Management's Discussion and Analysis and Financial Statements of the

Greater Toronto Airports Authority

September 30, 2011

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED SEPTEMBER 30, 2011
Dated November 9, 2011

Forward-looking Information

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority ("GTAA") for the quarter ended September 30, 2011 and should be read in conjunction with the Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Financial Statements and MD&A for the year ended December 31, 2010 and the Annual Information Form for the year ended December 31, 2010. These documents provide additional information on certain matters which may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form, the Financial Statements and the MD&A referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

Corporate Profile

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

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

Business Strategy

In carrying out its responsibilities, the GTAA is focused on providing quality aviation facilities and services for air carriers, passengers and other users of Toronto Pearson. To meet current and anticipated demand for air services the GTAA undertook the Airport Development Program ("ADP"), completed in January 2007, and the expansion and redevelopment of Terminal 3, which was substantially completed in December 2010. Recognizing that the region's demand for air travel is expected to continue to grow, the GTAA continues to plan for additional future development.

In 2010 the GTAA completed a review of its strategic direction. The GTAA's vision statement - "Toronto Pearson will be North America's premier portal to a world of possibilities" and its mission statement - "Together, we will attract, serve, and delight our customers by consistently delivering value through innovative products and services" reflect the GTAA's commitment to customer service and becoming North America's leading international gateway.

The principal areas of strategic focus by the GTAA are:

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

This strategic focus, together with the values of the GTAA and its employees, will guide the corporate activities, including an increased customer focus, which the GTAA believes are required to meet its goals and the air transportation needs of the region.

During 2011, the GTAA introduced a new brand identity to signal this change in strategic focus. To help illustrate this shift, travellers will see a new Toronto Pearson logo featuring a new colour scheme and the slogan: "For You. The World." The brand focuses on Toronto Pearson, the public-facing aspect of the GTAA's business, and represents the qualities that the GTAA and the Airport will need to deliver to meet the expectations of our air carrier and passenger customers and in turn meet the GTAA's strategic objectives.

The Airport now has sufficient capacity to meet projected air travel demands for the near-term and accordingly it is anticipated that, in the near term, there will be no significant capital investment undertaken to increase overall Airport capacity. However, the GTAA will be making additional capital investments to the existing facilities. These investments are for ongoing repairs and replacement to existing facilities, to improve operations and passenger processing capacity such as, the planned work on Terminal 3 or capital investments to generate additional non-aeronautical revenues. These investments are described in the section on Capital Projects. As outlined in the GTAA's Airport Master Plan covering the 2008 to 2030 period (available on GTAA's website at www.torontopearson.com), significant new capital expenditures and financing activities will be required by the GTAA over the term of the plan to increase the Airport's overall capacity to meet the anticipated air travel needs of the region. This development will be undertaken only as appropriate in response to increases in air travel demand.

Recent Events

On September 28, 2011, the GTAA announced its aeronautical fees for 2012. The combined impact of the new aeronautical fee changes will be an overall average reduction of approximately 2.5 per cent in 2012 compared to the overall 2011 aeronautical fees. The actual and percentage changes to the aeronautical fees effective January 1, 2012, as compared to 2011, are set out in the following table:

	Decreases from 2011	
Category	**Amount**	**Percentage**
Landing fees (passenger aircraft)	$1.79 per tonne	6.7 per cent
Landing fees (cargo aircraft)	$1.39 per tonne	6.9 per cent
General terminal charges (Domestic)	$0.52 per seat	9.3 per cent
General terminal charges (non-Domestic)	$0.65 per seat	9.3 per cent
Check-in counter fees	$1.30 per hour	5.9 per cent

	Increases from 2011	
Category	**Amount**	**Percentage**
Gate turnaround fees [(1)]	$33.34 per movement	50.0 per cent
Gate turnaround fees [(1)]	$0.39 per seat	16.2 per cent

[(1)] The increase in the gate turnaround fees is part of a three-year phasing in of these fees, as determined by the GTAA in consultation with the air carriers serving Toronto Pearson.

The fee decrease represents the fifth year that the GTAA has reduced aeronautical fees as part of its strategy to become more competitive on a cost basis.

Operating Activity

When compared to the first nine months of 2010, in the first nine months of 2011 air carriers serving Toronto Pearson have increased service (on a net basis) on a total of 33 routes, representing either completely new service or an increase in capacity on existing routes.

During the first nine months of 2011, 25.7 million passengers travelled through the Airport, as compared to 24.4 million passengers during the same period in 2010, representing an increase of 5.5 per cent. As has been the trend for several years, the most significant increase was recorded in the international sector, where there was an increase in passenger traffic of 8.6 per cent in the first nine months of 2011 when compared to the same period in 2010. The transborder sector experienced a passenger increase of 5.6 per cent and the domestic sector experienced an improvement of 2.7 per cent over the same comparable periods. In the three-month period ended September 30, 2011 passenger traffic increased by 6.0 per cent when compared to the same period in 2010. During this quarter domestic passenger traffic increased by 6.0 per cent, transborder traffic increased by 3.2 per cent and international traffic increased by 8.1 per cent, respectively, when compared to the same quarter of 2010.

The following table summarizes passenger activity by sector for the three- and nine-month periods ended September 30, 2011 and 2010.

	Three Months			Nine Months		
(in thousands)	2011	2010	%	2011	2010	%
Domestic	3,909	3,688	6.0%	9,947	9,684	2.7%
Transborder	2,350	2,277	3.2%	6,854	6,490	5.6%
International	3,245	3,001	8.1%	8,889	8,187	8.6%
Total	9,504	8,966	6.0%	25,690	24,361	5.5%

The domestic sector underperformed on a relative basis during the first half of 2011, reflecting the maturity of this market, the imposition of the Harmonized Sales Tax in Ontario on July 1, 2010, which increased the cost of domestic airfare, and competition from Billy Bishop Toronto City Airport ("City Centre Airport"), particularly on the high volume routes to Ottawa and Montréal. A marked improvement was experienced during the third quarter due to increased service offerings on the Ottawa, Montreal and Vancouver routes to/from Toronto Pearson. The growth in transborder passenger traffic continues a trend that began in 2010 and can be partially attributed to the increased use of Toronto Pearson as a connection point for passengers traveling from the United States to Canadian and international destinations and an increase in transborder services offered in response to the GTAA's air service incentive programs. The international sector, as it has for several years, continues to show the strongest growth as increased travel between Toronto and destinations in Asia, the Middle East and Latin America is driven by increasing economic and cultural linkages with these emerging markets. In June 2010, China granted Canada "Approved Destination Status" which is expected to have a positive impact on passenger travel between China and Canada as demonstrated by the recent growth in capacity and passenger traffic to and from the Pacific Rim.

Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the total maximum take-off weight ("MTOW") and the total number of arrived seats. These measures are used to calculate airline charges for each flight. Total movements in the first nine months of 2011 increased by 3.0 per cent, from 315,625 movements in the first nine months of 2010 to 324,968 movements in the first nine months of 2011. In the third quarter of 2011, total movements increased from 111,394 to 114,389, or 2.7 per cent, as compared to the same 2010 period. For the nine months ended September 30, 2011, MTOW increased by 5.6 per cent, as compared to the same period in 2010, from 10.0 million to 10.6 million tonnes. For the three months ended September

30, 2011, MTOW totaled 3.8 million tonnes, an increase of 4.5 per cent, as compared to the same 2010 period.

During the first nine months of 2011, the total number of arrived seats was 5.2 per cent greater than during the same period in 2010 with 16.4 million seats recorded in the 2011 period compared to 15.6 million in the 2010 period. In the third quarter of 2011, arrived seats were 5.0 per cent greater than in the same period in 2010, with 5.9 million seats recorded in the 2011 period compared to 5.6 million in the 2010 period.

The ongoing economic uncertainty in the United States and Europe may negatively impact future Airport activity and financial results.

During the past several years airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in higher airline load factors, or the ratio of passengers to seats. Passenger, seat and MTOW growth rates are now roughly equivalent, which suggests air carriers are adding capacity, either through additional routes or frequencies or larger aircraft, to accommodate the additional demand for air travel. It is expected that air carriers will continue to engage in capacity management techniques for the foreseeable future.

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

RESULTS OF OPERATIONS

Rate Setting

In reviewing the financial results, it is important to note that the GTAA is a corporation without share capital. Under the GTAA's financial model all funds, whether generated through revenues or debt, are used for Airport operations, ancillary aviation-related activities, construction, repairs and maintenance, debt payments, reserve funds, and other activities within the GTAA's mandate.

The objective of the GTAA's annual aeronautical rate setting approach is to break-even on a modified cash basis after including projected operating costs and reserve and debt requirements as set out in the master trust indenture for the GTAA's debt program (the "Trust Indenture"). To calculate the rates and charges for a given year, projections are developed for measures of Airport operating activity such as passengers, MTOW, arrived seats, gate and counter usage, non-aeronautical revenues and operating costs. Operating costs include debt service for those assets that are operational, but do not include non-cash items such as amortization of capital assets. Capital costs, including interest for projects under construction, are funded through debt and are not included in the calculation of the aeronautical rates and charges. However, a notional amortization of debt, based on a 30-year amortization period, which is not included in the operating results, is included in the rate setting calculation. This amortization of outstanding debt is reserved and used for future debt repayments.

The GTAA's aeronautical revenues are comprised of the following: landing fees based on the aircraft's MTOW; general terminal charges based on the number of seats of an arriving aircraft; and since July 1, 2010, turnaround fees charged for the use of terminal facilities to gate aircraft and check-in fees charged for the use of check-in counters in the terminals.

The introduction of the turnaround fee and the check-in fee was designed to increase transparency in Airport pricing, provide air carriers opportunities to reduce their costs through the operating choices they make and to encourage more efficient use of Airport resources, thereby reducing Airport operating costs and the future need for additional capital development.

Effective January 1, 2011, the landing fees for passenger aircraft and general terminal charges were reduced by 4.5 per cent and 7.9 per cent, respectively, as compared to the rates in effect in the prior year. At the same time, the turnaround fee charged for gating passenger aircraft at the Airport was increased to $66.66 per flight as part of the change to Toronto Pearson's fee structure as endorsed by the airline community. Effective January 1, 2011, the per-seat portion of the turnaround fee increased to $2.41. The check-in fee for 2011 remained unchanged from the 2010 levels. The increase in the turnaround fee largely offsets the decrease in the landing fee and general terminal charge which became effective January 1, 2011.

Commencing on January 1, 2011, the landing fees for cargo aircraft were reduced by 4.3 per cent when compared to the rates implemented on July 1, 2010.

Also effective January 1, 2011, the AIF for passengers connecting through Toronto Pearson decreased from $8 to $4 (including administration fee paid to the air carriers). The AIF for originating passengers remained unchanged at $25 (including administration fee paid to the air carriers).

On September 28, 2011, the GTAA announced its aeronautical fees for 2012. The actual and percentage changes to the aeronautical fees effective January 1, 2012, as compared to 2011, are set out in the following table:

	Decreases from 2011	
Category	**Amount**	**Percentage**
Landing fees (passenger aircraft)	$1.79 per tonne	6.7 per cent
Landing fees (cargo aircraft)	$1.39 per tonne	6.9 per cent
General terminal charges (Domestic)	$0.52 per seat	9.3 per cent
General terminal charges (non-Domestic)	$0.65 per seat	9.3 per cent
Check-in counter fees	$1.30 per hour	5.9 per cent

	Increases from 2011	
Category	**Amount**	**Percentage**
Gate turnaround fees (1)	$33.34 per movement	50 per cent
Gate turnaround fees (1)	$0.39 per seat	16 per cent

(1) The increase in the gate turnaround fees is part of a three-year phasing in of these fees, as determined by the GTAA in consultation with the air carriers serving Toronto Pearson.

The combined impact of the above noted aeronautical fee changes will be an overall reduction of approximately 2.5 per cent in 2012 compared to the overall 2011 aeronautical fees.

The GTAA's continuing commitment to increase non-aeronautical revenues and manage operating expenses is reflected in the reductions in average air carrier cost per enplaned passenger (the amount that air carriers pay to the GTAA expressed as a per passenger rate) which began in 2008 and will continue into 2012.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges, which include the turnaround fee and the check-in fee), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other sources. The primary drivers for aeronautical revenues are aircraft movements. Landing fees are based on the MTOW and general terminal charges are based on the number of seats of an arriving aircraft and the usage of terminal facilities to gate aircraft and check-in passengers. The AIF is charged per passenger and a portion of non-aeronautical revenues is correlated to passenger activity. The following table summarizes the GTAA's revenues for the three- and nine-month periods ended September 30, 2011 and 2010:

	Three Months		Nine Months	
(in thousands)	2011	2010	2011	2010
Landing fees	$94,417	$95,224	$262,902	$279,668
General terminal charges	58,807	51,983	165,815	129,632
	153,224	147,207	428,717	409,300
Airport Improvement Fees	83,353	85,114	229,848	230,643
Car parking & ground transportation	32,543	32,614	95,139	91,648
Concessions & rentals	35,659	33,665	104,589	101,969
Other	2,892	4,456	8,228	8,812
Total	$307,671	$303,056	$866,521	$842,372

For the first nine months of 2011, aeronautical revenues totaled $428.7 million, an increase of $19.4 million from the same period in 2010. The increase in 2011, as compared to the same period in 2010, reflects the increase in Airport activity between the two periods as aeronautical rates were largely unchanged in 2011 when compared to 2010. However, due to the introduction of the turnaround fee and the check-in fee discussed above, landing fee revenues decreased while general terminal charge revenues, which include revenues from the two new fees, increased in the first nine months of 2011 compared to the first nine months of 2010. A similar increase was experienced during the third quarter ended September 30, 2011, as aeronautical revenues increased by $6.0 million from $147.2 million to $153.2 million for the quarters ended September 30, 2010 and September 30, 2011, respectively.

AIF revenues, which excludes the administration fee collected by the air carriers for the administration of the AIF, for the nine months ended September 30, 2011 was $229.8 million as compared to $230.6 million for the same period in 2010. This decrease reflects higher passenger activity which was offset by the reduction in the AIF for connecting passengers from $8 to $4 which became effective January 1, 2011. For the same reason, AIF revenues earned during the third quarter ending September 30, 2011 totaled $83.4 million, as compared to $85.1 million during the same period in 2010. Under the AIF agreements with each of the air carriers, the GTAA has committed to using primarily all of the AIF revenues for capital programs, including the associated debt service (interest and principal). Historically, the GTAA has used AIF revenues to fund debt service.

Recognizing that capital expenditures or payment of debt service and receipt of AIF revenues may not occur in the same period, AIF revenues earned and collected, but not used in a given period, is retained in the AIF Reserve Fund for future capital or debt service payments.

The increase in revenues from car parking and ground transportation from $91.6 million to $95.1 million for the nine months ended September 30, 2010 and 2011, respectively, reflects the increase in passenger volumes during the first nine months of 2011, partially offset by a reduction in ground transportation revenues due to certain ground transportation concession contracts being renewed at the beginning of the second quarter of 2010 at lower rates, reflecting the market impact of the economic downturn at that time. Car parking and ground transportation revenues during the three-month period ended September 30, 2011, were generally unchanged when compared to the three-month period ending September 30, 2010, as the increase in car parking revenues due to higher passenger activity was offset by the impact of lower revenues derived from the aforementioned ground-transportation concession contracts.

Concession and rental revenues increased from $102.0 million to $104.6 million for the nine months ended September 30, 2010 and 2011, respectively, reflecting the increase in passenger volumes during 2011, partially offset by a reduction in rental revenues, as the events related to G8 and G20 summits bolstered rental revenues during the same period in 2010. For the same reason, concession and rental revenues increased from $33.7 million to $35.7 million for the quarters ended September 30, 2010 and September 30, 2011, respectively.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, consulting services, and fire and emergency services training, totaled $8.2 million in the first nine months of 2011 as compared to $8.8 million in the comparable period in 2010. The decrease is due to a combination of fluctuations in the price of natural gas and electricity, which resulted in decreased Cogeneration Plant operations during the first nine months of 2011, and an increase in revenues from fire and emergency services training. For the same reasons, when comparing other revenues during the three-month period ended September 30, 2011 and September 30, 2010, there was a decrease of $1.6 million from $4.5 million in 2010 to $2.9 million in 2011.

Expenses

Expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment. The following table summarizes the total expenses for the three- and nine-month periods ended September 30, 2011 and 2010.

	Three Months		Nine Months	
(in thousands)	2011	2010	2011	2010
Ground rent	$35,727	$31,063	$100,001	$93,279
Goods and services	50,316	55,737	155,970	159,961
Salaries, wages and benefits	26,630	25,266	84,013	81,634
Payments-in-lieu of real property taxes	6,902	6,573	20,689	19,720
Amortization of property and equipment, investment property and intangible assets	53,286	53,723	158,144	165,470
Operating Expenses	172,861	172,362	518,817	520,064
Interest Income	(2,921)	(1,548)	(8,697)	(3,661)
Interest expense on debt instruments and other financing costs	109,025	106,605	329,716	327,509
Premium on early retirement of debt	-	-	27,565	-
Net Interest and Financing Costs	106,104	105,057	348,584	323,848
Total expenses	$278,965	$277,419	$867,401	$843,912

Ground rent payments are calculated as a percentage of revenues, as set out in the Ground Lease. Ground rent expense during the first nine months of 2011 was higher by $6.7 million, when compared to the same period in 2010. This increase is due to the increase in revenues (as defined in the Ground Lease) between the two periods. Similarly, the ground rent expense for the three-month period ended September 30, 2011 increased to $35.7 million from $31.1 million for the same period in 2010. In each quarter beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government include a $1.0 million payment of ground rent that had been deferred by the federal government in the 2003 to 2005 period. This payment is not recorded as an expense in the statement of operations as it has been accrued in a previous period.

Expenditures for goods and services were $156.0 million for the nine months ended September 30, 2011, a $4 million decrease from the same period in 2010. The decrease can be attributed to increased snow removal expense, offset by decreases in professional and contractual services and a higher gain on the valuation of a derivative contract with the Ontario Power Authority related to the Cogeneration Plant during the 2011 period. During the quarter ended September 30, 2011, costs incurred in relation to goods and services were $50.3 million as compared to $55.7 million for the same period ended September 30, 2010. This decrease is attributable to a greater gain on the valuation of a derivative contract with the Ontario Power Authority related to the

Cogeneration Plant during the 2010 period, which offsets goods and services expense, and lower professional and contractual service expense.

Salaries, wages and benefits increased from $81.6 million to $84.0 million for the nine-month periods ending on September 30, 2010 and September 30, 2011, respectively. The increase is primarily attributable to an accrual related to actuarial valuation of certain post-employment benefit costs and an increase in overtime costs due to a time delay in filling certain full-time positions, both incurred during the first quarter of 2011. The expenditures for salaries, wages and benefits increased to $26.6 million from $25.3 million for the quarter ended September 30, 2011 from the same period in 2010. The increase is primarily attributable to filling certain full-time positions.

The GTAA has an exemption from the payment of real property taxes under the Assessment Act (Ontario), and instead pays payments-in-lieu of taxes ("PILT") to each of the Cities of Toronto and Mississauga as prescribed by an Ontario regulation. The PILT amount is based on passenger volumes in a prior year and therefore the increase of $1.0 million for the nine months ended September 30, 2011 over the same 2010 period reflects the increased annual passenger volumes in the underlying year (2008 as compared to 2007) used in the calculation. The decrease in passenger activity in 2009 will be reflected in lower PILT payments in future years, and similarly, the traffic recovery in 2010 will be reflected in higher PILT payments in later years. The increase in PILT expenditure of $0.3 million during the three-month period ended September 30, 2011, as compared to the same period in 2010, was for the same reason.

Net interest and financing costs were $348.6 million for the nine-month period ended September 30, 2011, as compared to $323.8 million for the same period in 2010. This increase of $24.7 million is primarily attributed to the costs associated with the early redemption of the Series 2008-2 Medium Term Notes ("MTNs"), partially offset by higher interest income on cash and restricted fund investment holdings and lower interest expense due to a lower average balance of outstanding debt. In addition, the 2011 period saw lower capitalized interest and the absence of a gain on holdings of non-bank asset backed commercial paper when compared to the 2010 period. The redemption of the Series 2008-2 MTNs resulted in a charge of $27.6 million, primarily due to the difference between the redemption price and the carrying value for financial statement purposes of the notes at the time of redemption. This charge was recorded in interest and financing costs in the first quarter of 2011. The redemption of the Series 2008-2 MTNs was funded by the issuance of the Series 2011-1 MTNs. By taking advantage of current low interest rates the GTAA has achieved interest expense savings and expects to experience interest savings over the life of the Series 2011-1 MTNs greater than the premium paid on the Series 2008-2 redemption. Net interest and financing costs for the quarter ended September 30, 2011 increased by $1.0 million to $106.1 million when compared to the same quarter in 2010. The increase in net interest and financing costs between the periods was primarily attributable to higher interest income on cash and restricted fund investment holdings and a lower interest expense due to lower average balance of outstanding debt, offset by the absence of a gain on holdings of the non-bank, asset backed commercial paper prior to their disposition during the fourth quarter of 2010.

Amortization of property and equipment, investment property and intangible assets decreased from a total of $165.5 million to $158.1 million when comparing the results for the nine-month periods ended September 30, 2010 and 2011, respectively. The decrease in amortization of property and equipment was due to a reduction in the asset base due to the ongoing amortization of property and equipment, investment property and intangible assets. Similarly, the amortization of property and equipment, investment property and intangible assets decreased by $0.5 million from $53.7 million for the quarterly period ended September 30, 2010 to $53.3 million for the same period in 2011.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three- and nine-month periods ended September 30, 2011 and 2010.

	Three Months		Nine Months	
(in thousands)	2011	2010	2011	2010
Revenues	$307,671	$303,056	$866,521	$842,372
Operating expenses	172,861	172,362	518,817	520,064
Revenues over operating expenses	134,810	130,694	347,704	322,308
Interest and financing costs, net	106,104	105,057	348,584	323,848
Net Income/(Loss)	$28,706	$25,637	$(880)	$(1,540)

The components of revenues and expenses were discussed previously. Revenues over operating expenses increased to $347.7 million in the nine months ended September 30, 2011, from $322.3 million for the same period in 2010. Similarly, revenues over operating expenses increased to $134.8 million in the three months ended September 30, 2011, from $130.7 million for the same period in 2010.

For the nine-month period ended September 30, 2011, the GTAA recorded a net loss of $0.9 million, compared to a net loss of $1.5 million in the same 2010 period. For the three-month period ended September 30, 2011, the GTAA recorded net income of $28.7 million, compared to a net income of $25.6 million in the same 2010 period.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the quarters ended December 31, 2009 through September 30, 2011 is set out in the following table:

	Quarter Ended							
	2011 (1)			2010 (1)				2009(2)
(in millions)	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Revenues	$308	$283	$276	$270	$303	$271	$268	$273
Operating expenses (3)	120	117	124	128	119	117	119	146
Revenues over operating expenses (	188	166	152	142	184	154	149	127
Interest and financing costs, net	106	106	137	109	105	111	108	114
Amortization of assets	53	54	51	58	54	55	56	54
Net Income/(Loss)	$29	$6	$(36)	$(25)	$25	$(12)	$(15)	$(41)

(1) Prepared in accordance with IFRS

(2) Prepared in accordance with previous Canadian GAAP

(3) Excluding amortization of assets, which represents amortization of property and equipment, investment property, and intangible assets.

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

CAPITAL PROJECTS

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

Continued long-term growth in passenger demand will require further expansion of Terminal 1. In order to facilitate this, the GTAA has developed a work plan, the Post ADP Program, which includes the demolition of Terminal 2 and the Terminal 2 parking garage; apron construction in the area that Terminal 2 once occupied; replacing the Terminal 2 parking capacity and increasing the overall parking capacity at the Airport with the construction of a new parking facility in Area 6B on the east side of Airport Road; replacement of certain utilities infrastructure; and the preliminary design of Pier G at Terminal 1. The majority of this work was completed during the 2009 to 2011 period with the exception of the preliminary design of Pier G, which has been deferred until future requirements warrant this work. The Terminal 2 garage demolition is now complete and apron construction is currently underway. The Post ADP Program has an authorized budget of $439.7 million of which $286.6 million has been expended at September 30, 2011. The timing of the final design and construction of Pier G and other future Airport expansion projects remain under review, and will be dependent on demand.

The GTAA has also undertaken a program to further expand and redevelop certain areas in Terminal 3, including the baggage handling systems and passenger processing areas as well as other improvements. This work, which had been budgeted at $355.3 million, was substantially complete as of December 31, 2010. The total cost of the program as of September 30, 2011 was $359.3 million.

In 2008, the GTAA approved a capital program to improve Terminal 3. This program was designed to provide improvements to the food and beverage and other retail offerings in the terminal and changes to passenger processing and security areas designed to improve passenger connections and other passenger flows through the terminal. The budget was $85.1 million. Due to the slowdown in passenger activity experienced in 2009, the GTAA deferred work on this program. There have been no material expenditures on the program. The GTAA is currently reviewing the Terminal 3 Master Plan to address new security, branding, pricing and capacity, retail and guest experience initiatives. This program will be implemented once the review has been completed and a new scope of work and budget have been approved.

Other capital projects typically undertaken are primarily to upgrade, refurbish or replace existing facilities. During the nine- and three-month periods ending on September 30, 2011 a total of $36.2 million and $23.8 million, respectively, was expended on such projects.

The GTAA has historically funded capital projects primarily through borrowing in the debt capital markets.

ASSETS AND LIABILITIES

Total assets and liabilities as at September 30, 2011 as compared to December 31, 2010 are set out below.

(in millions)	September 30, 2011	December 31, 2010
Total Assets	$6,864.1	$6,829.4
Total Liabilities	$7,554.1	$7,512.8

Total assets, at September 30, 2011, increased by $34.7 million from the December 31, 2010 balance of $6.8 billion. This increase in assets is primarily attributable to an increase in the balance of restricted funds, partially offset by a decrease in current assets and value of property and equipment. Total liabilities increased by $41.3 million between December 31, 2010 and September 30, 2011, from the opening balance of $7.5 billion. The increase in total liabilities results primarily from a net increase in long-term debt and value of the security deposits on hand offset by a reduction in accounts payable, provisions and other accrued current liabilities.

The deficit and accumulated other comprehensive income of $690.0 million at September 30, 2011, as reported on the statements of financial position is a combination of the cumulative impact of the restricted funds which have been funded through operating revenues, cumulative net income/(loss) and cumulative other comprehensive income/(loss), where a $4.4 million loss on a period-end valuation of a cash flow hedge was recorded during the quarter ended September 30, 2011. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in a reserve fund which the GTAA has used and intends to continue to use for debt repayment. Amortization of property and equipment is not included in the calculation of aeronautical charges. In addition, as part of the adoption of International Financial Reporting Standards ("IFRS") the GTAA identified assets which were further componentized and reassessed the new useful lives of the assets, resulting in additional amortization expense.

Historically the amortization of the GTAA's most significant assets was reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. Effective January 1, 2011, the GTAA reassessed its amortization policy for certain assets and commenced amortizing these assets on a straight line basis. This differential between notional amortization of debt and amortization of property and equipment contributes to the GTAA's cumulative net deficiency. It is anticipated that when the principal component included in the landing fee increases to a level where it is equal to or exceeds the amount of amortization of property and equipment, revenues will exceed all expenses including amortization of property and equipment, providing the potential for improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a corporation without share capital and accordingly is funded through operating revenues, AIF revenues, reserve funds, the debt capital markets and its syndicated bank credit facility. As noted previously, aeronautical charges are set each year to cover the projected operating costs, including debt service and reserve requirements, after consideration of the projected air traffic, passenger activity and non-aeronautical revenues. Consistent with its residual approach, any funds generated by the GTAA are used to cover costs within its mandate.

On February 16, 2011, the GTAA announced that it had exercised its right to redeem all $325.0 million of the outstanding Series 2008-2 Medium Term Notes ("MTNs") on March 21, 2011. The Series 2008-2 MTNs carried a coupon of 5.89% and had a maturity date of December 6, 2013. The redemption price of $1,081.98 per $1,000.00, plus accrued interest, was paid to bondholders on the redemption date and the Series 2008-2 MTNs were cancelled. The redemption resulted in an expense, recorded in interest and financing costs, of $27.6 million in the March 31, 2011 financial statements. Through the redemption and refinancing of the Series 2008-2 MTNs, the GTAA expects to achieve future interest and financing cost savings in excess of the $27.6 million charge.

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

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

The GTAA has a $500 million credit facility and a $50 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2014 and can be extended annually for one additional year with the lenders' consent. The $500 million credit facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets in the future. These facilities rank *pari passu* with all other debt of the GTAA.

Other than a $2.3 million letter of credit, the GTAA had no funds drawn under the $500 million credit facility.

The $50 million hedging facility was utilized in reference to the $200 million cash flow hedge entered into during the third quarter of 2011. As at September 30, 2011, the marked-to-market value of the hedge was a loss of $4.4 million, which represents the utilization amount under the hedging facility as of that date.

On September 27, 2011, the GTAA entered into the above-noted hedging agreement to fix the interest rate on a $200 million notional amount of the underlying Government of Canada 30-year bond used to price 30-year GTAA debt issues. Subsequent to the end of the third quarter the GTAA entered into another $200 million agreement to fix the 30-year Government of Canada bond yield. Both transactions have a maturity date of January 30, 2012. The purpose of these transactions is to lock-in current, low Government of Canada bond yields in anticipation of the GTAA issuing additional debt prior to January 30, 2012. The proceeds of this anticipated debt issuance would be used to refinance the Series 2002-1 MTNs, which mature on that date. These bond forward transactions do not lock-in the credit spread, which GTAA would pay over and above the Government of Canada bond yield when it issues its new debt.

Total restricted funds, which are comprised of reserve funds required under the Trust Indenture and other reserves held according to GTAA policy, as at September 30, 2011, were $1.1 billion, as compared to $926.5 million at December 31, 2010. All of the restricted funds, as at September 30, 2011, are cash funded and invested and depending on the nature of the fund, are held by the Trustee for specific purposes as required under the Trust Indenture, or held by the GTAA in accordance with its own policies.

At September 30, 2011, the GTAA had a working capital deficiency of $610.2 million. As of that date, the GTAA had available $1.1 billion in restricted funds which are classified as long-term assets. In addition the GTAA had available $129.9 million in cash and cash equivalents, the majority of which is earmarked to fund the remaining 2011 capital expenditures and partially repay the $500 million Series 2002-1 MTNs which mature in January 2012 (classified as a current liability on the September 30, 2011 statements of financial position), and $497.7 million of credit available under its credit facility. The GTAA believes that the reserve balances, available credit and cash balances, and its ability to access the capital markets provide sufficient liquidity to mitigate any potential impact of the reported working capital deficiency.

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to maximize the flexibility in accessing capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given its current cash balance, the current available credit facility, reserves and projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls during 2011. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies and critical accounting judgments and estimates of the GTAA are set out in Notes 3 and 6, respectively, of the Financial Statements and Notes as of September 30, 2011. Other than the adoption of IFRS, effective January 1, 2011, there were no changes to the accounting policies of the GTAA in the first nine months of 2011. The Notes to the Financial Statements of the GTAA dated September 30, 2011 contain important disclosure regarding the adoption of IFRS by the GTAA and should be consulted in conjunction with this MD&A.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises would be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

Accordingly, the GTAA transitioned to IFRS in the first quarter of 2011 with 2010 IFRS compliant comparative figures.

Significant Impact upon Adoption of IFRS:

a) Property and equipment:

IFRS and Canadian GAAP generally contain the same basic principles for property and equipment, however there are some differences. Specifically, IFRS is more prescriptive over the requirements to componentized property and equipment and amortizing each component separately. On adoption, the GTAA identified various components of the terminal and other assets which required further componentization under IFRS. These components have different useful lives than the primary asset under Canadian GAAP. To reflect the further amortization in respect of these assets, adjustments of $4.2 million and $17.9 million were required for the three-month and nine-month periods ended September 30, 2010, respectively in addition to an adjustment of $209.7 million, at January 1, 2010.

Under IFRS, major spare parts and stand-by equipment qualify as property and equipment when an entity expects to use them during more than one period and the equipment can be used only in connection with an item of property and equipment. As a result as at September 30, 2010, $1.5 million of certain spare parts and servicing equipment was reclassified from Inventory to Property and equipment and amortized accordingly.

Property meeting the definition of investment property under IAS 40, *Investment Property* continues to be measured at historic cost less any accumulated amortization but is required to be disclosed separately on the statement of financial position with additional disclosure requirements. As a result, at September 30, 2010, $24.0 million was reclassified from Property and equipment to Investment property on the statement of financial position.

b) Post-employment benefits:

As a result of differences in measuring the current expense for benefits under IFRS, the GTAA recorded a recovery of $0.1 million and $0.4 million related to the three-month and nine-month periods ended September 30, 2010 respectively.

c) Provisions:

IFRS requires provisions be disclosed separately on the face of the financial statements. As such, a reclassification of accruals previously presented in Accounts payable and accrued liabilities on the statement of financial position, to Provisions was made at September 30, 2010 and for each subsequent quarter.

Reconciliation of Deficit:

Significant transactions impacting deficit at September 30, 2010 include:

	$
Deficit as reported under Canadian GAAP	403,372
IFRS adjustments:	
Impact due to amortization of property and equipment as a result of componentization and other changes	228,863
Adjustment to borrowing costs	(902)
Adjustment to pension asset	21,019
Change in recorded pension expense	(402)
Deficit under IFRS	**651,950**

Reference should be made to the Financial Statements of the GTAA dated March 31, 2011 and MD&A for the period ended March 31, 2011, for further description of above adjustments. These Financial Statements and MD&A are available on SEDAR at www.sedar.com and the GTAA's website at www.torontopearson.com.

Impact of future changes to IFRS:

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

INTERNAL CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of September 30, 2011 of the design and operation of the disclosure controls and procedures, as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO"), and the Vice President and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures. Management has determined that as at September 30, 2011, the design and operation of the disclosure controls and procedures continues to be effective.

GTAA management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the GTAA's reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP (now IFRS). While no material weaknesses with respect to internal controls over financial reporting have been identified as at September 30, 2011, any assessment may not detect all weaknesses nor prevent or detect all misstatements because of inherent limitations. Additionally, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the GTAA's policies and procedures. There were no changes in the GTAA's internal controls over financial reporting that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business. The Audit Committee is responsible for ensuring the adequacy of the GTAA's Enterprise Risk Management ("ERM") program. All standing committees of the Board are responsible for ensuring that management has appropriate policies and procedures to identify and manage specific risks and to ensure that such policies and procedures are effective.

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

The GTAA, its operations, and its financial results and condition are subject to certain risks. The reader is directed to the Financial Statements and MD&A for the year ended December 31, 2010 and the Annual Information Form for the year ended December 31, 2010 which provide a comprehensive discussion of the GTAA's risks and uncertainties. The following are the principal risks facing the GTAA.

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

Partner Concentration Risk: Overdependence on a limited number of business partners may materially impact the operations and financial condition of the GTAA should one of these significant partners significantly reduce or cease operations at Toronto Pearson or take actions that are harmful to the GTAA. If an airline serving the Airport were to cease operations or to reduce service at the Airport, some period of time could elapse before other airlines absorb its traffic. In addition, the GTAA is exposed to the risk of financial loss if any tenant or air carrier operating at the Airport files for creditor protection or declares bankruptcy. Since Air Canada, including its regional affiliate Georgian Airlines, and Jazz (with which Air Canada has a Capacity Management Agreement), carried 56.2 per cent of total Airport passengers in 2010, the GTAA has a particular exposure to this dominant air carrier. The GTAA has taken measures to protect it from defaulting air carriers by strengthening its payment terms with the air carriers and obtaining security deposits, where appropriate.

Funding Risk: As at September 30, 2011, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of $7.3 billion. The GTAA will need to continue to access the capital markets to refinance maturing debt and finance future capital projects. The GTAA has included in the calculation of its landing fees a notional principal component to enable portions of principal to be paid down when debt matures. This notional principal component will increase over time based on a thirty-year amortization.

There is always risk when raising funds in the capital markets, including risks relating to fluctuating interest rates and the availability of funds at any point in time. While the GTAA's debt program has historically been well received by the capital markets in Canada, any dislocation in the global capital markets could affect the GTAA's ability to meet its financing requirements. While no adverse impact on the GTAA has been noted, recent events affecting the sovereign debt of the United States and several European Union countries have impacted local and global credit markets. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of any debt issue so as to ensure continued access to the markets and to maximize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

Labour Risk: In 2009, the GTAA and CAW Local 2002, which represents the unionized employees of the GTAA (excluding firefighters), settled the terms of a consolidated collective agreement which expires on July 31, 2013. The Airport's largest air carrier, Air Canada, has several collective agreements with its unionized employees which expire in 2011. After the expiration of these collective agreements, there is a risk of a strike or lockout if the parties are unable to agree on the terms of a new collective agreement. It is anticipated that the primary impact of a strike or lockout of GTAA's unionized employees would be delays in accessing the Airport due to picketing activity. It is anticipated that a strike or lockout of Air Canada's unionized employees could result in delays in accessing the Airport due to picketing activity and a decrease in the GTAA's revenues if Air Canada's operations are materially impacted. A labour dispute affecting 3,800 Air Canada customer service and sales, gate and check-in agents was settled after a three-day strike action at the Airport in June 2011. On October 13, 2011, 6,500 Air Canada flight attendants were in a legal strike position. This matter was referred to the Canada Industrial Relations Board ("CIRB") by the federal Minister of Labour. No strike or lockout action could take place while the CIRB is considering the matter. On October 20, 2011, both parties agreed to binding arbitrations to resolve their conflict. On November 7, 2011, the arbitrator made her ruling resulting in a new labour agreement which matures in March 2015. Air Canada and all flights continued to operate as scheduled.

A number of other companies and government agencies are also involved in the delivery of services at the Airport. For example, The Canadian Air Transport Security Authority ("CATSA") is responsible for pre-board screening of passengers at Canadian airports, including Toronto Pearson. CATSA outsources this function to Garda Security Group ("Garda"), or its affiliates as applicable, to provide this service. Garda's contracted staff staged a work slowdown over the course of a number of days during the month of October, despite CIRB's injunction and a court order prohibiting a work slowdown in screening operations. Normal operations have since resumed.

In the event of a strike by the unionized employees of the GTAA, an air carrier or other significant business partner, the GTAA will implement its labour contingency plans to maintain continued airport operations.

Airport Competition Risk: The Airport competes with other major North American airports located in Chicago, New York and Detroit for North American hub and gateway traffic. These airports or the air carriers operating there may undertake competitive responses to actions taken by the GTAA to increase connecting traffic at Toronto Pearson.

Toronto Pearson also competes with other airports for origin and destination air passenger traffic. There is a risk of the diversion of passengers from Toronto Pearson to other airports. Toronto Pearson's main competitors for transborder and domestic traffic are Buffalo Niagara International Airport ("Buffalo Airport") and City Centre Airport.

In 2010, the Globe and Mail newspaper reported that approximately 1.9 million passengers using Buffalo Airport were Canadians, who comprised approximately 36 per cent of that airport's passenger volume. The Niagara Frontier Transportation Authority, the operator of Buffalo Airport, estimated that approximately one million passengers who used Buffalo Airport in 2010 were from the Greater Toronto Area and Hamilton.

In 2010, City Centre Airport handled approximately 1.2 million passengers, a 48 per cent increase over 2009 as a result of the expansion of Porter Airlines' route network of scheduled domestic and transborder flights. On May 1, 2011, Air Canada commenced operations from the City Centre Airport.

CONCLUSION

In 2010 Toronto Pearson saw a strong recovery from the 2009 decline in Airport activity caused by the global economic slowdown. 2011 has shown continued strong growth in activity. There continues to be some risk for the air travel industry due to continued economic uncertainty and higher oil prices. While the GTAA remains optimistic about growth in Airport activity for the remainder of 2011, it anticipates a moderate growth in 2012. The GTAA remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues and, working with air carriers to attract new air service.

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

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate, that the assumptions may not be correct and that actual results may vary from the forward-looking information. The GTAA cautions readers of this MD&A not to place undue reliance on the forward-looking information as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information.

Words such as “believe”, “expect”, “plan”, “intend”, “estimate” “anticipate” and similar expressions, as well as future or conditional verbs such as “will”, “should” “would” and “could” often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding: demand for air travel in the GTA; budgets and expenditures relating to capital programs; terminal, airside, infield and other capital developments at the Airport; the relationship between the GTAA’s revenues and reserve funds and its operating expenses and interest and financing costs; non-aeronautical revenues; airline load factors and fleet mix; the commencement of operations of facilities currently under construction at the Airport; the GTAA’s capital borrowing requirements and its ability to access the capital markets; passenger projections; the impact of incentive programs and reductions in aeronautical rates; the implementation of new aeronautical or other fees; cash flows and liquidity; the use of current cash and cash equivalent balances; the impact of China granting “Approved Destination Status” on travel between China and Canada; the impact of terrorism or the threat of terrorism and enhanced security screening on passenger activity; the impact of a strike or lockout of GTAA or Air Canada unionized employees; and the impact of the transition to IFRS.

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

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

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

Financial Statements of the

Greater Toronto Airports Authority

September 30, 2011

(unaudited)

Greater Toronto Airports Authority
Statements of Financial Position

(unaudited)(in thousands of Canadian dollars)	**September 30 2011**	December 31 2010
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**129,935**	170,188
Accounts receivable	**38,275**	36,604
Prepaids and other receivables	**3,964**	11,351
Inventory	**5,620**	6,786
	177,794	224,929
Non-current Assets		
Restricted funds (Note 7)	**1,105,580**	926,503
Intangibles and other assets (Note 8)	**88,851**	85,736
Property and equipment (Note 9)	**5,459,016**	5,562,251
Investment property (Note 10)	**23,518**	24,055
Post-employment benefit asset	**9,298**	5,933
	6,864,057	6,829,407
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**70,301**	67,664
Provisions (Note 12)	**3,271**	14,495
Security deposits and deferred credits	**68,615**	66,958
Current portion of deferred ground rent (Note 1)	**4,156**	4,156
Current portion of long-term debt (Note 11)	**641,632**	349,516
	787,975	502,789
Non-current Liabilities		
Deferred credit and other liabilities (Note 8)	**31,564**	33,590
Deferred ground rent (Note 1)	**13,508**	16,625
Post-employment benefit liability	**10,814**	8,924
Long-term debt (Note 11)	**6,710,223**	6,950,825
	7,554,084	7,512,753
Deficit and Accumulated other comprehensive loss (Note 1)	**(690,027)**	(683,346)
	6,864,057	6,829,407

Commitments and contingent liabilities (Note 14)

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

Greater Toronto Airports Authority
Statements of Operations and Comprehensive Income (Loss)

(unaudited)(in thousands of Canadian dollars)	Three Months Ended September 30 2011	2010	Nine Months Ended September 30 2011	2010
	$	$	**$**	$
Revenues				
Landing fees	**94,417**	95,224	**262,902**	279,668
General terminal charges	**58,807**	51,983	**165,815**	129,632
Airport improvement fees	**83,353**	85,114	**229,848**	230,643
Car parking and ground transportation	**32,543**	32,614	**95,139**	91,648
Concessions	**19,988**	16,777	**57,697**	52,721
Rentals	**15,671**	16,888	**46,892**	49,248
Other	**2,892**	4,456	**8,228**	8,812
	307,671	303,056	**866,521**	842,372
Operating Expenses				
Ground rent (Note 1)	**35,727**	31,063	**100,001**	93,279
Goods and services	**50,316**	55,737	**155,970**	159,961
Salaries, wages and benefits	**26,630**	25,266	**84,013**	81,634
Payments-in-lieu of real property taxes	**6,902**	6,573	**20,689**	19,720
Amortization of property and equipment and investment property (Notes 9 and 10)	**53,060**	53,502	**155,955**	164,546
Amortization of intangible assets (Note 8)	**226**	221	**2,189**	924
	172,861	172,362	**518,817**	520,064
Earnings before interest and financing costs, net	**134,810**	130,694	**347,704**	322,308
Interest income	**2,921**	1,548	**8,697**	3,661
Interest expense on debt instruments and other financing costs	**(109,025)**	(106,605)	**(329,716)**	(327,509)
Premium paid for early retirement of debt	**-**	-	**(27,565)**	-
Interest and financing costs, net (Note 11)	**(106,104)**	(105,057)	**(348,584)**	(323,848)
Net Income (Loss)	**28,706**	25,637	**(880)**	(1,540)
Amortization of terminated hedge	**108**	229	**(1,143)**	691
Amortization of gain on terminated interest rate swap	**(102)**	(268)	**(306)**	(802)
Loss on cash flow hedge	**(4,352)**	-	**(4,352)**	-
Other Comprehensive Income (Loss)	**(4,346)**	(39)	**(5,801)**	(111)
Total Comprehensive Income (Loss)	**24,360**	25,598	**(6,681)**	(1,651)

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

Greater Toronto Airports Authority
Statements of Changes in Deficit and Accumulated Other Comprehensive Income (Loss)

Nine-month period ended September 30, 2011 (unaudited)(in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
	$	**$**	**$**
Balance, January 1, 2011	**(685,614)**	**2,268**	**(683,346)**
Net Loss	**(880)**	**-**	**(880)**
Amortization of terminated hedge	**-**	**(1,143)**	**(1,143)**
Amortization of gain on sale of terminated interest rate swap	**-**	**(306)**	**(306)**
Loss on cash flow hedge	**-**	**(4,352)**	**(4,352)**
Total Comprehensive loss for the period	**(880)**	**(5,801)**	**(6,681)**
Balance, September 30, 2011	**(686,494)**	**(3,533)**	**(690,027)**

Nine-month period ended September 30, 2010 (unaudited)(in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income	Total
	$	$	$
Balance, January 1, 2010	(652,714)	2,415	(650,299)
Net Loss	(1,540)	-	(1,540)
Amortization of terminated hedge	-	691	691
Amortization of gain on sale of terminated interest rate swap	-	(802)	(802)
Total Comprehensive loss for the period	(1,540)	(111)	(1,651)
Balance, September 30, 2010	(654,254)	2,304	(651,950)

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

Greater Toronto Airports Authority
Statements of Cash Flows

Nine-month period ending September 30 (unaudited)(in thousands of Canadian dollars)	**2011**	2010
Cash Flows from Operating Activities	**$**	$
Net Loss	**(880)**	(1,540)
Adjustments for:		
Amortization of property and equipment and investment property	**155,955**	164,546
Amortization of intangibles and other assets	**3,316**	1,881
Change in fair value of restricted funds	**-**	(8,882)
Loss on disposal of property and equipment	**3,546**	1,460
Change in fair value of derivative	**(8,409)**	(4,459)
Derivative cash receipts	**4,097**	3,081
Post-employment benefit obligation	**(1,475)**	(2,478)
Interest expense on debt instruments and other financing costs	**334,068**	327,508
Amortization of loss on terminated hedge	**(1,143)**	691
Amortization of gain on terminated interest rate swap	**(306)**	(802)
Unearned revenue from restricted funds	**(1,818)**	-
Loss on cash flow hedge (Note 16)	**(4,352)**	-
Changes in non-cash working capital:		
Accounts receivable	**(1,097)**	(205)
Prepaids and other receivables	**7,387**	(6,386)
Inventory	**1,166**	490
Accounts payable and accrued liabilities	**2,918**	5,407
Provisions	**(11,224)**	(3,400)
Security deposits, deferred credits and other liabilities	**(369)**	(2,376)
	481,380	474,536
Cash Flows from Investing Activities		
Acquisition and construction of property and equipment	**(64,050)**	(44,124)
Proceeds on disposal of property and equipment	**50**	32
Land acquisition cost	**-**	(13,569)
(Increase) decrease in restricted funds	**(177,259)**	51,408
	(241,259)	(6,253)
Cash Flows from Financing Activities		
Issuance of medium term notes and long-term debt (Note 11)	**596,820**	397,596
Repayment of medium term notes and long-term debt (Note 11)	**(587,343)**	(961,853)
Interest paid	**(286,734)**	(310,844)
Bank indebtedness	**-**	2,618
Decrease in deferred ground rent payable (Note 1)	**(3,117)**	(3,117)
	(280,374)	(875,600)
Net Cash Outflow	**(40,253)**	(407,317)
Cash and cash equivalents, beginning of year	**170,188**	551,803
Cash and cash equivalents, end of period	**129,935**	144,486

As at September 30, 2011, cash and cash equivalents consisted of short-term investments of $116.2 million (December 31, 2010 - $167.8 million), cash of $28.7 million (December 31, 2010 - $14.2 million) less outstanding cheques of $14.8 million (December 31, 2010 - $11.8 million).

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

1. General Information

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, license airports and regulate the aviation industry as a whole.

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

The GTAA is exempt from federal and provincial income tax and Ontario capital tax. The GTAA is also exempt from real property tax under the *Assessment Act* (Ontario). However, the GTAA is required to pay each of the Cities of Toronto and Mississauga an amount as calculated in accordance with regulations under the *Assessment Act* (Ontario) as a payment-in-lieu of real property taxes.

1. General Information (continued)

The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA manages and operates Toronto Pearson International Airport (the "Airport"). Under the terms of a ground lease, the Airport was transferred to the GTAA in 1996. The Airport operates on 1,882 hectares of land which includes Terminals 1 and 3, airside assets including five runways, taxiways and aprons, groundside assets including bridges and parking lots, infield assets including an aircraft deicing facility and cargo buildings, and ancillary structures. Excluded are any assets owned by Nav Canada, the operator of Canada's civil air navigation system.

The GTAA is committed to the continuing development of the Airport. This includes continued redevelopment of the terminals, increasing airside capacity, increasing cargo and aircraft facilities, and reconstructing the roadway system.

The GTAA's registered office and principal place of business is located at 3111 Convair Drive, Mississauga, Ontario, Canada.

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 airport 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, licenses 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.

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0% for Airport Revenue below $5.0 million, 1% for Airport Revenue between $5.0 million and $10.0 million, 5% for Airport Revenue between $10.0 million and $25.0 million, 8%

1. General Information (continued)

for Airport Revenue between $25.0 million and $100.0 million, 10% for Airport Revenue between $100.0 million and $250.0 million, and 12% for Airport Revenue in excess of $250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

In July 2003, the Government of Canada announced a program to allow for a deferral in the ground rent for a two-year period commencing July 1, 2003, in the amount of $41.6 million. This amount is being repaid over a 10-year period, commencing in 2006, through increased annual ground rent payments of approximately $4.2 million per year. The decrease in the liability for the nine-month period ended September 30, 2011 was approximately $3.1 million, bringing the total remaining liability at September 30, 2011 to $17.7 million.

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

2. Basis of Presentation and Adoption of IFRS

The GTAA prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the GTAA has commenced reporting on this basis effective January 1, 2011. In these interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections disclosed in Note 5, Transition to IFRS on first time adoption, the GTAA has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the GTAA's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the GTAA's financial statements for the year ended December 31, 2010.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Audit Committee of the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the GTAA's annual financial statements for the year ending December 31,

2. Basis of Presentation and Adoption of IFRS (continued)

2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim financial statements should be read in conjunction with the GTAA's Canadian GAAP annual financial statements for the year ended December 31, 2010.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these interim financial statements are the same accounting policies and methods of computation as those disclosed in the March 31, 2011 interim financial statements.

4. Accounting Standards Issued But Not Yet Applied

a) Amendments to IAS 1, *Presentation of Items of Other Comprehensive Income*:
The amendment provides guidance on the presentation of items contained in other comprehensive income ("OCI") and their classification within OCI. The amendment is effective for periods beginning on or after January 1, 2013, with early adoption permitted. The GTAA does not expect any impact to the financial statements as a result of adopting the amended standard.

b) Amendments to IAS 19, *Employee Benefits*:
The amendment makes significant changes to the recognition and measurement of post employment defined benefit expense and termination benefits, and to the disclosures for all employee benefits. The amendment is effective for periods beginning on or after January 1, 2013, with early adoption permitted. The GTAA continues to assess the impact of the amended standard to determine whether it will adopt the amended standard early.

c) IFRS 9, *Financial Instruments*:
This standard replaces the current IAS 39, *Financial Instruments Recognition and Measurement.* The standard introduces new requirements for classifying and measuring financial assets and liabilities. This standard is required to be applied for periods beginning on or after January 1, 2013, with earlier adoption permitted. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

d) IFRS 13, *Fair Value Measurements:*
This standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. This standard is required to be applied for periods beginning on or after January 1, 2013, with earlier adoption permitted. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

5. Transition to IFRS on First Time Adoption

The GTAA's interim financial statements for the three-month period ending March 31, 2011 were the first interim financial statements to be prepared in accordance with IFRS. These financial statements were prepared as described in Note 3, Significant accounting policies. The GTAA applied IFRS 1, *First-time Adoption of International Financial Reporting Standards,* in the preparation of these interim financial statements.

The GTAA's date of transition to IFRS is January 1, 2010, i.e. the date of the earliest comparative period. The GTAA prepared its opening IFRS statement of financial position at that date. The date of IFRS adoption by the GTAA is January 1, 2011. The GTAA's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. The GTAA will complete its IFRS statement of financial position by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening IFRS statement of financial position and the December 31, 2010 comparative statement of financial position presented in the financial statements for the year ending December 31, 2011 may differ from those presented at this time.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations demonstrate the impact of the transition to IFRS:

i. Reconciliation of deficit as previously reported under Canadian GAAP to IFRS;

ii. Reconciliation of comprehensive income (loss) as previously reported under Canadian GAAP to IFRS;

iii. Adjustments to the statement of cash flows.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

5. Transition to IFRS on First Time Adoption (continued)

i. Reconciliation of deficit and accumulated other comprehensive income as previously reported under Canadian GAAP to IFRS:

			September 30, 2010	
	Note	Canadian GAAP	Adj.	IFRS
Assets		**$**	**$**	**$**
Current Assets				
Cash and cash equivalents		144,486	-	**144,486**
Accounts receivable		40,766	-	**40,766**
Prepaids and other receivables		10,063	-	**10,063**
Inventory	**a.**	8,124	(1,503)	**6,621**
		203,439	(1,503)	**201,936**
Non-current Assets				
Restricted funds		957,865	-	**957,865**
Intangibles and other assets		85,918	-	**85,918**
Property and equipment	**a.b.c.g.**	5,848,139	(250,465)	**5,597,674**
Investment property	**c.**	-	24,007	**24,007**
Post-employment benefit asset	**d.**	30,551	(20,617)	**9,934**
		7,125,912	(248,578)	**6,877,334**
Liabilities				
Current Liabilities				
Bank indebtedness		2,618	-	**2,618**
Accounts payable and accrued liabilities	**e.**	53,593	(5,558)	**48,035**
Provisions	**e.**	-	5,558	**5,558**
Security deposits and deferred credits		65,033	-	**65,033**
Current portion of deferred ground rent		4,156	-	**4,156**
Current portion of long-term debt		390,191	-	**390,191**
		515,591	-	**515,591**
Non-current Liabilities				
Deferred credit and other liabilities		34,140	-	**34,140**
Deferred ground rent		17,665	-	**17,665**
Post-employment benefit obligation		7,714		**7,714**
Long-term debt		6,954,174	-	**6,954,174**
		7,529,284	-	**7,529,284**
Deficit and Accumulated other comprehensive income	**f.**	(403,372)	(248,578)	**(651,950)**
		7,125,912	(248,578)	**6,877,334**

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

5. Transition to IFRS on First Time Adoption (continued)

ii. Reconciliation of comprehensive income (loss) as previously reported under Canadian GAAP to IFRS:

		Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Note	Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS
		$	$	**$**	$	$	**$**
Revenues							
Landing fees		95,224	-	**95,224**	279,668	-	**279,668**
General terminal charges		51,983	-	**51,983**	129,632	-	**129,632**
Airport improvement fees,		85,114	-	**85,114**	230,643	-	**230,643**
Car parking and ground transportation		32,614	-	**32,614**	91,648	-	**91,648**
Concessions		16,777	-	**16,777**	52,721	-	**52,721**
Rentals		16,888	-	**16,888**	49,248	-	**49,248**
Other		4,456	-	**4,456**	8,812	-	**8,812**
		303,056	-	**303,056**	842,372	-	**842,372**
Operating Expenses							
Ground rent		31,063	-	**31,063**	93,279	-	**93,279**
Goods and services		55,737	-	**55,737**	159,961	-	**159,961**
Salaries, wages and benefits	**d.**	25,400	(134)	**25,266**	82,036	(402)	**81,634**
Payments-in-lieu of real property taxes		6,573	-	**6,573**	19,720	-	**19,720**
Amortization of property and equipment and investment property	**b.**	49,329	4,173	**53,502**	146,655	17,891	**164,546**
Amortization of intangible assets		221	-	**221**	924	-	**924**
		168,323	4,039	**172,362**	502,575	17,489	**520,064**
Earnings before interest and financing costs, net		134,733	(4,039)	**130,694**	339,797	(17,489)	**322,308**
Interest income		1,548	-	**1,548**	3,661	-	**3,661**
Interest expense on debt instruments and other financing costs	**g.**	(106,906)	301	**(106,605)**	(328,411)	902	**(327,509)**
Interest and financing costs, net		(105,358)	301	**(105,057)**	(324,750)	902	**(323,848)**
Net Income (Loss)		29,375	(3,738)	**25,637**	15,047	(16,587)	**(1,540)**
Amortization of terminated hedge		229	-	**229**	691	-	**691**
Amortization of gain on terminated interest rate swap		(268)	-	**(268)**	(802)	-	**(802)**
Other Comprehensive Loss		(39)	-	**(39)**	(111)	-	**(111)**
Total Comprehensive Income (Loss)		29,336	(3,738)	**25,598**	14,936	(16,587)	**(1,651)**

5. Transition to IFRS on First Time Adoption (continued)

a. Spare parts and servicing equipment were carried as inventory and recognized in the statement of operations and comprehensive loss as consumed. However, under IFRS, major spare parts and stand-by equipment qualify as property and equipment when an entity expects to use them during more than one period and the equipment can be used only in connection with an item of property and equipment. As a result, certain spare parts and servicing equipment were reclassified from inventory to property and equipment and amortized accordingly.

b. IFRS requires entities to allocate the amounts initially recognized in respect of property and equipment to its significant parts (components) and amortized separately each such component over its useful life. On adoption, the GTAA identified various components of the terminal and other assets which required further componentization under IFRS. These components have different useful lives than the primary asset under Canadian GAAP. To reflect the further amortization in respect of these assets, adjustments of $4.2 million and $17.9 million were required for the three-month and nine-month periods ended September 30, 2010, respectively and on adoption $209.7 million at January 1, 2010. In addition, adjustments were made to property and equipment to reflect IFRS guidance on when amortization should commence. The GTAA has historically commenced amortization of property and equipment when the assets are put into productive use, in accordance with Canadian GAAP. IAS 16, *Property, plant and equipment,* requires the amortization of assets to commence when the asset is available for use. As a result of the differences in principle, a one-time adjustment to the opening balance sheet to reflect approximately $1.3 million in additional amortization expense was required.

c. Property meeting the definition of investment property under IAS 40, *Investment Property*, continues to be measured at historic cost less any accumulated amortization but is required to be disclosed separately on the statement of financial position with additional disclosure requirements (see Note 10, Investment property).

d. The GTAA elected to recognize all cumulative unamortized actuarial gains and losses on transition in its opening deficit on January 1, 2010. Previously under Canadian GAAP, the corridor method was used and these items were amortized into the statement of operations and comprehensive loss over time. IFRS also contains specific guidance over when an asset relating to a pension plan can be recognized including the entity's legal ability to access the surplus. As a result, the previously established surplus under Canadian GAAP was revised to amounts calculated in accordance with applicable IFRS standards.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

5. Transition to IFRS on First Time Adoption (continued)

As a result of differences in measuring the current expense for benefits under IFRS, the GTAA recorded a recovery of $0.5 million for the 2010 pension expense of which $0.4 million related to the nine-month period ended September 30, 2010. This amount was recorded in the statement of operations and comprehensive loss.

e. IFRS requires provisions be disclosed separately on the face of the financial statements. As such, a reclassification of accruals previously presented in accounts payable and accrued liabilities on the statement of financial position to provisions was done at September 30, 2010.

f. Deficit is presented without segregating balances into externally and internally restricted funds previously disclosed under Canadian GAAP.

Transactions impacting deficit included:

	September 30, 2010
	$
Deficit as reported under Canadian GAAP	403,372
IFRS adjustments:	
Impact due to amortization of property and equipment as a result of componentization and other changes (Notes a,b,c and g)	228,863
Adjustment to borrowing costs (Note g)	(902)
Adjustment to pension asset (Note d)	21,019
Change in recorded pension expense (Note d)	(402)
Deficit under IFRS	**651,950**

g. IFRS requires that the interest be capitalized on amounts included in assets under construction including interest previously capitalized. Canadian GAAP was not specific in this requirement. As a result, $1.2 million of additional interest was capitalized to assets under construction for 2010 of which $0.9 million related to the nine-month period ended September 30, 2010.

iii. Adjustments to the statement of cash flow:

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

iv. Comparative figures:

Certain comparative figures previously reported under Canadian GAAP have been reclassified to conform with presentation under IFRS.

6. Critical Accounting Judgments and Estimates

In applying GTAA's accounting policies, which are described in Note 3, Significant accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments that management has made in the process of applying the GTAA's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Accounts Receivable

The allowance for doubtful accounts involves management judgment and review of individual receivable balances based on individual customer creditworthiness, current economic trends and analysis of historical bad debts.

Property and Equipment and Intangibles

Critical judgments are utilized in determining amortization rates and useful lives of these assets.

Provisions

The determination of a provision is based on best available accounting estimates. Such estimates are subject to change based on new information.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

OPA Derivative

The fair value of the GTAA's derivative is determined using a valuation technique which uses assumptions including discount rates, forward gas and electricity prices, plant utilization and other factors.

6. Critical Accounting Judgments and Estimates (continued)

Post-employment Benefit Obligations

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions including discount rates, expected return on plan assets, expected salary increases and mortality rates. Actual results may differ from results which are estimated based on assumptions.

7. Restricted Funds

Restricted funds consist of certain funds, the use of which are directed by the Master Trust Indenture ("Trust Indenture") or Medium term note offering documents, and consist of the Debt Service Fund and Debt Service Reserve Fund (the "Trust Funds") and Operations, Capital and Financing Funds. These funds are invested in cash or short-term commercial paper with less than one year to maturity as follows:

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

7. Restricted Funds (continued)

	September 30 2011	December 31 2010
	$	$
Debt Service Fund		
Interest	**116,701**	75,534
Principal	**9,891**	9,215
	126,592	84,749
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**37,220**	36,971
Series 1999-1 due July 30, 2029	**40,582**	40,303
Medium Term Notes		
Series 2000-1 due June 12, 2030	**39,064**	38,827
Series 2001-1 due June 4, 2031	**35,532**	35,254
Series 2002-1 due January 30, 2012	**31,481**	31,246
Series 2002-2 due December 13, 2012	**29,917**	29,674
Series 2002-3 due October 15, 2032	**38,726**	38,459
Series 2004-1 due February 2, 2034	**39,198**	38,912
Series 2005-1 due June 1, 2015	**17,746**	17,616
Series 2005-3 due February 15, 2016	**16,650**	16,551
Series 2006-1 due February 28, 2011	**-**	11,090
Series 2007-1 due June 1, 2017	**22,103**	21,931
Series 2008-1 due April 17, 2018	**26,591**	26,397
Series 2008-2 due December 6, 2013	**-**	19,137
Series 2009-1 due November 20, 2019	**36,154**	35,860
Series 2010-1 due June 7, 2040	**22,784**	22,657
Series 2011-1 due February 25, 2041	**32,033**	-
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	**10,335**	10,269
	476,116	471,154
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**63,823**	63,275
Renewal and Replacement Reserve Fund	**3,023**	3,000
Airport Improvement Fee Reserve Fund	**206,308**	127,425
Notional Principal Fund	**103,824**	65,300
Debt Service Coverage Fund	**125,894**	111,600
	502,872	370,600
	1,105,580	926,503

7. Restricted Funds (continued)

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 11, Credit facility and long-term debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (principal and interest)

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. On a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. Also on a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. The principal requirements of the Debt Service Fund were funded during the nine-month period ended September 30, 2011 and has a balance of $9.9 million (December 31, 2010 – $9.2 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as they become due. During the nine-month period ended September 30, 2011, principal of $16.8 million (December 31, 2010 – $29.6 million) was paid from the Debt Service Fund and $17.5 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1 and Series 2002-1 bonds (December 31, 2010 – $25.4 million).

(ii) Debt Service Reserve Fund

To the extent provided in any Supplemental Indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bond or medium term note. The required amount is established at the time of issue of each series of bond or medium term note and funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held by the Trustee for the benefit of the bondholders or noteholders for use and application in accordance with the terms of the Trust Indenture.

At the maturity of each series of bond or medium term note, funds not applied by the Trustee will be returned to the GTAA.

Included among these Trust Funds is a Debt Service Reserve Fund related to the $550.0 million pledge bond (Series 1997-A) securing the credit facility with the

7. Restricted Funds (continued)

(ii) Debt Service Reserve Fund (continued)

syndicate of six Canadian banks. The minimum required balance is adjusted annually based on the prevailing Bankers' Acceptance rate plus applicable margin. At the maturity or cancellation of this series of bonds, funds not applied by the Trustee will be returned to the GTAA.

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at September 30, 2011, this fund had a balance of $63.8 million (December 31, 2010 – $63.3 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 (December 31, 2010 – $3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the airport improvement fee agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at September 30, 2011, this fund had an accumulated balance of $206.3 million (December 31, 2010 – $127.4 million). During the nine-month period ended September 30, 2011, $153.2 million (December 31, 2010 – $278.9 million) of accumulated Airport Improvement Fee Funds were utilized for certain debt service payments.

Capital and Financing Funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond or medium term note. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at September 30, 2011, the balance in the Notional Principal Fund was $103.8 million (December 31, 2010 – $65.3 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture. As at September 30, 2011, it had a balance of $125.9 million (December 31, 2010 – $111.6 million).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

8. Intangibles and Other Assets

		September 30, 2011	
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Deferred leasehold inducements	**6,107**	**3,801**	**2,306**
Land acquisition costs	**39,708**	**2,928**	**36,780**
Computer software	**11,860**	**9,107**	**2,753**
	57,675	**15,836**	**41,839**
Fair value of the OPA derivative			**47,012**
			88,851

		December 31, 2010	
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Deferred leasehold inducements	6,107	3,285	2,822
Land acquisition costs	39,708	2,317	37,391
Computer software	10,809	8,560	2,249
	56,624	14,162	42,462
Fair value of the OPA derivative			43,274
			85,736

The aggregate amortization expense in respect of deferred leasehold inducements for the nine-month period ended September 30, 2011, was $0.5 million (September 30, 2010 – $0.5 million) and is included in concession revenue on the statement of operations and comprehensive income (loss).

The aggregate amortization expense in respect of land acquisition costs for the nine-month period ended September 30, 2011, was $0.6 million (September 30, 2010 – $0.4 million) and is included in ground rent expense on the statement of operations and comprehensive income (loss).

The aggregate amortization expense in respect of computer software for the nine-month period ended September 30, 2011, was $2.2 million (September 30, 2010 – $0.9 million) and is included in amortization of intangible assets on the statement of operations and comprehensive income (loss). Additions to computer software for the nine-month period ended September 30, 2011 were $2.7 million (September 30, 2010 – $0.5 million). Retirements of computer software for the nine period ended September 30, 2011 were $1.6 million (September 30, 2010 – $nil).

On February 1, 2006, the GTAA entered into a Clean Energy Supply contract ("CES Contract") with the Ontario Power Authority ("OPA"), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The

8. Intangibles and Other Assets (continued)

term of the CES Contract is for 20 years, subject to early termination rights available to the GTAA. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The contract has been determined to be a derivative. The fair value of the derivative as at September 30, 2011 was estimated to be $47.0 million (December 31, 2010 - $43.3 million). The GTAA realized an increase in the fair value of the derivative during the nine-month period ended September 30, 2011 of $8.4 million (December 31, 2010 - $6.5 million) which was recorded in goods and services expense on the statement of operations and comprehensive income (loss), and has received and accrued for cash proceeds of approximately $4.7 million (December 31, 2010 - $5.2 million) which reduced its value.

The GTAA also recorded a deferred credit of $42.0 million which is being amortized over the term of 20 years. The unamortized balance at September 30, 2011, was $31.6 million (December 31, 2010 – $33.2 million), and is recorded in deferred credit and other liabilities on the statement of financial position.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

9. Property and Equipment

Property and equipment are comprised of:

September 30, 2011	Terminal and Airside assets	Baggage handling systems	Improvements to leased land	Runways and taxiways	Airport operating assets	Finance leases	Assets under construction	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, January 1, 2011	**5,951,674**	**287,256**	**9,480**	**401,841**	**550,903**	**6,743**	**93,202**	**7,301,099**
Additions	**52,358**	**117**	**-**	**8,754**	**11,131**	**-**	**58,405**	**130,765**
Disposals / Transfers	**(14,216)**	**-**	**-**	**-**	**(10,744)**	**(225)**	**(73,245)**	**(98,430)**
Balance, September 30, 2011	**5,989,816**	**287,373**	**9,480**	**410,595**	**551,290**	**6,518**	**78,362**	**7,333,434**
Accumulated amortization								
Balance, January 1, 2011	**1,291,861**	**97,731**	**2,206**	**85,443**	**255,383**	**6,224**	**-**	**1,738,848**
Amortization expense	**110,946**	**9,352**	**118**	**9,731**	**25,155**	**116**	**-**	**155,418**
Disposals / Transfers	**(14,118)**	**-**	**-**	**-**	**(5,505)**	**(225)**	**-**	**(19,848)**
Balance, September 30, 2011	**1,388,689**	**107,083**	**2,324**	**95,174**	**275,033**	**6,115**	**-**	**1,874,418**
Net book value, September 30, 2011	**4,601,127**	**180,290**	**7,156**	**315,421**	**276,257**	**403**	**78,362**	**5,459,016**

December 31, 2010	Terminal and Airside assets	Baggage handling systems	Improvements to leased land	Runways and taxiways	Airport operating assets	Finance leases	Assets under construction	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, January 1, 2010	5,882,452	283,041	9,480	394,037	546,265	7,592	152,851	7,275,718
Additions	72,601	4,215	-	7,804	34,060	-	61,706	180,386
Disposals / Transfers	(3,379)	-	-	-	(29,422)	(849)	(121,355)	(155,005)
Balance, December 31, 2010	5,951,674	287,256	9,480	401,841	550,903	6,743	93,202	7,301,099
Accumulated amortization								
Balance, January 1, 2010	1,160,957	83,599	2,031	71,023	223,335	6,749	-	1,547,694
Amortization expense	133,910	14,132	175	14,420	57,983	324	-	220,944
Disposals / Transfers	(3,006)	-	-	-	(25,935)	(849)	-	(29,790)
Balance, December 31, 2010	1,291,861	97,731	2,206	85,443	255,383	6,224	-	1,738,848
Net book value, December 31, 2010	4,659,813	189,525	7,274	316,398	295,520	519	93,202	5,562,251

As at September 30, 2011, $78.4 million (December 31, 2010 – $93.2 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $7.6 million (December 31, 2010 – $12.8 million) of capitalized interest.

10. Investment Property

(in thousands)	**September 30 2011**	December 31 2010
	$	$
Cost		
Balance, beginning of year	**26,085**	25,901
Additions	**-**	184
Balance, end of period	**26,085**	26,085
Accumulated amortization and impairment		
Balance, beginning of year	**2,030**	1,312
Amortization expense	**537**	718
Balance, end of period	**2,567**	2,030
Net book value, end of period	**23,518**	24,055

Investment property includes the flight simulator facility operated by the GTAA.

The fair value of investment property at January 1, 2010 and December 31, 2010 was estimated to be $28.0 million and $28.2 million respectively.

The valuation technique used by the GTAA to estimate the fair value of investment property incorporates discounted cash flows derived considering the best available public information regarding market conditions rental rates and other factors that a market participant would consider for such a property. The discount rate of 10.8% used in the valuation is based on an average of the weighted average cost of capital for the Canadian airline industry and the GTAA's own internal rate of return.

For the nine-month period ended September 30, 2011 rental income generated from investment property amounted to $2.3 million (September 30, 2010 - $2.3 million) and direct operating expenses amounted to $0.8 million (September 30, 2010 - $0.7 million). These amounts are included in rental revenue and goods and services expense respectively on the statement of operations and comprehensive income (loss).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

11. Credit Facility and Long-term Debt

As at September 30, 2011 and December 31, 2010, long-term debt including accrued interest, net of unamortized discounts and premiums consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	September 30 2011	December 31 2010
Revenue Bonds, *See below*			$	**$**	$
1997-3	6.45%	December 3, 2027	375,000	**377,939**	371,851
1999-1	6.45%	July 30, 2029	420,474	**421,560**	440,824
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	**559,688**	550,124
2001-1	7.10%	June 4, 2031	500,000	**506,794**	497,971
2002-1	6.25%	January 30, 2012	500,000	**505,200**	512,846
2002-2	6.25%	December 13, 2012	475,000	**483,183**	475,547
2002-3	6.98%	October 15, 2032	550,000	**567,768**	558,238
2004-1	6.47%	February 2, 2034	600,000	**599,867**	609,610
2005-1	5.00%	June 1, 2015	350,000	**353,596**	348,956
2005-3	4.70%	February 15, 2016	350,000	**350,538**	354,540
2006-1	4.40%	February 28, 2011	250,000	**-**	253,610
2007-1	4.85%	June 1, 2017	450,000	**454,836**	449,303
2008-1	5.26%	April 17, 2018	500,000	**510,077**	503,379
2008-2	5.89%	December 6, 2013	325,000	**-**	325,281
2009-1	5.96%	November 20, 2019	600,000	**635,701**	628,564
2010-1	5.63%	June 7, 2040	400,000	**404,054**	398,112
2011-1	5.30%	February 25, 2041	600,000	**598,813**	-
				7,329,614	7,278,756
Finance leases				**60**	152
Province of Ontario					
Interest-free loan, payable in five equal annual installments commencing 2011				**22,181**	21,433
				7,351,855	7,300,341
Less current portion (including accrued interest)				**641,632**	349,516
				6,710,223	6,950,825

On February 23, 2011, the GTAA issued Series 2011-1 Medium Term Notes ("MTNs") with a face value of $600.0 million for net proceeds of $596.8 million.

On February 28, 2011, the GTAA redeemed the Series 2006-1 MTN with a face value of $250.0 million.

On March 21, 2011, the GTAA exercised its right to redeem all $325.0 million of the outstanding Series 2008-2 MTNs. The Series 2008-2 MTNs carried a coupon of 5.89% and had a maturity date of December 6, 2013. The redemption price of $357.2 million, plus accrued interest, was paid on the redemption date and the Series 2008-2 MTNs were cancelled. This resulted in an early retirement charge of $27.6 million in the respective

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

period recorded in interest and financing costs on the statement of operations and comprehensive income (loss).

Interest and financing costs, net consisted of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2011**	2010	**2011**	2010
	$	$	**$**	$
Interest income	**1,208**	659	**3,680**	1,858
Interest earned on restricted funds	**1,713**	889	**5,017**	1,803
	2,921	1,548	**8,697**	3,661
Interest expense on debt instruments	**(109,077)**	(110,540)	**(328,299)**	(338,888)
Premium paid for early retirement of debt	**-**	-	**(27,565)**	-
Other financing fees and fair value adjustments	**52**	3,935	**(1,417)**	11,379
	(109,025)	(106,605)	**(357,281)**	(327,509)
Interest and financing costs, net	**(106,104)**	(105,057)	**(348,584)**	(323,848)

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.

Interest on each series of revenue bond and medium term note is payable semi-annually from the interest payable commencement date, based on fixed rates.

Set out below is a comparison of the amounts that would be reported if long-term debt amounts were reported at fair values. Fair values were based on quoted market rates for GTAA bonds as at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**7,329,614**	**8,649,296**	7,278,756	8,172,917

All notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price which is the greater of (i) the face value amount plus accrued and unpaid interest and (ii) the price based on yields over Government of Canada bonds with similar terms to maturity.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

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

Credit Facility

The GTAA maintains a credit facility with a syndicate of six Canadian banks. The credit facility is secured by a $550.0 million pledge bond (Series 1997-A) issued pursuant to the Trust Indenture. Indebtedness under the credit facility ranks *pari passu* with other indebtedness issued under the Trust Indenture. Under this credit facility, the GTAA is provided with a $500.0 million facility for general corporate purposes and capital expenditures, and a $50.0 million facility for interest rate and foreign exchange hedging activities. The facility matures on November 22, 2014, and can be extended annually for an additional year with the lenders' consent.

As at September 30, 2011, $2.3 million was utilized under the $500.0 million facility by way of a letter of credit (September 30, 2010 – $2.3 million) (see Note 14, Commitments and contingent liabilities). The $50.0 million hedging facility was utilized in reference to the $200.0 million cash flow hedge entered into during the third quarter of 2011 (See Note 16, Financial instruments). No amounts were actually drawn against the $50.0 million facility (September 30, 2010 – $nil). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility during the quarter, interest rates would have ranged from 2.36% to 3.25% (July 1, 2010 to September 30, 2010 – 2.59% to 4.00%).

12. Provisions

	Restructuring	Litigation	Other	Total
	$	$	$	$
Balance, January 1, 2011	**4,345**	**10,150**	**-**	**14,495**
Additional provision	**-**	**293**	**2,348**	**2,641**
Reductions arising from payments	**(3,539)**	**(10,326)**	**-**	**(13,865)**
Balance, September 30, 2011	**806**	**117**	**2,348**	**3,271**
Balance, January 1, 2010	7,858	1,100	-	8,958
Additional provision	1,950	9,050	-	11,000
Reductions arising from payments	(5,463)	-	-	(5,463)
Balance, December 31, 2010	4,345	10,150	-	14,495

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

12. Provisions (continued)

Restructuring

In 2009, the GTAA implemented a restructuring plan to align its cost structure to the current economic and market conditions. These charges are included in the salaries, wages and benefits expense on the statement of operations and comprehensive income (loss). No charge was recorded during the nine-month period ended September 30, 2011 relating to voluntary retirement packages and severance expenses under this plan for employees (December 31, 2010 – $1.9 million). The remaining payments under the restructuring plan are expected to be made during the remainder of 2011.

Litigation

This amount represents provisions for certain legal claims brought against the GTAA. Provisions that relate to capital programs are included in Property and equipment on the statement of financial position. Those that relate to operations are included on the statement of operations and comprehensive income (loss). It is the opinion of management that after taking appropriate legal advice, the outcome of these legal claims will not give rise to any material loss beyond the amounts provided at September 30, 2011.

Other

This amount represents provisions for other operating activities undertaken as part of the normal course of business and is included on the statement of operations and comprehensive income (loss). It is the opinion of management that the outcome of these provisions will not give rise to any material loss beyond the amounts provided at September 30, 2011.

13. Compensation of Key Management

Key management includes the GTAA's directors and members of the Executive team.

Compensation paid, payable or provided by the GTAA to key management personnel were as follows:

	Three Months September 30		Nine Months Ended September 30	
	2011	2010	**2011**	2010
	$	$	**$**	$
Salaries and short-term benefits	**927**	954	**2,765**	2,843
Post-employment benefits	**125**	122	**388**	366
Other long-term benefits	**4**	4	**12**	12
Total (included in salaries, wages and benefits)	**1,056**	1,080	**3,165**	3,221

14. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at September 30, 2011, of approximately $98.0 million (December 31, 2010 – $113.0 million).

Letters of Credit

A letter of credit for $2.3 million was outstanding at September 30, 2011 (see Note 11, Credit facility and long-term debt), relating to the GTAA's CES contract with the OPA. The letter of credit expires April 11, 2012.

Environmental

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

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

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011 (see Note 11, Credit facility and long-term debt), the GTAA agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The GTAA has undertaken significant transportation infrastructure work and has met this requirement.

Boeing Lands

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of $30.0 million. These lands will be transferred by Boeing in stages. The first parcel representing 16.1 hectares of land was conveyed on May 29, 2006. The second parcel representing 14.8 hectares of land was conveyed on August 9, 2010. The remaining 14.8 hectares of land will be transferred after environmental remediation is completed. Commitments related to the third parcel are included under capital commitments. All lands purchased under this agreement by the GTAA will be transferred to the federal government as required under the terms of the Ground Lease. Deposits totalling $4.7

14. Commitments and Contingent Liabilities (continued)

million, which were recorded in assets under construction, have been applied to the purchase price of the second parcel.

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for the years 2011 to 2013. 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 $50.0 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place until June 2012.

Cogeneration Facility

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

Contingent liabilities

The GTAA is subject to legal proceedings and claims from time to time which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position (see Note 12, Provisions). Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations, or cash flows, no provisions have been recorded.

Air France

As a result of the Air France incident on August 2, 2005, the GTAA together with a number of other parties were named as defendants in several lawsuits including a class action lawsuit involving most passengers and their family members. In 2010, the class action lawsuit which named the GTAA was settled. The settlement did not involve any admission of liability by the GTAA. The GTAA's insurers are responsible for paying

14. Commitments and Contingent Liabilities (continued)

the GTAA's share of the settlement amount to the class action plaintiffs. The GTAA's insurers continue to defend the GTAA in four remaining lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

15. 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.

16. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the statement of financial position must be categorized in accordance with the following levels:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

b) Level 2 – Observable inputs other than quoted prices included in Level 1 such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;

c) Level 3 – Significant unobservable inputs which are supported by little or no market activity.

16. Financial Instruments (continued)

Cash, restricted funds and security deposits are categorized as Level 1 as the GTAA uses quoted prices in active markets for identical assets or liabilities to fair value this group. The OPA derivative and the cash flow hedge are categorized as Level 3 as no observable market exists for this financial asset and financial liability. The cash flow hedge valuation, as at September 30, 2011 was based upon mid-market quotations for the hedging instrument, where such mid-market quotations were based on bid/ask levels shown on reliable electronic information screens as of close of business on the valuation date. See Note 16(a), Interest rate risk, for additional information on the cash flow hedge.

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

(in thousands)	ABCP	OPA Derivative	Cash Flow Hedge	Total
	$	$		$
Balance, January 1, 2011	**-**	**43,274**	**-**	**43,274**
Fair value adjustments included in statement of operations and comprehensive income (loss)	**-**	**8,409**	**-**	**8,409**
Fair value adjustment included in other comprehensive loss	**-**	**-**	**(4,352)**	**(4,352)**
Cash received or receivable	**-**	**(4,671)**	**-**	**(4,671)**
Balance, September 30, 2011	**-**	**47,012**	**(4,352)**	**42,660**
Balance, January 1, 2010	82,876	41,961	-	124,837
Fair value adjustments included in statement of operations and comprehensive loss	8,882	6,471	-	15,353
Loss on redemption	(1,131)	-	-	(1,131)
Redemptions and cash receipts	(90,627)	(5,158)	-	(95,785)
Balance, December 31, 2010	-	43,274	-	43,274

There were no transfers of financial instruments between the levels during the quarter.

Risk Management

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

The GTAA's treasury function is responsible for the procurement of the GTAA's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are

16. Financial Instruments (continued)

within the requirements set out in the Trust Indenture dated December 2, 1997, as supplemented or amended from time to time. Compliance with these policies is monitored by the regular reporting of treasury activities to the Audit Committee of the Board.

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

Market Risk

(a) Interest rate risk

The GTAA's exposure to interest rate risk relates to its medium term notes bank indebtedness as described in Note 11, Credit facility and long-term debt. As at September 30, 2011, all of the GTAA's debt is fixed rate debt and therefore changes in interest rates do not impact interest payments but may impact the fair value of this debt.

During the quarter, the GTAA entered into a cash flow hedge with a major Canadian financial institution. The hedge locks in the interest rate on a notional debt amount of $200.0 million using the Government of Canada 30-year bond maturing in the year 2041 as its reference bond. As at September 30, 2011, the mark-to-market value of the hedge was a loss of $4.4 million, recognized in other comprehensive loss in the period. The hedge expires on January 30, 2012.

On October 3, 2011, the GTAA entered into a second bond forward transaction with a major Canadian financial institution. The transaction locks in interest rates on a further notional debt amount of $200.0 million using the Government of Canada 30-year bond maturing in the year 2041 as its reference bond, of which $150.0 million was designated as a cash flow hedge. The transaction expires on January 30, 2012.

The GTAA also has exposure to interest rate risk through its short-term investments in reserve and other funds (see Note 7, Restricted funds). As at September 30, 2011, all of the GTAA's short-term investment holdings carried a fixed rate during their term and therefore changes in the interest rate did not impact interest income for the period.

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

(b) Commodity price risk

The GTAA's exposure to commodity price risk primarily relates to its CES Contract with the OPA. The impact of a 1% increase/decrease in the 2011 average price of electricity holding natural gas prices constant would result in a $1.0 million decrease/increase in the fair value of the OPA derivative as at September 30, 2011. The impact of a 1% increase/decrease in the 2011 average price of natural gas holding the price of electricity

16. Financial Instruments (continued)

constant would result in a $1.4 million increase/decrease in the fair value of the OPA derivative as at September 30, 2011.

(c) Foreign currency rate risk

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

Credit risk

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

Liquidity Risk

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

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

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

16. Financial Instruments (continued)

	September 30, 2011			
	Less than 1 month	**1 month to 12 months**	**1 year to 5 years**	**Thereafter**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**46,240**	**24,061**	**-**	**-**
Province of Ontario	**-**	**4,800**	**19,200**	**-**
Long-term debt	**32,345**	**900,951**	**3,520,087**	**9,028,452**
	78,585	**929,812**	**3,539,287**	**9,028,452**

	December 31, 2010			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	53,358	14,306	-	-
Province of Ontario	-	4,800	19,200	-
Long-term debt	29,580	662,183	3,830,041	8,331,758
	82,938	681,289	3,849,241	8,331,758

Additional disclosure about the GTAA's credit facility, long-term debt, and OPA derivative can be found in Note 11, Credit facility and long-term debt and Note 8, Intangibles and other assets.

17. Comparative Figures

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