses. Interest and financing costs were $268.0 million for 2004 as compared to $334.4 million for 2005 reflecting a full year of interest expense in respect of Terminal 1 and its ancillary facilities. The above table demonstrates that for each year, the revenues generated by the GTAA were more than sufficient to cover operating expenses and interest and financing costs. In accordance with its rate setting approach, the GTAA expects that revenues and reserve funds applied will continue to be sufficient to cover operating expenses and interest and financing costs, including the principal included in the rate setting calculation.

The financial results reported by the GTAA include certain non-cash items, such as amortization and the deferral of some ground rent payments. As noted in the description of the rate setting approach, these non-cash items are not included in the calculation of aeronautical rates and charges. The amount of deferred ground rent included as an expense, but not included as a cash payment, was $21.0 million in 2004 and $10.5 million in 2005. After amortization, the net revenue under expenses for 2004 was $112.3 million as compared to $118.4 million for 2005. The increase in amortization reflects the new Terminal 1 becoming operational in April 2004, and the additional gates on Pier E of Terminal 1 becoming operational in November 2005. In 2005 amortization exceeded the principal component included in the landing fee by $128.5 million. Consistent with many infrastructure developments, the GTAA's net revenues may not be sufficient to cover amortization for a period of several years, resulting in the GTAA reporting revenues under total expenses.

Revenues

Revenues are received from aeronautical charges (landing fees and general terminal charges), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions and rentals, and other sources. Landing fees are based on MTOW; general terminal charges are based on the number of seats in an aircraft using a passenger terminal; AIF is charged per passenger; and parking and other activities are dependent on passenger levels. Consequently, the primary drivers for revenue are aircraft movements and passenger activity. The relationship between these revenue sources and expenses was discussed in the section on Rate Setting Approach. The following chart summarizes the GTAA's revenues for the years ended December 31, 2005, 2004 and 2003:

(in thousands)	2005	2004	2003
Landing fees	$ 405,874	$ 338,008	$ 246,771
General terminal charges	157,206	145,455	113,663
Airport improvement fees, net	175,425	142,235	105,857
Car parking and ground transportation	96,115	89,074	76,556
Concessions and rentals	110,775	107,738	98,812
Other	8,279	9,504	5,204
	$ 953,674	$ 832,014	$ 646,863

Total aeronautical revenue for the year ended December 31, 2004 was $483.5 million, as compared to $563.1 million for the year ended December 31, 2005. The increase reflects increased landing fees as a result of additional debt service costs, based on a full year of operations at Terminal 1 and associated facilities and other costs. Accordingly, the increase in the landing fee component was greater than the increase in general terminal charges. However, the load factor, or ratio of passengers to seats, was higher than expected in 2005 and therefore the revenues received from aeronautical sources were slightly below the projections of the GTAA. The GTAA believes that the increased load factors reflect Jetsgo passengers shifting to other air carriers and efforts by carriers to operate at higher load factors to improve their efficiencies. This trend is expected to continue, at least in the short term, and has been incorporated in the passenger and flight activity projections used for setting the aeronautical rates and charges for 2006.

AIF revenue, which is net of the commission paid to the air carriers for the collection of the AIF, increased from $142.2 million in 2004 to $175.4 million in 2005. During 2004 the rates for the AIF were $12 for an originating passenger and $8 for a connecting passenger. These rates remained in effect until November 1, 2004 when the GTAA implemented an increase in the AIF to $15 for an originating passenger and the rate for connecting passengers remained at $8. The increase in AIF revenue in 2005 reflects the rate change and the increase in passenger volumes for 2005 as compared to 2004.

Under the terms of the AIF agreements with the air carriers, the GTAA has committed that AIF revenue will be used primarily for capital programs at Toronto Pearson, including associated debt service (interest and principal) and reserve funds. Historically the GTAA has used AIF revenue to fund debt service, but it retains the option of funding capital projects directly with AIF revenue. Recognizing that capital expenditures and the receipt of AIF revenue may not occur in the same period, AIF revenue earned and collected, but not utilized in any given period, is invested in the AIF Reserve Fund for future capital or debt service payments. In 2004, $142.2 million of AIF revenue was earned and $140.6 million was used for capital projects or debt service. This compares to $175.4 million earned and $162.0 million used during 2005, with the difference from each year held in the AIF Reserve Fund.

The GTAA also receives fees or rental payments from car parking, ground transportation, concessions, space rental and other rental properties. In total, these categories generated $196.8 million in 2004 as compared to $206.9 million in revenue in 2005. This increase of 5.1% is largely attributable to the higher passenger volumes resulting in increased sales and some agreements tied to passenger volumes. The GTAA continues to focus on new initiatives to increase these non-aeronautical revenues beyond passenger growth, including additional advertising as well as reviewing leasing and development opportunities. One negative impact which was recognized in the last quarter of 2005, and is expected to continue in 2006, is the loss of cash-and-carry duty free for those international flights being gated on Terminal 1. Due to domestic and international departing passengers having access to these gates in Terminal 1, the duty free operator is required to deliver purchases to the gate of the aircraft. It is anticipated that the opening of Pier F in 2007 will provide greater opportunities to generate non-aeronautical revenue, especially with the increased retail and food and beverage facilities.

Other revenue, which includes interest on reserve funds and investments, decreased slightly from $9.5 million in 2004 to $8.3 million in 2005. This revenue will fluctuate depending on the timing of debt issues, interest rates and the use of capital funds throughout the year.

Operating Expenses

The GTAA's operating expenses include the cost to operate and maintain the Airport, together with interest and financing costs and the amortization of capital assets. As noted previously, the operating expenses that are reported in the financial statements are on an accrual basis and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization is not included in the landing fee, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the landing fee calculation. The following chart summarizes the GTAA's operating expenses for the years ended December 31, 2005, 2004 and 2003:

(in thousands)	2005	2004	2003
Ground rent	$ 144,423	$ 130,394	$ 125,211
Goods and services	262,281	237,943	223,426
Salaries, wages and benefits	98,701	95,553	85,504
Real property taxes and PILT	22,587	24,098	25,927
	527,992	487,988	460,068
Interest and financing costs	334,400	267,973	157,086
Amortization of capital costs	209,638	188,389	96,479
	$1,072,030	$ 944,350	$ 713,633

The Ground Lease sets out the calculation of the annual ground rent payable by the GTAA to the federal government based on a fixed amount per revenue passenger, adjusted for inflation. In July 2003, the Minister of Transport announced a 24-month ground rent deferral program which had the effect of reducing the ground rent paid by $10.0 million in 2003, $21.0 million in 2004 and $10.5 million in 2005. However, the GTAA has the obligation to repay the deferred amount over 10 years, commencing on January 1, 2006, and therefore the full ground rent expense has been recorded for each period, with an offsetting liability recorded on the balance sheet. The deferred rent did reduce the cash requirement for ground rent each year, and the amount used for the calculation of landing fees in each year.

In 2004, the passenger numbers for 2002 and 2003 were reconciled with the results released by Statistics Canada, as set out in the Ground Lease, and it was recognized that the actual activity was lower than originally estimated. An adjustment of $12.4 million was made in 2004, reducing the 2004 ground rent reported from $142.8 million to $130.4 million. Total ground rent for 2005 was $144.4 million.

In May 2005, the federal government announced a proposed new regime for calculating ground rent payable by Canadian airports, based on current year revenue rather than on passengers, commencing in 2011. The proposed new rent regime is to be phased in over five years with ground rent being calculated based on current rent and projected 2010 rent payments during this period. The GTAA questions the appropriateness of having ground rent based on revenue in a passenger based environment and believes that the proposed rent structure is not financially beneficial for the GTAA, particularly in the short term. This regime would have ground rent apply to revenue generated to pay debt service. The federal government provided a copy of the amending agreement for the Ground Lease in December 2005. The GTAA has not executed the amending agreement, and continues to lobby the new federal government for a more appropriate and favourable agreement for Toronto Pearson.

Goods and services comprise the general operating expenses for the Airport and were $237.9 million and $262.3 million for 2004 and 2005, respectively. The increase in expenses is primarily attributed to the increased facilities and services associated with the opening of Terminal 1, higher utility costs due to an unusually hot summer, extended snow removal operations and a provision for the bad debt expense of $4.3 million relating to Jetsgo when it ceased operations.

The GTAA has both union and non-union employees and both groups are compensated with salaries and benefits, including pension plan options, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits increased from $95.6 million in 2004 to $98.7 million for 2005, an increase of 3.2%. The increase reflects salary increases and solvency payments that have been required for one of the pension plans.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario),* and instead pays to each of the cities of Toronto and Mississauga an amount prescribed by an Ontario provincial government regulation as PILT. The amounts due are based on passenger activity for a specified prior year. PILT paid in 2004 was $24.1 million, based on passengers for 2001, and PILT for 2005 was $22.6 million, based on passenger activity for 2002. The recent recovery in passenger activity will be reflected in higher PILT payments in future years.

The year-over-year increase in interest and financing costs and amortization reflect the impact of new Terminal 1 and ancillary facilities becoming operational on April 6, 2004. The GTAA capitalizes interest for projects under construction and interest is expensed for projects that are complete and operational. Consequently, interest and financing costs were $268.0 million and $334.4 million for 2004 and 2005 respectively. Offsetting the interest expense in each year is interest earned on investments and reserve funds, and also in 2004, the gain on the sale of certain interest rate swaps and the gain on the sale of ACE Aviation shares that were received in partial settlement of the GTAA’s unsecured CCAA claim against Air Canada.

A similar trend is noted for amortization of capital assets which increased from $188.4 million in 2004 to $209.6 million in 2005.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the period from January 1, 2004 through December 31, 2005 is set out in the following table:

(in millions)	2005				2004			
Quarter ended	Dec	Sept	June	Mar	Dec	Sept	June	Mar
Revenues	$ 230	$ 260	$ 233	$ 231	$ 208	$ 230	$ 201	$ 193
Operating expenses	143	124	126	135	120	133	118	117
Revenues over expenses[1]	87	136	107	96	88	97	83	76
Interest and financing	84	82	84	84	79	80	66	43
Amortization	55	52	52	51	62	46	53	27
Revenues[2]	$ (52)	$ 2	$ (29)	$ (39)	$ (53)	$ (29)	$ (36)	$ 6

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

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

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

After the GTAA assumed responsibility for the Airport, it initiated an extensive redevelopment program to improve and redevelop the facilities to meet current and future demand. The Airport Development Program ("ADP") includes the construction of terminal facilities, roadways, cargo facilities, airside improvement such as runways and taxiways, ancillary services and utilities infrastructure. The ADP was designed as a demand driven program that would be undertaken while the Airport continued to operate and would provide the GTAA with some flexibility on the timing of certain future stages. The GTAA has regularly reviewed the components of the ADP to respond to changes in the aviation industry, with the current total budget being $4.5 billion. To the end of 2005, $4.0 billion, excluding capitalized interest, had been spent on the program which was approximately 90.0% complete.

During 2005, the apron reconstruction between Piers E and F of Terminal 1 was completed, as were the exterior walls and roof of Pier F. Work continues on the mechanical and electrical components and the installation of the baggage system, elevator and escalator systems in the non-operational portions of Terminal 1, including Pier F. On November 1, 2005, ten gates on the east side of Pier E and on the liner between Piers E and F were brought into operation. Pier F remains on schedule to commence operations in the first quarter of 2007.

The automated people mover ("APM"), which connects the GTAA operated off-airport parking area to Terminals 3 and 1, is now scheduled to commence operation in the summer of 2006. During 2005, the guideway and the stations' exterior finishes and interior architectural finishes and mechanical and electrical systems were completed.

Pier F marks the conclusion of the ADP terminal project. The GTAA has indicated that after the completion of Pier F, it would examine the options to determine the timing of Terminal 2 demolition and the construction of Pier G or any other terminal facilities. Based on the analysis completed during 2005, it has been determined that upon the completion of Pier F and the relocation of all remaining activity in Terminal 2 to Terminal 1, Terminal 2 will be demolished. The GTAA has authorized a budget of $330.0 million for the demolition of Terminal 2 and its parking garage, expansion of the T1 parking garage, construction of a parking garage in Area 6B on the east side of Airport Road, some ancillary work and the design of Pier G. The final design and construction timing of Pier G is still under review, and will be dependent on demand.

In addition to the ADP, the GTAA has undertaken plans to expand and upgrade certain areas and components of Terminal 3. During 2005, $70.3 million, excluding capitalized interest, was spent on the capital project known as the Terminal 3 Redevelopment Project, including the expansion of the central processing area and the expansion and improvement of the baggage systems. Certain redeveloped areas in Terminal 3 became operational during the past year, and it is expected that the significant expansion of the check-in areas and baggage systems will be operational in late 2006.

The GTAA has also completed the construction of a new natural gas-powered co-generation facility at an approximate cost of $146.3 million, excluding capitalized interest. This facility was substantially completed at the end of 2005 after commissioning and testing during the fall of 2005. The co-generation plant has the capacity to provide the required electricity and steam for the Airport. The GTAA may also purchase electricity from the Ontario power market, or sell any excess electricity generated to the Provincial power grid. The GTAA has entered into management contracts for the day-to-day operation of the facility and the management of natural gas and electricity purchases and sales to optimize the economic benefit of the plant.

In September 2004, the Ontario Ministry of Energy issued a Request for Proposals for 2,500 megawatts ("MW") of new clean electricity generation, demand response and demand-side management projects (the "2,500 MW RFP"). The GTAA submitted a proposal and has been awarded a contract pursuant to the 2,500 MW RFP program. As a result of being selected under the 2,500 MW RFP, the financial risk of operating the co-generation facility has been reduced.

The GTAA has other ongoing capital projects for Toronto Pearson, and in 2005, $56.7 million, excluding capitalized interest, was spent on projects such as runway and taxiway upgrades and the replacement of certain fleet vehicles.

PICKERING

In 2001, the federal government asked the GTAA to undertake studies to determine the requirements for a future regional reliever airport on the Pickering lands located to the east of Toronto. Between 2001 and 2004, the GTAA undertook certain feasibility studies, held various public workshops and meetings, and was preparing for the environmental assessment process in accordance with the federal government's request. During 2005, the federal government determined that it would undertake a due diligence evaluation of the need for an airport before the environmental assessment is commenced. The GTAA views this as an important initiative and will continue to cooperate with the federal government to advance the planning for the future reliever airport on the Pickering Lands. The final decision on whether the construction of the airport should commence will be up to the federal government.

ASSETS AND LIABILITIES

Total assets and liabilities for the three years ended December 31, 2005, 2004 and 2003 are set out below:

(in millions)	2005	2004	2003
Total Assets	$ 7,007.4	$ 6,467.8	$ 5,872.4
Total Liabilities	$ 7,236.9	$ 6,579.0	$ 5,871.3

The increase in total assets reflects the ongoing investment in Airport infrastructure as set out in the description of the ADP and other capital projects. Between 2004 and 2005, the primary increase in assets was $133.3 million in reserves and other funds, $103.5 million in capital assets and $293.1 million in work in progress. The increases between 2003 and 2004 show a similar pattern, but also reflect the transfer of Terminal 1 from work in progress in 2003 to capital assets in 2004.

Total reserves as at December 31, 2004 were $783.4 million as compared to $916.7 million at December 31, 2005. These reserves represent funds for regular payments of interest and principal, amounts set aside with the Trustee as security for specific debt issues, funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses and funds set aside by the GTAA as described in the section entitled Rate Setting Approach for future principal payments and other commitments such as the AIF Reserve Fund. All of the reserves are fully funded and invested.

Changes in the total reserve funds include an increase in the Debt Service Reserve Fund, primarily as a result of the new Medium Term Notes ("MTN") issues, application of the

Debt Service Fund for ongoing interest payments for all debt and principal payments on the Series 1999-1 MTN amortizing issue, an increase in the Notional Principal Fund with the ongoing collection of Notional Principal in the landing fee, and the collection of AIF during the year, offset by the application of the AIF Reserve Fund to debt payments.

As noted in the section entitled Rate Setting Approach, the GTAA includes in its landing fee principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. Consistent with the treatment of interest expense, principal is only included for the debt associated with operational assets. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter. The Notional Principal Fund will be applied to the ongoing amortizing payments for Series 1999-1, as it was in 2004 and 2005, or to repay any issue on maturity in whole or in part. At December 31, 2004, there was $88.1 million in the Notional Principal Fund, as compared to $152.6 million at December 31, 2005.

For the AIF Reserve Fund, the GTAA sets the AIF revenues aside when collected and uses the funds primarily for ongoing debt service payments. For 2005, the GTAA used $162.0 million of AIF which is the amount anticipated when setting the rates and charges for 2005. The result is that the AIF Reserve Fund increased from $99.5 million at the end of 2004 to $111.8 million at the end of 2005.

The primary component of the total liabilities is the debt program, which at December 31, 2005 totalled $6.9 billion of current and long term debt obligations, as compared to $6.3 billion as at December 31, 2004. Under the ground rent deferral program, deferred ground rent was $41.5 million at December 31, 2005, as compared to $31.1 million at December 31, 2004. This liability will decrease with the repayment of the ground rent deferral over the next 10 years commencing in 2006.

During 2005, the GTAA issued $1.2 billion of new debt and $600 million matured in May. The various new issues and maturities in 2005 are set out in the following table:

(in millions)

MTN Series	Original Issue Date	Maturity Date	Principal
2005-1	February 8, 2005	n/a	$350
2003-2	n/a	May 20, 2005	(600)
2005-2	May 20, 2005	n/a	510
2005-3	October 26, 2005	n/a	350

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 over or under expenses. Since revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization for several operating periods, the GTAA has recorded revenues under expenses. This has resulted in a cumulative negative net asset position of $111.2 million as at December 31, 2004 as compared to a negative net asset position of $229.5 million as at December 31, 2005. The principal component included in the aeronautical charges is based on a 30-year amortization and will therefore be lower in early years and increase over time, similar to the principal payments of a mortgage. The amortization of the GTAA's most significant assets is reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. This differential contributes to the GTAA's current negative net asset position. It is anticipated that when the principal component in the landing fee increases to a level where it is equal to or exceeds the reducing amount of amortization of assets, revenue will exceed all expenses, including amortization, providing a potential improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a non-share corporation and accordingly is funded through operating 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 for the projected air traffic and passenger activity and non-aeronautical revenue sources. Consistent with its residual approach, any funds generated by the GTAA are used to cover costs within its mandate.

An overall Capital Markets Program was established by the GTAA with the Trust Indenture setting out the terms of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund all ongoing capital programs and the GTAA will continue to access the debt markets to fund the capital programs and to refinance some or all of its maturing debt. At December 31, 2005, there was a total of $6.9 billion of debt outstanding, excluding the bank facility. Any proceeds received and not immediately required are invested in short-term investment grade debt instruments until they are required to fund the capital programs.

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

Until November 2005, the GTAA had two bank credit facilities with a syndicate of banks totaling $550 million which included a 364-day revolving facility and a 3-year revolving term facility. Both of these facilities matured in November 2005 and were replaced with a new credit facility with the same banking syndicate. The new facility includes a $500 million credit facility and a $50 million facility for interest rate and foreign exchange hedging activities. The new facility has a term of three years, which can be extended annually for an additional year with the lenders' consent. The new facility will be 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.

At December 31, 2005, the GTAA had reserve funds totaling $916.7 million, which include reserve funds held by the Trustee in accordance with the Trust Indenture and certain funds held by the GTAA for specific or future requirements. AIF revenue collected and not utilized in any given year is retained in the AIF Reserve Fund for future years. The Notional Principal Reserve Fund will increase with the principal component collected in the landing fee until it is used for the repayment of debt. The other reserve funds provide additional security for the debt program.

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

(in millions)	
2006	$ 9.3
2007	894.6
2008	385.2
2009	260.8
2010	611.5
Thereafter	4,706.7
	$6,868.1

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted by the GTAA are set out in Note 4 of the Consolidated Financial Statements as at December 31, 2005 and 2004. In preparing the financial statements, management is required to make certain estimates or assumptions, including estimates for amortization of capital assets, revenue recognition and the fair value of financial instruments.

Capital assets for the Airport include items such as improvements to leased land, runways, terminal and other buildings, and roadways. These assets are recorded at cost and each asset type is amortized over the lesser of the remaining term of the Ground

Lease or their estimated useful lives. Amortization of assets commences when the asset is brought into operation and for certain assets, such as the terminal buildings, the asset may be brought into or removed from operations in stages. Starting on January 1, 2004, Terminal facilities are amortized at a rate of 2.5% on a declining balance.

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

RISKS AND UNCERTAINTIES

Continuing the trend which began in 2004, the GTAA experienced a much more stable financial and economic environment with continued growth in passenger volumes in 2005. However, the risk of sudden and possibly significant impacts or volatility in demand due to external sources such as economic conditions, geopolitical unrest, government regulation, world health epidemics and the financial uncertainty in the aviation industry continue to exist. Any of these could impact the GTAA's financial results.

In recent months there has been extensive commentary on the potential of a pandemic or severe outbreak of the avian flu. Depending on the location, timing, and extent of such an event, it could have significant impacts on regional or world travel. The GTAA has been working with Health Canada to understand the risks of such an event, and has developed operational contingency plans based on various scenarios.

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

The financial stability of the aviation industry remains a risk for the GTAA, particularly with respect to domestic air carriers. To date there have been no losses due to foreign air carriers filing for bankruptcy protection. In 2005, the GTAA incurred losses from an airline, Jetsgo, ceasing operations and declaring bankruptcy. Although there is some risk from industry changes or exposure to a dominant air carrier, this is mitigated by the fact that over 75% of the passenger activity at the Airport originates or terminates at Toronto Pearson. During the past year, the GTAA has also received several requests for additional routes or landing slots.

Another potential impact from changes in the aviation industry is the trend to allocating smaller aircraft to some shorter routes. Such changes in the fleet mix can impact the GTAA's planning of facilities and on determining the traffic for projecting future landing fees. The GTAA uses projected revenues, expenses, MTOW and arrived seats to calculate the landing fee per tonne and the general terminal charge per seat. The risks inherent to this approach are that expenses may be underestimated or non-aeronautical revenues overestimated resulting in inadequate aeronautical revenue. Aeronautical revenue may also be lower than expected if passenger or aircraft activity volumes are not realized. In 2005, passenger activity was essentially as projected, but MTOW and seats were approximately 1.5% below projections. The GTAA believes that this is a result of higher load factors and smaller aircraft on certain routes. These revised patterns have been taken into account for planning in subsequent years.

Any large construction project is subject to risks relating to costs, schedule and other events. Given the current stage of the ADP and other capital projects, and the limited amount of construction remaining, the risk for the total project is reduced. It is anticipated that the GTAA will continue to meet the specific goals of its capital programs within or close to the construction budget and schedule.

There is always risk when raising funds in the capital markets, including interest rates and the availability of funds at any point in time. External factors such as economic conditions, government policies, catastrophic events and the state of the financial markets can impact the GTAA's ability to access the capital markets. The GTAA debt program has been well received by the capital markets in Canada. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of any debt issue to ensure continued access to the markets and to maximize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

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

The availability of adequate insurance coverage is subject to the conditions of the overall insurance markets and the GTAA's claims and performance record. The GTAA has continued to be successful in placing all of its insurance needs.

CONCLUSION

The past year has been another successful year with stable passenger activity growth, continued progress on the ADP and other capital projects, and no significant events to unsettle the aviation industry. The ceasing of operations of Jetsgo did have a slight negative impact on the activity levels and on the financial results, however, the overall performance for the year was positive.

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

DISCLOSURE CONTROLS AND PROCEDURES

The GTAA's management is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material information relating to the GTAA is made known to management, particularly during the period in which annual filings are being prepared. Management has evaluated the effectiveness, as at December 31, 2005, of the GTAA's disclosure controls and procedures and has concluded that such disclosure controls and procedures are effective.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Words such as “believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate” and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would” and “could” often identify forward-looking statements. Specific forward-looking statements in this MD&A include, among others, statements regarding: future demand for air travel in the Greater Toronto Area; 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; budgets and expenditures relating to capital projects; the commencement of operations of the APM; Pier F and other facilities at the Airport currently under construction; the design and construction of Pier G; the federal government’s initiatives with respect to ground rent and the Pickering lands; insurance recovery; the impact of the new co-generation facility on revenues and expenses; and the GTAA’s liquidity.

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

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

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

Consolidated Financial Statements of

GREATER TORONTO AIRPORTS AUTHORITY

December 31, 2005 and 2004

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands)		**2005**		2004
ASSETS				
Current				
Cash and cash equivalents	**$**	**-**	$	16,859
Accounts receivable		**84,848**		70,539
Prepaid expenses		**3,292**		2,738
Inventory		**9,192**		4,720
		97,332		94,856
Reserve and other funds (Note 5)		**916,727**		783,376
Deferred charges (Note 7)		**60,280**		53,422
Capital assets (Note 8)		**4,922,179**		4,818,721
Work in progress (Note 9)		**1,003,479**		710,392
Accrued benefit asset (Note 13)		**7,402**		7,030
	$	**7,007,399**	$	6,467,797
LIABILITIES				
Current				
Bank indebtedness	**$**	**57,710**	$	-
Accounts payable and accrued liabilities		**237,486**		247,461
Security deposits and deferred credits		**18,610**		18,425
Deferred gain on interest rate swaps (Note 18)		**1,069**		1,069
Deferred ground rent (Note 3)		**4,156**		-
Current portion of long-term debt (Note 10)		**9,250**		609,473
		328,281		876,428
Deferred gain on interest rate swaps (Note 18)		**12,437**		13,506
Deferred ground rent (Note 3)		**37,407**		31,050
Long-term debt (Note 10)		**6,858,792**		5,657,975
		7,236,917		6,578,959
NET ASSETS (DEFICIENCY) (Note 11)				
Externally restricted		**64,704**		69,607
Internally restricted		**319,419**		209,955
Unrestricted		**(613,641)**		(390,724)
		(229,518)		(111,162)
	$	**7,007,399**	$	6,467,797

Signed on Behalf of the Board

Warren C. Hurren
Director

B. Mac Cosburn
Director

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (in thousands)		**2005**		2004
REVENUES				
Landing fees	**$**	**405,874**	$	338,008
General terminal charges		**157,206**		145,455
Airport improvement fees, net (Note 6)		**175,425**		142,235
Car parking and ground transportation		**96,115**		89,074
Concessions		**58,790**		57,208
Rentals		**51,985**		50,530
Other		**8,279**		9,504
		953,674		832,014
OPERATING EXPENSES				
Ground rent (Note 3)		**144,423**		130,394
Goods and services		**262,281**		237,943
Salaries, wages and benefits		**98,701**		95,553
Real property taxes and payments-in-lieu of real property taxes (Note 14)		**22,587**		24,098
		527,992		487,988
Revenues over expenses before interest and financing costs and amortization		**425,682**		344,026
Interest and financing costs (Note 12)		**334,400**		267,973
Amortization of capital assets		**209,638**		188,389
Revenues under expenses	**$**	**(118,356)**	$	(112,336)

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (DEFICIENCY)

2005

Year Ended December 31 (in thousands)	**Balance, Beginning of Year**	**Revenues Under Expenses**	**Transfers / Allocations**	**Use of Funds**	**Balance, End of Year**
Externally Restricted					
Operating and maintenance reserve	**$ 50,806**	**$ -**	**$ 7,165**	**$ -**	**$ 57,971**
Renewal and replacement reserve	**3,000**	**-**	**-**	**-**	**3,000**
Debt service fund - principal	**15,801**	**-**	**17,448**	**(29,516)**	**3,733**
	69,607	**-**	**24,613**	**(29,516)**	**64,704**
Internally Restricted					
Airport improvement fees collected, net	**99,452**	**-**	**174,344**	**(162,000)**	**111,796**
Notional principal of long-term debt	**88,100**	**-**	**81,948**	**(17,448)**	**152,600**
Debt service coverage requirement	**22,403**	**-**	**32,620**	**-**	**55,023**
	209,955	**-**	**288,912**	**(179,448)**	**319,419**
Restricted net assets	**279,562**	**-**	**313,525**	**(208,964)**	**384,123**
Unrestricted net deficiency	**(390,724)**	**(118,356)**	**(104,561)**	**-**	**(613,641)**
Total net deficiency	**$ (111,162)**	**$ (118,356)**	**$ 208,964**	**$ (208,964)**	**$ (229,518)**

2004

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

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (in thousands)		2005		2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Revenues under expenses	**$**	**(118,356)**	$	(112,336)
Items not affecting cash				
Amortization of capital assets		**209,638**		188,389
Amortization of deferred gain on interest rate swaps		**(1,069)**		(1,069)
Loss on disposal of capital assets		**756**		1,461
Increase in prepaid pension asset		**(372)**		(3,322)
Realized gain on interest rate swaps		**-**		(2,437)
Amortization of deferred charges (Note 7)		**6,082**		5,094
Increase in deferred ground rent		**10,513**		21,026
Changes in non-cash working capital				
(Increase) Decrease in accounts receivable		**(14,309)**		4,817
(Increase) Decrease in prepaid expenses		**(554)**		753
Increase in inventory		**(4,472)**		(1,699)
Decrease in accounts payable and accrued liabilities		**(9,975)**		(17,802)
Increase (Decrease) in security deposits and deferred credits		**185**		(5,921)
		78,067		76,954
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of capital assets		**(3,705)**		(3,211)
Proceeds on disposal of capital assets		**38**		6,648
Work in progress (Note 9)		**(603,272)**		(653,070)
		(606,939)		(649,633)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of medium term notes (Note 10)		**1,210,000**		850,000
Repayment of long-term debt		**(609,406)**		(9,175)
Draw on credit facility (Note 10)		**294,000**		-
Repayment of credit facility		**(251,000)**		(145,000)
Termination of interest rate swaps		**-**		18,082
Bank indebtedness		**14,710**		-
Increase in reserve and other funds		**(133,351)**		(150,985)
Increase in deferred charges (Note 7)		**(12,940)**		(11,509)
		512,013		551,413
NET CASH OUTFLOW		**(16,859)**		(21,266)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**16,859**		38,125
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**-**	$	16,859

At December 31, 2005, cash and cash equivalents were nil as a result of the Company's bank indebtedness position. At December 31, 2004, cash and cash equivalents consisted of short-term investments of $50.8 million less cash and outstanding cheques of $17.2 million and allocations to the Airport Improvement Fee Reserve Fund of $16.7 million.

1. NATIONAL AIRPORTS POLICY

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

CAAs are free to operate airports on a commercial basis and have the authority to set all fees and charges. The federal government retains regulatory control over aeronautics and as such will set safety and security standards for airports, licence airports and regulate the aviation industry as a whole.

2. CORPORATE PROFILE OF THE GREATER TORONTO AIRPORTS AUTHORITY

Greater Toronto Airports Authority ("GTAA") was incorporated on March 3, 1993 under Part II of the *Canada Corporations Act*, as a corporation without share capital. This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in airports and airport operations under control of the GTAA. The By-Laws of the GTAA were amended in 1994 to conform with the requirements of the National Airports Policy. The GTAA has all the powers, obligations and duties of any private Canadian corporation. The GTAA is governed by a 15-member Board of Directors (the "Board"). In 2003, the GTAA changed the manner in which Directors are appointed to the Board. As a result of these changes, Directors serve a term of three years and are eligible to be re-appointed subject to a maximum limit of nine years. Five Directors are appointed from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates and the Board appoints one of the three candidates for each available position as a Director. In addition, four Directors are appointed by the Board on a cyclical basis on the basis of candidates nominated by a pool of nominators comprised of the Law Society of Upper Canada, the Association of Professional Engineers of Ontario, the Institute of Chartered Accountants of Ontario, the Toronto Board of Trade and the Boards of Trade and Chambers of Commerce in the Regional Municipality of York, the Regional Municipality of Halton, the Regional Municipality of Durham and the Regional Municipality of Peel. Finally, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director respectively, while the Board of Directors is entitled to appoint three Directors.

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

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

3. AIRPORT SUBJECT TO GROUND LEASE

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

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

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

Rent under the Ground Lease is comprised of Base Rent, Participation Rent and Deficiency Rent. Base Rent is calculated on a capped passenger volume formula subject to adjustments for inflation. Participation Rent is based on a measure of incremental revenues and is not applicable until year 2012. Deficiency Rent is payable in the event the GTAA does not meet capital expenditure targets delineated in the Ground Lease (see Note 16, Commitments and Contingent Liabilities). The Ground Lease with amendments made in April 1997 provided a total of $199.6 million in rent credits consisting of $113.4 million for specified development projects, $72.3 million for Airside Development Projects, $10.0 million for security costs, $3.5 million for the acquisition of two pieces of land which were subsequently transferred to the landlord and $0.4 million for a restoration project. The rent credits for development projects and land acquisitions have been fully allocated to capital assets (see Note 8, Capital Assets).

Under the Ground Lease, Transport Canada is required to assume all costs associated with environmental remediation in the event an order is issued by an appropriate government agency requiring the clean-up of any noxious or hazardous substance where such substance was present prior to December 2, 1996 (See Note 16, Commitments and Contingent Liabilities).

In July 2003, the Government of Canada announced a program to allow for a reduction in the ground rent, for a two-year period commencing July 1, 2003. For each of the 10 years following January 1, 2006, the GTAA's annual ground rent payments will be increased by approximately $4.2 million per year (see Note 19, Ground Rent Agreement).

4. SIGNIFICANT ACCOUNTING POLICIES

Presentation and Basis of Accounting

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

Principles of Consolidation

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

Ground Lease

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

Cash and Cash Equivalents

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

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Natural gas inventory is stated at cost, while all other inventory is stated at the lower of cost and replacement value.

Deferred Charges

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

Acquisitions

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

The GTAA reviews long-lived assets for impairment on an ongoing basis and recognizes impairment losses when the carrying value of an asset exceeds the undiscounted cash flows from its future use.

The costs of Capital assets (less estimated residual values) are amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. Capital assets are amortized at the following annual rates:

Terminal assets	
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	2.5% declining balance for Terminal facilities Straight-line over remaining useful life for Terminal 2 improvements 2.5% to 20% declining balance for non-terminal facilities
Baggage handling systems	Straight-line over 25 years
Airside assets	
Improvements to leased land	Straight-line over remaining term of the Ground Lease
Runways and taxiways	2.5% declining balance 15 years straight-line for runway and taxiway surfaces
Deicing facilities	2.5% declining balance
Other assets	
Utilities and stormwater management facilities	2.5% declining balance
Operating assets	10% to 30% declining balance
Capital leases	10% to 30% declining balance

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

Work in Progress

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport improvement fees, net of airline administration fees, are recorded upon the enplanement of the passenger (see Note 6, Airport Improvement Fees). Concession revenues are charged on a monthly basis and are recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rental revenues are recognized straight-line over the duration of the respective agreements.

Salaries, Wages and Benefits

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

Employee Future Benefit Plans

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

Derivative Financial Instruments

Derivative financial instruments, including interest rate swaps and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates. These financial instruments will be accounted for under the accrual method if the GTAA meets the requirements set out in existing accounting pronouncements and the GTAA chooses to designate these financial instruments as hedges. Accordingly, the book value will not be adjusted to reflect the current market values. Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is an investment. Derivative financial instruments that are not designated by the GTAA to be in an effective hedging relationship will be carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Commodity swap agreements are used from time to time to reduce exposure to fluctuations in commodity prices. Commodity swaps in an effective hedging relationship as defined in existing accounting pronouncements may be accounted for under the deferral method where the unrealized gains and losses are deferred and recognized in goods and services expense in the period in which the underlying commodity purchases are recognized. Commodity swaps that are not designated in an effective hedging relationship as defined in existing accounting pronouncements will be carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in goods and services expense.

Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated, dedesignated from a hedging relationship or cease to be effective prior to maturity, will be deferred and recognized in the period in which the underlying hedged item is realized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gain or loss on such derivative financial instrument will be recognized in the Consolidated Statement of Operations.

5. RESERVE AND OTHER FUNDS

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

(in thousands)	**2005**	2004
Debt Service Fund		
Interest	**$ 78,812**	$ 79,527
Principal	**3,733**	15,801
	82,545	95,328
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	**35,391**	35,170
Series 1997-3 due December 3, 2027	**37,216**	37,004
Series 1999-1 due July 30, 2029	**40,525**	40,320
Medium Term Notes		
Series 2000-1 due June 12, 2030	**39,029**	38,828
Series 2000-2 due July 19, 2010	**39,986**	39,817
Series 2001-1 due June 4, 2031	**35,473**	35,248
Series 2002-1 due January 30, 2012	**31,455**	31,260
Series 2002-2 due December 13, 2012	**29,933**	29,748
Series 2002-3 due October 15, 2032	**38,730**	38,474
Series 2003-1 due June 2, 2008	**19,585**	19,469
Series 2003-2 due May 20, 2005	**-**	22,461
Series 2004-1 due February 2, 2034	**38,984**	38,782
Series 2004-2 due February 4, 2009	**11,413**	11,335
Series 2005-1 due June 15, 2015	**17,746**	-
Series 2005-2 due May 18, 2007	**14,497**	-
Series 2005-3 due February 15, 2016	**16,507**	-
	446,470	417,916
Bank indebtedness secured by Series 1997 - A Bond	**7,322**	6,371
	453,792	424,287
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**57,971**	50,806
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund	**111,796**	99,452
Notional Principal Fund	**152,600**	88,100
Debt Service Coverage Fund	**55,023**	22,403
	380,390	263,761
	$ 916,727	$ 783,376

5. RESERVE AND OTHER FUNDS (continued)

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 10, Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. On a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. Also on a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. The principal requirements of the Debt Service Fund were funded from the Notional Principal Fund during 2005 and had a balance of $3.7 million at December 31, 2005 (2004 - $15.8 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bond or noteholders and are disbursed by the Trustee to pay interest and principal as it becomes due.

Principal of $29.5 million was paid from the Debt Service Fund in 2005 (2004 - $7.9 million). During 2005, $17.4 million was deposited to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1 revenue bond (2004 - $20.4 million for Series 1999-1 and 2003-2). The deposit to the Principal Account of the Debt Service Fund to fulfill principal requirements was funded from the Notional Principal Fund (see Operations, Capital and Financing Funds below) during the year.

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

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture (see Note 10, Long-Term Debt). The Operating and Maintenance Reserve Fund is equal to one-sixth of the projected operating and maintenance expenses for the following fiscal year. As at December 31, 2005 this fund had a balance of $58.0 million (2004 - $50.8 million). This amount is to be used only for operating and maintenance expenses, or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of $3.0 million (2004 - $3.0 million) is to be used for unanticipated repairs to, or the replacement of property and equipment as set out in the Trust Indenture.

5. RESERVE AND OTHER FUNDS (continued)

In conjunction with the airport improvement fee agreements with participating airlines the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2005, this fund had an accumulated balance of $111.8 million (2004 - $99.5 million). During 2005, $162.0 million (2004 - $140.6 million) of accumulated Airport Improvement Fee Funds were utilized for some debt service payments.

Capital and financing funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bonds or medium term notes. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2005 had a balance of $55.0 million (2004 - $22.4 million).

6. AIRPORT IMPROVEMENT FEES

Airport improvement fees, net of airline administration charges, reported in the Statement of Operations, totaled $175.4 million during 2005 (2004 - $142.2 million). Gross revenues and administration charges for 2005 were $182.6 million and $7.2 million respectively (2004 - $148.1 million and $5.9 million).

7. DEFERRED CHARGES

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

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

The aggregate amortization expense in respect of deferred charges for the year ended December 31, 2005 was $6.1 million (2004 - $5.1 million) and is included in interest and financing costs. Additions to deferred charges during the year totaled $12.9 million (2004 - $11.5 million).

8. CAPITAL ASSETS

Capital assets are comprised of:

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

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

8. CAPITAL ASSETS (continued)

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

On December 31, 2005, the GTAA completed commissioning on a Cogeneration Facility, constructed in order to provide new clean generating capacity to both the GTAA and the Ontario Power grid (see Note 20, Subsequent Events). Costs of $154.0 million, including capitalized interest of $7.7 million, incurred for the development, construction and commissioning of the Cogeneration Facility were transferred from work in progress to capital assets on December 31, 2005, and have been included in Utilities and stormwater management facilities.

9. WORK IN PROGRESS

(in thousands)	Beginning of Year	Additions / Adjustments	Transfers to Capital Assets	End of Year
Airside Development Project	$ 67	$ 370	$ (437)	**$ -**
Terminal Development Project	525,519	411,042	(107,148)	**829,413**
Infield Development Project	242	(330)	375	**287**
Utilities and Area Support Facilities	815	3,135	(188)	**3,762**
	526,643	414,217	(107,398)	**833,462**
Restoration Projects	55,692	48,679	(18,126)	**86,245**
Cogeneration Plant	88,518	65,448	(153,966)	**-**
T3 Redevelopment	39,539	74,928	(30,695)	**83,772**
	$ 710,392	$ 603,272	$ (310,185)	**$ 1,003,479**

As at December 31, 2005, Work in progress included capitalized interest and financing costs in the amount of $115.2 million (2004 – $89.7 million).

10. LONG-TERM DEBT

As at December 31, 2005 the long-term debt outstanding is comprised of:

(in thousands) Series	Coupon Rate	Maturity Date	2005	2004
	(Note 18)			
Revenue Bonds, *See below*				
1997-2	5.95%	December 3, 2007	**$ 375,000**	$ 375,000
1997-3	6.45%	December 3, 2027	**375,000**	375,000
1999-1	6.45%	July 30, 2029	**483,678**	492,094
Medium Term Notes				
2000-1	7.05%	June 12, 2030	**550,000**	550,000
2000-2	6.70%	July 19, 2010	**600,000**	600,000
2001-1	7.10%	June 4, 2031	**500,000**	500,000
2002-1	6.25%	January 30, 2012	**500,000**	500,000
2002-2	6.25%	December 13, 2012	**475,000**	475,000
2002-3	6.98%	October 15, 2032	**550,000**	550,000
2003-1	5.17%	June 2, 2008	**375,000**	375,000
2003-2, *See below*	floating	May 20, 2005	**-**	600,000
2004-1	6.47%	February 2, 2034	**600,000**	600,000
2004-2	4.45%	February 4, 2009	**250,000**	250,000
2005-1	5.00%	June 1, 2015	**350,000**	-
2005-2, *See below*	floating	May 18, 2007	**510,000**	-
2005-3	4.70%	February 15, 2016	**350,000**	-
			6,843,678	6,242,094
Capital leases, S*ee below*			**364**	1,354
Province of Ontario				
Interest-free, payable in five equal annual installments commencing 2011			**24,000**	24,000
			6,868,042	6,267,448
Less current portion			**9,250**	609,473
			$ 6,858,792	$ 5,657,975

Interest arising from these debt instruments amounted to $396.9 million (2004 - $365.0 million).

For Series 2003-2 and 2005-2 the interest rates are based on the 3-month Bankers' Acceptance rate plus 55 basis points and 18 basis points respectively, adjusted quarterly. For series 2003-2 interest rates during the period January 1, 2005 to May 20, 2005 ranged from 3.16% to 3.30% (2004 – 2.86% to 3.36%). For Series 2005-2 interest rates ranged from 2.80% to 3.52% (2004 – n/a) during the period from May 18, 2005 to December 31, 2005.

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.

10. LONG-TERM DEBT (continued)

Capital Markets Platform

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

Revenue Bonds and Medium Term Notes

The GTAA has the following Revenue Bonds and Medium Term Notes outstanding:

Series	Settlement Date	Principal Amount (in thousands)	Interest Payable Commencement Date
Revenue Bonds			
1997-2	December 2, 1997	$ 375,000	June 3, 1998
1997-3	December 2, 1997	375,000	June 3, 1998
1999-1	July 20, 1999	483,678	January 30, 2000
Medium Term Notes			
2000-1	June 12, 2000	250,000	December 12, 2000
2000-2	July 17, 2000	325,000	January 19, 2001
2000-2 reopen	January 09, 2001	275,000	January 19, 2001
2000-1 reopen	January 16, 2001	300,000	December 12, 2000
2001-1	June 4, 2001	500,000	December 4, 2001
2002-1	January 28, 2002	500,000	July 30, 2002
2002-2	June 13, 2002	475,000	December 13, 2002
2002-3	October 15, 2002	285,000	April 15, 2003
2002-3 reopen	November 22, 2002	265,000	April 15, 2003
2003-1	May 13, 2003	375,000	December 2, 2003
2004-1	February 2, 2004	350,000	August 2, 2004
2004-2	February 4, 2004	250,000	August 4, 2004
2004-1 reopen	September 2, 2004	250,000	August 2, 2004
2005-1	February 8, 2005	350,000	June 1, 2005
2005-2	May 20, 2005	510,000	August 18, 2005
2005-3	October 26, 2005	350,000	February 15, 2006

10. LONG-TERM DEBT (continued)

With the exception of Series 2005-2, interest is payable semi-annually from the Interest Payable Commencement Date, based on fixed rates. Series 2005-2, interest is payable quarterly from the Interest Payable Commencement Date, based on floating rates. With the exception of Series 2003-1 and Series 2005-2 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, due November 22, 2008, will have a term of three years, and can be extended annually for an additional year with the lenders' consent.

At December 31, 2005, $43 million was drawn on the facility (2004 – nil) and is included in bank indebtedness. As at December 31, 2005, a letter of credit for $9.0 million was outstanding against the facility (see Note 16, Commitments and Contingent Liabilities). Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates incurred during the year ranged from 2.95% to 5.00% (2004 – 2.25% to 5.00%).

Capital Leases

The GTAA has undertaken to lease certain operating equipment. Effective interest rates of the capital leases range from 0.59% to 4.71% (2004 - 0.59% to 3.19%).

Principal Repayments

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

(in thousands)	
2006	$ 9,250
2007	894,604
2008	385,158
2009	260,807
2010	611,504
Thereafter	4,706,719
	$ 6,868,042

During the year, the GTAA incurred interest costs, on a cash basis, of $395.1 million (2004 - $345.8 million).

11. NET ASSETS (DEFICIENCY)

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

Externally Restricted

A portion of the net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund and Renewal and Replacement Reserve Fund (see Note 5, Reserve and Other Funds) set out in the Trust Indenture (see Note 10, Long-Term Debt).

Internally Restricted

A portion of the net assets that has been collected in revenue has been allocated for capital projects and financing purposes through the debt-related obligations of notional principal and debt service coverage requirements (see Note 5, Reserve and Other Funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in separate investment accounts by the GTAA and will be disbursed in accordance with its policies or commitments for these funds.

Unrestricted

An unrestricted net assets represents cumulative revenue under expenses, including amortization, which remains after reserve fund cash commitments have been made.

12. INTEREST AND FINANCING COSTS

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

(in thousands)	**2005**	2004
Interest and financing costs incurred	**$ 403,027**	$ 362,601
Less:		
Interest earned on the Debt Service Reserve Fund	**(14,434)**	(11,657)
Capitalized Interest	**(54,193)**	(82,971)
	$ 334,400	$ 267,973

13. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

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

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2004 and the next required valuation will be as of January 1, 2007.

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

(in thousands)	**2005**	2004
Accrued benefit obligation		
Balance at beginning of year	**$ 74,321**	$ 54,515
Transfer of PSSA liabilities	**-**	4,351
Actuarial loss	**8,119**	6,769
Current service cost	**3,407**	2,958
Interest cost	**4,561**	3,894
Benefits paid	**(996)**	(743)
Employee contributions	**978**	942
Past service costs	**-**	1,635
Balance at end of year	**90,390**	74,321
Plan assets		
Fair value at beginning of year	**71,694**	55,510
Transfer of PSSA assets	**-**	4,351
Employee contributions	**978**	942
Employer contributions	**4,316**	6,558
Actuarial gain	**2,048**	1,209
Expected return on plan assets	**4,359**	3,867
Benefits paid	**(996)**	(743)
Fair value at end of year	**82,399**	71,694
Funded status - plan deficit	**(7,991)**	(2,627)
Unamortized net actuarial loss	**14,155**	8,131
Unamortized past service costs	**1,089**	1,362
Unamortized transitional obligation	**149**	164
Accrued benefit asset	**$ 7,402**	$ 7,030

13. EMPLOYEE BENEFITS (continued)

As at December 31, 2005, one of the GTAA's two defined benefit pension plans is in a deficit position of $10.9 million (2004 - $7.4 million deficit), with an accrued obligation of $79.5 million (2004 - $65.3 million) and a fair value of plan assets of $68.6 million (2004 - $57.9 million). The other is in a surplus position of $2.9 million (2004 - $4.8 million surplus), with an accrued obligation of $10.9 million (2004 - $9.0 million) and a fair value of plan assets of $13.8 million (2004 - $13.8 million).

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

(in thousands)	**2005**	2004
Current service cost	**$ 3,407**	$ 2,958
Interest cost	**4,561**	3,894
Amortization of transitional amount	**15**	15
Amortization of past service cost	**273**	273
Net actuarial loss	**47**	-
Expected return on plan assets	**(4,359)**	(3,867)
Net defined benefit pension plan expense	**$ 3,944**	$ 3,273

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the GTAA to its funded pension plans and cash contributed to the defined contribution plans was $8.5 million (2004 - $10.5 million).

The GTAA’s plan assets consist of:

	Percentage of plan assets	
Asset Category	**2005**	2004
Equity Securities	**57%**	58%
Fixed Income	**26%**	30%
Real Estate	**15%**	10%
Cash	**2%**	2%
Total	**100%**	100%

The significant actuarial assumptions used in measuring the GTAA’s accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31, 2005):

	2005	2004
Discount rate	**5.25%**	6.00%
Expected long-term rate of return on plan assets	**6.50%**	6.50%
Rate of compensation increase	**4.00%**	4.00%

13. EMPLOYEE BENEFITS (continued)

Defined Contribution Pension Plan Expense

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

(in thousands)	**2005**	2004
Defined contribution pension plan expense	**$ 1,536**	$ 1,362

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

Other Employee Future Benefits

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

14. TAXATION

The GTAA, and its wholly-owned subsidiary, are exempt from federal and provincial income tax, federal large corporations tax and Ontario capital tax.

The GTAA is exempt from real property tax under the Assessment Act (Ontario). However, the GTAA is required to pay each of the Cities of Toronto and Mississauga an amount determined by the Minister of Finance of Ontario, as a payment-in-lieu of real property taxes.

15. RELATED PARTY TRANSACTIONS

Directors' Fees

Directors' fees expense for the year ended December 31, 2005 were $592,350 (2004 - $483,550).

16. COMMITMENTS AND CONTINGENT LIABILITIES

Ground Lease

The GTAA's commitment in respect of annual Ground Lease Base Rent, including ground rent deferral repayments, has been estimated at approximately $150.1 million for the year ending 2006; $151.8 million for the year ending 2007; $154.6 million for the year ending 2008; $156.9 million for the year ending 2009 and $159.2 million for the year ending 2010 (see Note 19, Ground Rent Agreement).

16. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2005 of approximately $213.9 million (2004 - $384.5 million).

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

Letters of Credit

A letter of credit for $9.0 million was outstanding at December 31, 2005 (see Note 10, Long-Term Debt), relating to the GTAA's Clean Energy Supply contract with the Ontario Power Authority (see Note 20, Subsequent Events). The letter of credit expires April 11, 2006.

Environmental

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

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

Roadway Infrastructure

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

16. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Boeing Lands

In July 2001, the GTAA and Boeing Toronto, Ltd. ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of $30 million. These lands will be transferred to the GTAA in stages. It is anticipated that the first parcel will be conveyed in early 2006. The remaining lands will be conveyed from time to time thereafter over a maximum period of 20 years. Deposits totaling $8 million have been made, of which $3.3 million will be credited to the purchase price for the first parcel and $4.7 million to the purchase price for the second parcel.

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian Aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for 2006. 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 2006.

Cogeneration Facility

In conjunction with the Clean Energy Supply contract with the Ontario Power Authority (see Note 20, Subsequent Events), 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 (see Note 8, Capital Assets). 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.

16. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Litigation

Canada 3000

In 2001 the GTAA, together with other Canadian Airport Authorities ("CAAs"), applied to the Ontario Superior Court of Justice for an order under the Airport Transfer (Miscellaneous Matters) Act to permit the GTAA and the other CAAs to seize and detain aircraft operated by Canada 3000 in respect of outstanding fees, charges and airport improvement fees owed by Canada 3000 and its affiliates who filed for bankruptcy protection on November 11, 2001. The GTAA is owed approximately $12.8 million which was fully reserved in prior years. In a decision released May 7, 2002, the Ontario court held that the GTAA and the other CAAs were not entitled to seize and detain aircraft leased by Canada 3000 and its affiliates. The GTAA and the other CAAs appealed this decision to the Ontario Court of Appeal. In a decision dated January 20, 2004, the Ontario Court of Appeal upheld the lower court's decision by a majority. The GTAA and the other CAAs have filed an application for, and subsequently obtained, leave to appeal the Court of Appeal decision to the Supreme Court of Canada. The Supreme Court of Canada granted leave to appeal the decision of the Ontario Court of Appeal and argument before the Supreme Court was heard on January 16th and 17th, 2006. A decision in the matter will be released in 2006.

Jetsgo Corporation

On March 11, 2005 Jetsgo Corporation ("Jetsgo") ceased all operations and was granted protection from its creditors by the Quebec Superior Court under the Companies' Creditors Arrangement Act. The GTAA has filed a claim for $5.7 million, including G.S.T., for amounts due at the time the operations ceased and including airport improvement fees of $2.5 million. Given the preliminary status and uncertain outcome of Jetsgo's filing, the GTAA has taken a provision for $4.3 million against outstanding amounts.

Air France

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, was named as a defendant in a class action lawsuit commenced by certain passengers. The GTAA's insurers are defending this action. It is the opinion of management that this is an insurable event and that the GTAA's financial exposure is therefore limited to its insurance deductibles.

17. GUARANTEES

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

18. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Reserve funds, accounts receivable, accounts payable and accrued liabilities and security deposits are reflected in the financial statements at carrying values which approximate fair values because of the short-term maturities of these instruments.

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. The GTAA's fair values are management's estimates and are generally determined using market conditions at a specific point in time and may not reflect future fair values. The determinations are subjective in nature, involving uncertainties and the exercise of significant judgment.

18. FINANCIAL INSTRUMENTS (continued)

Set out below is a comparison of the amounts that would be reported if long-term debts were reported at fair values:

(in thousands)	**2005**		2004	
	Book Value	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 6,868,042**	**$ 7,656,055**	$ 6,267,448	$ 6,750,517

Prior to January 1, 2004, the GTAA entered into interest rate swap contracts, described below, to mitigate negative carry arising from investing the proceeds of fixed rate Revenue Bonds and Medium Term Notes in short-term floating rate investments to fund Reserve Funds (see Note 5, Reserve and Other Funds). The GTAA received the following fixed interest rates and paid variable interest rates semi-annually based on bankers' acceptance rates. Recent issues of floating rate debt provide an effective mechanism to mitigate the risk of investing Reserve Funds in short-term floating rate investments.

Series		**Nominal Value (in thousands)**	**Fixed Interest Rate**	**Term**	**Maturity Date**
1999-1	July 20, 1999	$ 40,000	6.450%	30 years	July 30, 2029
2000-1	June 12, 2000	17,500	6.310%	30 years	June 12, 2030
2000-2	July 17, 2000	21,000	6.274%	10 years	July 19, 2010
2000-1 reopen	January 16, 2001	21,000	6.131%	30 years	June 12, 2030
2000-2 reopen	January 9, 2001	18,400	5.851%	10 years	July 19, 2010
2001-1	June 4, 2001	35,000	6.395%	30 years	June 4, 2031

As of March 30, 2004, the GTAA liquidated all interest rate swap contracts resulting in a payment to the GTAA of $18.1 million. The unrealized deferred gain of $15.6 million as of December 31, 2003 was recorded as a deferred gain on interest rate swaps on January 1, 2004 when the interest rate swaps were dedesignated from their original hedging relationship. For the period from January 1, 2004 to the date the swap contracts were liquidated, the GTAA recognized a fair value gain of $2.5 million which was recorded in interest and financing costs. The unrealized deferred gain of $15.6 million is being amortized into interest and financing costs over the remaining term of the various interest rate swap contracts. As of December 31, 2005, $13.5 million of this deferred gain remains unamortized.

18. FINANCIAL INSTRUMENTS (continued)

In addition, the GTAA entered into a multi-interval commodity swap in July 2002 to fix the price on a portion of its electricity consumption. From November 2002 to February 2005 the GTAA paid a fixed price per MWh and received a floating price based on the Hourly Ontario Energy Price ("HOEP"). As of January 2004 a deferred charge of $1.8 million was recorded and has been amortized to goods and services expense over the remaining term of the swap as the underlying electricity consumption is recognized. Changes in fair value subsequent to January 2004 are recorded directly to goods and services expense. The fair value of the commodity swap as at December 31, 2005 is nil (2004 - $0.2 million) (see Note 7, Deferred Charges).

Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its floating rate current and long-term bank indebtedness (see Note 10, Long-Term Debt). The impact of a 1% change in interest rates applied to the average bank indebtedness outstanding during 2005 would have amounted to approximately $5.6 million (2004 - $5.7 million). The Debt Service Reserve Fund for bank indebtedness (see Note 5, Reserve and Other Funds) is adjusted annually on December 2nd based on the prevailing bankers' acceptance rate.

The impact of a 1% change in the interest rate on the Reserve Funds would amount to approximately $9.2 million (2004 - $8.8 million).

Credit Risk

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

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

19. GROUND RENT AGREEMENT

In July 2003 the Government of Canada announced a program to allow for a reduction in the ground rent, for a two-year period commencing July 1, 2003. The deferral during this period is $41.6 million. For each of the 10 years following January 1, 2006, the GTAA's annual ground rent payment will be increased by approximately $4.2 million per year. The increase in the liability for 2005 was $10.5 million, bringing the total liability to $41.6 million.

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

20. SUBSEQUENT EVENTS

Cogeneration Facility

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

Under the terms of the CES Contract, the GTAA will also be required to comply with certain financial and other covenants. As at February 17, 2006, the GTAA was in compliance with all such covenants.

Medium Term Notes

In February 2006, the GTAA issued Series 2006-1 Medium Term Notes in the amount of $250 million. Series 2006-1 has a term of 5 years and bears interest at 4.40%. Interest is payable semi-annually commencing August 28, 2006. The Series 2006-1 Medium Term Notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with a similar term to maturity.